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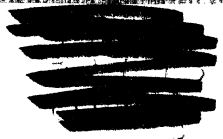
Volume V

THE AMERICAN  
REPUBLICS

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## PREFACE

This volume was prepared under the direct supervision of E. Ralph Perkins, who retired as Chief of the Foreign Relations Division on December 30, 1963, and was succeeded by S. Everett Gleason. The compilers of the volume were Almon R. Wright, and a former member of the Division, David H. Stauffer.

The Publishing and Reproduction Services Division (Jerome H. Perlmutter, Chief) was responsible for the technical editing of this volume and the preparation of the index. These functions were performed in the Historical Editing Section under the direct supervision of Elizabeth A. Vary, Chief, and Ouida J. Ward, Assistant Chief.

WILLIAM M. FRANKLIN  
*Director, Historical Office,  
Bureau of Public Affairs*

NOVEMBER 2, 1964.

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### PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

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

#### 1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

##### 1351 *Scope of Documentation*

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

##### 1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States, Diplomatic Papers*, shall be edited by

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

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

#### 1353 *Clearance*

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

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

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POSTPONEMENT OF THE NINTH INTERNATIONAL CONFERENCE OF AMERICAN STATES SCHEDULED TO MEET AT BOGOTÁ IN 1943 <sup>1</sup>

710.J/14

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

WASHINGTON, January 7, 1943.

MY DEAR MR. SECRETARY: At the meeting of the Governing Board of the Pan American Union held on January sixth, a communication was submitted from the Chargé d'Affaires of Colombia transmitting a suggestion from his Government that, in view of the existing international situation, no action be taken at this time toward fixing the date of the Ninth International Conference of American States, which is scheduled to meet in Bogotá and which under ordinary circumstances would convene in 1943. The suggestion of the Government of Colombia was unanimously approved by the Governing Board.

I beg to remain [etc.]

L. S. ROWE

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<sup>1</sup> This conference was held at Bogotá, March 30–May 2, 1948.

## THE EMERGENCY ADVISORY COMMITTEE FOR POLITICAL DEFENSE, MEETING AT MONTEVIDEO, URUGUAY <sup>1</sup>

862.20210/2144 : Telegram

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

WASHINGTON, January 8, 1943—10 p. m.

38. Your 13, January 4, 6:00 p. m.<sup>2</sup> The Department desires that you make immediate arrangements with Spaeth <sup>3</sup> for presenting the memoranda on subversive activities in Argentina <sup>4</sup> to the Emergency Advisory Committee for Political Defense within a day or two after the formal severance of relations between Chile and the Axis.<sup>5</sup> It is the Department's opinion that rather than undertaking to publish the memoranda as a unilateral act of this Government or suggesting to the Committee for Political Defense that they be published, a note of transmittal should be addressed by Ambassador Dawson <sup>6</sup> to the Chairman of the Committee <sup>7</sup> stating that "this material is submitted to the Committee because it affects the security of the entire hemisphere and thus to varying degrees the security of each of the American republics." It is the Department's belief that once the material has been presented to the Committee the members thereof appointed by the other American republics will probably themselves suggest publication.

It is not entirely clear to the Department just what memoranda you have in mind to be published. It is assumed that the memorandum presented to the Argentine Government on November 3 is that contained in your despatch no. 7065 of October 22,<sup>8</sup> as modified by your telegram no. 2149 of November 2, 1 p. m.<sup>9</sup> and with an additional paragraph with regard to Reiner.<sup>10</sup> The Department also assumes that the second memorandum, presented on November 4, was a copy of an

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<sup>1</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 74-107.

<sup>2</sup> Not printed.

<sup>3</sup> Carl Spaeth, American Member, Emergency Advisory Committee for Political Defense.

<sup>4</sup> For drafts of memoranda, from which the final draft differed only slightly, transmitted by the Ambassador in Argentina in his despatch No. 7065, October 22, 1942, see *Foreign Relations*, 1942, vol. v, p. 218.

<sup>5</sup> See pp. 795 ff.

<sup>6</sup> William Dawson, American Ambassador in Uruguay.

<sup>7</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>8</sup> *Foreign Relations*, 1942, vol. v, p. 217.

<sup>9</sup> Not printed; the modifications were of slight importance.

<sup>10</sup> H. B. Reiner, espionage leader in Chile, who took refuge in Buenos Aires. See telegram No. 1633, October 30, 1942, 3 p. m., to the Ambassador in Argentina, *Foreign Relations*, 1942, vol. v, p. 228.

F.B.I. memorandum entitled "Axis Espionage Activities in Argentina", transmitted to you under cover of an instruction of October 22, 1942.<sup>11</sup> Finally, the Department has not received any memorandum identified with that presented by the Embassy on November 11, but presumes that this contained the material forwarded from the Embassies in Santiago and Rio de Janeiro.

The Department does not wish to delay matters unduly, by reviewing that material which it has not seen, but relies on your judgment and that of Mr. Spaeth to eliminate from these memoranda any matters which might be offensive to the dignity of Argentina, or of any other American republic or prominent citizen thereof. Caution is enjoined as respects any reference to methods by which material was obtained other than from statements of individuals arrested or detained. You should send English<sup>12</sup> or whichever officer is most conversant with the matter to Montevideo with the complete file in order that he may assist Ambassador Dawson and Mr. Spaeth in the preparation of the three memoranda for submission to the Committee. While the Department hopes that you will yourself review the final texts, any points about which there is doubt may be submitted by Spaeth to the Department by cable. If any part has not been translated into Spanish, this should also be undertaken immediately, with a view to assembling the material in suitable form for presentation to the Committee.

A definitive copy of the proposed communication (i.e. covering letter and three memoranda) to the Committee should be transmitted by air mail to the Department as soon as possible.

Please repeat to the Embassy in Montevideo for the information of the Ambassador and Mr. Spaeth.

HULL

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862.20210/2152 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTVIDEO, January 12, 1943—8 p. m.

[Received 8:55 p. m.]

56. Reference Department's Number 38 of January 8 to Buenos Aires repeat to Montevideo and number 18 of January 8 to Montevideo.<sup>13</sup>

1. Pursuant to instructions Spaeth and I today discussed the matter under reference with Dr. Guani who approved the procedure set forth in the Department's cable communication between [apparent omission] Dr. Guani, also stated that in his opinion the information

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<sup>11</sup> Not printed.

<sup>12</sup> Clifton P. English, Vice Consul at Buenos Aires.

<sup>13</sup> Latter not printed.

should be published for the same reasons which inspired the Committee's action in the case of the Chilean memorandum.<sup>14</sup>

2. Prior to seeing Dr. Guani we had agreed with Ford, English and Doyle<sup>15</sup> at the meeting at Buenos Aires to delete material in the second memorandum dealing with Japanese and Italian activities, which are still under investigation, as well as certain other information which in our judgment falls within the [apparent omission] expressed by the Department. We also agreed that it would be advisable to consolidate the three memoranda into one document and to add one or two paragraphs which would knit the material together and point up the principal adverse consequences to the defense of the hemisphere. When we saw Doctor Guani we explained that although the principal substance of the information supplied to the Committee would be the same as that supplied to the Argentine Government and agrees [*sic*] the form of the document would be different and in addition there would be certain minor changes of content. We suggested to him that, in view of the fact that the document would at least in form be a new memorandum, it seemed unnecessary to make any reference, either in the letter of the Minister to the Chairman of the Committee or in [any?] resolution which the Committee might adopt, to the fact that memoranda containing substantially the same information were presented to the Argentine Government. Dr. Guani agreed with this view and recalled that, on his own suggestion, the resolution authorizing publication of the Chilean memorandum did not recite that the memorandum had been presented to the Government of Chile by the Government of the United States, because Dr. Guani wished to avoid the charge that the Committee was interfering in negotiations between two republics. We assume that the Department does not consider that any specific or other reference need be made to the fact that the three memoranda were presented to the Argentine Government.

3. Department's cable urges caution as respects indication of methods by which material was obtained. Although we will, of course, avoid revealing methods used in Argentina, we recommend that the Department authorize the quotation in the memorandum of the most important intercepts of clandestine radio messages, together with statement of fact of interception as in case Chile memorandum. If this recommendation is not approved, we will merely incorporate information secured through intercepts without indicating how obtained. Attention is called to the fact that Argentine officials know

<sup>14</sup> For a summary of this memorandum, see *Foreign Relations*, 1942, vol. v, p. 225; for its consideration by the Emergency Advisory Committee, see telegram No. 954, November 3, 1942, 10 p. m., from the Ambassador in Uruguay, *ibid.*, p. 103.

<sup>15</sup> Richard Ford, Clifton P. English, and Albert M. Doyle, Foreign Service Officers at Buenos Aires.

that we have the intercepts, and that the texts of the most important intercepts were released to the press by the Argentine police. Hence we conclude that the Axis must be aware that the codes have been broken. Representatives of Buenos Aires Embassy approve the foregoing.

Repeated to Buenos Aires.

DAWSON

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862.20210/2152 : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, January 14, 1943—11 p. m.

40. For Spaeth from Chapin.<sup>16</sup> Your 56, January 12, 8 p. m. Department agrees with your proposals in all respects, but adds the following comment with respect to section 2, item 3.

Recommendation set forth in this paragraph is approved. The fact that certain code messages have been broken does not require an admission that any decoding of such material was accomplished prior to the apprehension of Axis agents or without the assistance of those apprehended.

Specifically, it is agreed that mention should not be made to the Committee or by the Committee of the fact that this material has constituted part of a diplomatic exchange between the United States and Argentine Governments. Please be sure, however, that memorandum as presented to the Committee contains no statements of fact or allegations which have not previously been presented in writing to the Argentine Government. [Chapin.]

HULL

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862.20210/2161 : Telegram

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

BUENOS AIRES, January 15, 1943—3 p. m.

[Received 10:25 p. m.]

102. Reference Department's 38, January 8, 10 p. m. Memorandum as described in paragraph 2 of Ambassador Dawson's telegram No. 56, January 12, 8 p. m., is being completed today and in accordance with Department's 33, of January 13, 1943 to Montevideo<sup>17</sup> duplicate copies are being forwarded by courier tomorrow to all missions listed except Rio and Asunción. Since copies cannot go forward by regular courier to these missions until January 22 and thus would probably reach destinations after action had been taken by Committee in Montevideo I

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<sup>16</sup> Selden Chapin, Assistant Chief, Division of the American Republics.

<sup>17</sup> Not printed.



am designating special courier to take copies these missions leaving for Rio January 19 returning via Asunción 20th.

New memorandum which incorporates information included in three original memoranda but which does not introduce any new charges against Axis espionage agents in Argentina or elsewhere is dated January 4, 1943. This date was chosen because a date prior to Argentine Government's recall of Niebuhr, German Naval Attaché, was necessary. It moreover is exactly 2 months after date of submission of first two memoranda.

Department's instructions are urgently requested regarding how much advance notice I should give Argentine Foreign Office as well as Minister of Interior<sup>18</sup> that memorandum is being presented to Advisory Committee [for] Political Defense. Present indications are that Chile will break relations with Axis somewhere between January 19 and 23 and acting under Department's instructions it is assumed Ambassador Dawson will present memorandum to Committee a day or two after break occurs. While I have informally advised both Gache<sup>19</sup> and Culaciati that our Government be [*sic*] proposed eventually to make memoranda or substance available to Defense Committee I suggest that as soon as possible [*as soon after?*] Dr. Spaeth informs me definitely that meeting of Committee has been called at which memorandum is to be presented I be authorized to inform appropriate Argentine authorities in effect as follows:

"Referring to the three memoranda presented to the Argentine Government on November 3, 4, and 10, 1942, regarding Axis subversive activities in Argentina, while it is appreciated that the Government has taken effective action looking to the apprehension of certain of the Axis agents described therein, nevertheless the United States Government feels that the information contained therein affects the security of the whole Western Hemisphere and therefore to varying degrees the security of each of the American Republics. Accordingly, the substance of the three memoranda, embodied in a new memorandum, is being handed to the Advisory Committee for Political Defense since it is believed that this information is sufficiently important to warrant its being brought to the attention of each of the nations affected."

This procedure would give Government several hours advance notice of any action Committee might take on memorandum and is believed warranted in view of action thus far taken by Argentina on information presented.

Six copies of Spanish version of January 4 memorandum are being forwarded to Department by courier leaving tomorrow.<sup>20</sup>

ARMOUR

<sup>18</sup> Miguel Culaciati.

<sup>19</sup> Roberto Gache, Argentine Under Secretary for Foreign Affairs.

<sup>20</sup> Despatch No. 8201, January 15, 1943, not printed.

862.20210/2161 : Telegram

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

WASHINGTON, January 19, 1943—midnight.

100. Your 102, January 15, 3 p. m. The procedure outlined in your telegram is entirely satisfactory and you are authorized to inform the appropriate Argentine authorities of the action taken at such time as the memorandum is presented to the Advisory Committee.

HULL

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862.20210/2177 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, January 21, 1943—7 p. m.

[Received January 21—6:50 p. m.]

101. I transmitted the memorandum to the Acting Chairman this morning with a note which stated in translation as follows:

“In compliance with instructions from my Government I have the honor to transmit to Your Excellency, in your capacity as Acting Chairman of the Emergency Advisory Committee for Political Defense, a memorandum dated January 4, 1943 entitled ‘Axis Espionage Activities in Argentina’<sup>21</sup> the said memorandum is presented for the consideration of the Committee because the information contained therein affects the defense of the entire hemisphere and therefore the security of each one of the American Republics.

An examination of the memorandum by the Committee for Political Defense will reveal that the information contained therein relates directly to the problems referred to the Committee by Resolution XVII of the Third Consultative Meeting of Ministers for Foreign Affairs of the American Republics<sup>22</sup> and therefore to the resolutions that the Committee has submitted to the Governments of the American Republics.”

Notices were sent this afternoon to the members of the Committee calling the meeting for 12:30 p. m. (11 a. m. Washington time) tomorrow.

DAWSON

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862.20210/2184 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, January 22, 1943—6 p. m.

[Received 9:22 p. m.]

108. For the Under Secretary from Spaeth. My telegram No. 107, January 22.<sup>23</sup> During the course of the Committee's debate three

<sup>21</sup> For text, see Emergency Advisory Committee for Political Defense, *Annual Report*, July 1943 (Montevideo, 1943), p. 107.

<sup>22</sup> Held at Rio de Janeiro January 15–28, 1942. Resolution XVII dealt with subversive actions of enemy agents or their friends; for text, see Department of State *Bulletin*, February 7, 1942, p. 128.

<sup>23</sup> Not printed.

motions were entertained. The Argentine member presented a motion that my letter be acknowledged and the memorandum filed. The Chilean member proposed that the Committee first consult with Argentina to determine whether publication might interfere with the investigation now being conducted. Finally, the Brazilian representative presented a motion calling for immediate publication. This latter motion was submitted to a vote which resulted in 5 affirmatives, the Chilean abstaining and the Argentine voting in the negative.

The manner of voting by the members will not be announced by the Committee. However, it will undoubtedly leak out.

The abstention by the member from Chile was based entirely on the fact that at the time of the publication of the Chilean memorandum it had been the unqualified position of the Chilean member that there should be no publication of such documents except after consultation with both Governments. It was for this reason that he proposed that before publishing the document the Committee should solicit the opinion of the Government of Argentina.

The Argentine member read a long memorandum which had obviously been prepared well in advance of the meeting. The Argentine memorandum presented three principal arguments. First, that the document was closely linked to a diplomatic interchange between the Government of the United States and the Government of Argentina, and therefore could not be published without the consent of both Governments; second, that the Argentine Government had done everything possible to prosecute the Axis agents mentioned in the memorandum; and third, that publication of the memorandum would interfere with the course of justice in the Argentine courts. In reply to these points the majority of the Committee took the position that the document submitted by Ambassador Dawson is the only instrument with which the Committee was concerned and that the fact that other documents were presented to the Government of Argentina by the Government of the United States was a matter entirely for those two Governments. With regard to the second Argentine argument the majority asserted that the arrest of a few spies and the expulsion of one diplomat merely scratched the surface. The threat to the hemisphere would continue so long as the Axis diplomatic corps continued in Argentina. Furthermore, the majority asserted that it was of vital importance to the defense of the hemisphere that all of its people appreciate the manner in which the espionage system is coordinated, directed and financed by Axis diplomats. With regard to the third argument, without entering into the technical question of the effect upon judicial proceedings, the majority maintained that the only issue

for the Committee in this time of emergency is whether publication will promote the defense interests of all of the American Republics.

In the resolution authorizing publication the Committee [apparent omission] the principal propositions which were supported by the evidence in the memorandum, the most important of which was the charge that the entire espionage system in Argentina is organized, directed and financed by diplomats accredited to the Argentine Government.

Prior to taking action upon the Argentine memorandum the Committee sent a cable to the Foreign Minister of Chile applauding the contribution made to the political defense of the hemisphere by Chile's action.<sup>24</sup>

Since sending section 1 have been advised that press has learned of Argentina's negative vote and Chile's abstention.

Repeated to Buenos Aires. [Spaeth.]

DAWSON

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710.Consultation (3) A/232a : Telegram

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

WASHINGTON, February 2, 1943—6 p. m.

412. From the Under Secretary. President Prado of Peru, in personal letters to the President and to myself, has recently expressed on repeated occasions his desire that Peru be given a greater measure of participation in the work of existing inter-American committees. In particular, he desires that Peru be given the opportunity of representation on the Juridical Committee at Rio de Janeiro<sup>25</sup> to fill the vacancy which will be soon created by the withdrawal of Costa Rica from that Committee. He has also requested participation by Peru in the Committee on Political Defense at Montevideo, which could only be accomplished through enlargement of the number of the Committee, unless one of the existing representatives on that Committee is withdrawn.

If Peru be appointed to the Juridical Committee at Rio de Janeiro, not one of the nine Central American and Caribbean countries would be represented on that Committee, and I feel sure that Aranha<sup>26</sup> will agree that an effort should be made to give representation to that

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<sup>24</sup> i.e., the breaking of relations with the Axis; notice was conveyed to President Roosevelt by President Ríos in a telegram of January 20, p. 803.

<sup>25</sup> See resolution XXVI of the Third Meeting of the Ministers of Foreign Affairs of the American Republics, Department of State *Bulletin*, February 7, 1942, p. 135.

<sup>26</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

important group of American states on a Committee which should have the unanimous support of all of the American republics in view of the important work with which it is entrusted. It is therefore my belief that the vacancy created by Costa Rican withdrawal should be filled by Cuba, as a desirable representative of the nine Central American and Caribbean countries.

I believe, however, that the wishes of President Prado should be met on account of the important contribution which Peru can make to inter-American activities, and I feel that Peru would be of valuable assistance if a Peruvian representative were appointed to the Committee on Political Defense at Montevideo.

The membership of that Committee was selected by the Governing Board of the Pan American Union in accordance with the terms of the resolution adopted at the Rio Conference.<sup>27</sup> The number of the Committee can only be modified by a similar inter-American resolution and cannot, in my judgment, be changed by the Governing Board of the Union itself.

The question arises whether, in the interests of hemispheric security, a representative of Peru should not be appointed to replace the present Argentine representative on that Committee. That Committee is entrusted with the task of promoting inter-American security by combatting subversive activities throughout the hemisphere, particularly in the field of inter-American communication. So long as Argentina persists in her present policy, it would seem illogical for the representative of the only American nation which is permitting the continuation of communications with the Axis powers to take part in steps designed to prevent communications with the Axis powers. The incongruity of the present situation is enhanced by the fact that the Committee is about to recommend the censorship of inter-American communications passing to and from Argentina. From the practical standpoint, it would even seem to be prejudicial to the security of the 20 republics cooperating against the Axis for a representative of the only American power maintaining relations with the Axis to have full cognizance of the security measures recommended to the respective American governments by the members of the Montevideo Committee.

I wish you would discuss this question confidentially with Aranha and tell him I would be grateful for his views. If he agrees that the Argentine representative on the Montevideo Committee should be replaced by a Peruvian representative, the matter could be dealt with

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<sup>27</sup> Resolution XVII, Department of State *Bulletin*, February 7, 1942, p. 128.

in one of two ways: First, a recommendation to that effect by the Montevideo Committee itself, addressed to the Governing Board of the Pan American Union; or, second, for the representatives of the other 20 American republics on the Governing Board of the Union to make a joint recommendation to that effect based solely on the security issue involved in the fact that an Argentine representative on the Montevideo Committee, which is technically representative of all of the American republics, cannot be expected to represent the defense interests of all of the other American republics now cooperating against the Axis powers.

I will discuss alternative number 1 with Dr. Guani before he leaves Washington, in order that he may discuss it further with Aranha when he reaches Rio de Janeiro. In the event that alternative number 2 is regarded as preferable, I would like to have Aranha's suggestions as to how the initiative in the matter can most advantageously be undertaken. It may be that he will feel that, in view of the direct interest of the Peruvian Government in the matter, the Peruvian Government might discuss the question along the lines above indicated with the other American republics for the purpose of having action undertaken by the Governing Board of the Pan American Union.

I think it is clearly in the interest of the entire hemisphere that no step be taken which would be regarded as unfair or as involving undue pressure upon Argentina. Nevertheless, in view of the fact that the issues involved in this question are those of the ability of all of the American republics to defend themselves against the Axis, it seems highly undesirable that the practical results to be anticipated from the work of the Montevideo Committee should be prejudiced by continued Argentine representation on that Committee.

Please telegraph me Aranha's views. [Welles.]

HULL

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710.Consultation (3)A/233 : Telegram

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

RIO DE JANEIRO, February 4, 1943—3 p. m.

[Received 4:45 p. m.]

584. For the Under Secretary. Department's 412, February 2, 6 p. m. Aranha agrees that the Argentine representative on the Montevideo Committee should be replaced by a Peruvian representative. I will let you have more on this in a few days.

CAFFERY

710.Consultation (3)A/243: Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, February 10, 1943—1 p. m.

[Received 7:10 p. m.]

194. For Duggan<sup>28</sup> and Knapp<sup>29</sup> from Spaeth. Reference Embassy's telegram No. 186, February 8, 3 [4] p. m.<sup>30</sup> Prior to meeting of February 9 the Argentine member spoke to each of the members expressing the hope that the letter of invitation of February 5 from the Argentine Foreign Minister<sup>31</sup> would put an end to the discussion of the communication of January 25,<sup>32</sup> referred to in the cable under reference. Chiappe was extremely anxious to have the members forget completely about the earlier Argentine rejection of the consultative visits. In speaking to the Brazilian member<sup>33</sup> Chiappe stated that the letter from Ruiz Guiñazú proved that the Brazilian member had been right in the position which he took at the meeting on February 2. Since, as indicated in Embassy's cable no. 169 of February 5, 10 a. m.,<sup>34</sup> the Brazilian member went so far as to assert that Argentina could not properly have membership on the Committee, it will be appreciated that Chiappe's concession went a very long way. At no point, however, did Chiappe offer any explanation of the change in the Argentine position. At the meeting, after a reading of the Argentine letter of February 5, [it was?] referred without discussion to the same subcommittee which was asked to consider the technical aspects of the earlier Argentine reply. The Committee is now inclined to forget the whole incident and to send representatives to Argentina at an early date. If, however, it seems desirable to request an explanation from the Argentine Government, it is believed that a majority of the Committee would be agreeable. Please instruct.

Plans now under consideration indicate that no Committee member will visit more than two of the five countries represented at Rivera.<sup>35</sup>

<sup>28</sup> Laurence Duggan, Adviser on Political Relations.

<sup>29</sup> Lawrence Knapp, Liaison Officer of the United States Government with the Emergency Advisory Committee.

<sup>30</sup> Not printed; the telegram indicated that Argentina had reversed its position and was now willing for consultative members of the Committee to come to Buenos Aires for interviews (710. Consultation (3)A/237).

<sup>31</sup> Ruiz Guiñazú.

<sup>32</sup> Letter of January 25 from Miguel Chiappe, the Argentine member of the Advisory Committee for Political Defense, not found in Department files.

<sup>33</sup> Mario de Pimentel Brandão.

<sup>34</sup> Not printed.

<sup>35</sup> The Regional Meeting at Rivera, held at the instance of Brazil and the decision of the Emergency Advisory Committee, was concerned with safeguarding national boundaries from illegal and clandestine transit. For a summary of its work, see *Foreign Relations*, 1942, vol. v, pp. 96-98.

Confidential reports which I have received from the Department on Bolivia and Paraguay indicate that I might render useful service by going to those countries and tentative Committee discussions to date suggested that I will probably be given this assignment. Does the Department have any preference as to countries which American member should visit?

Part II. At the same meeting the Committee approved the censorship resolution.<sup>36</sup> Chile voted with the five majority members and Argentina also voted affirmatively on all aspects of the resolution except subparagraph (c) of paragraph 2. This is the first time that the Argentine member has voted affirmatively in favor of a recommendation so directly aimed at the Tripartite Pact.<sup>37</sup> The Argentine vote also is significant in view of the fact that the resolution recommends complete closure of telecommunications with the Axis<sup>38</sup> and asserts in the introductory statement that a limitation upon the number of words that diplomats may use in code does not adequately protect hemisphere interests. A press release summarizing the censorship resolution is to be given to the press today (February 10) at 4 p. m. Uruguayan time. I shall send a copy of my report of the incident of the consultative visits and of the censorship action to Ambassador Armour. [Spaeth.]

DAWSON

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710.Consultation (3)A/249: Telegram

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

RIO DE JANEIRO, February 17, 1943—4 p. m.

[Received 10:33 p. m.]

821. For the Under Secretary. Department's 563 of February 14, midnight.<sup>39</sup> As a first step Aranha says that he will call in the Argentine Ambassador tomorrow morning and suggest to him that the Argentine Government voluntarily withdraw from the Committee.

CAFFERY

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<sup>36</sup> Resolution XIX; for text, see Emergency Advisory Committee for Political Defense, *Annual Report*, July 1943, p. 196.

<sup>37</sup> Between Germany, Italy, and Japan, signed at Berlin, September 27, 1940; for text, see League of Nations Treaty Series, vol. cciv, p. 386.

<sup>38</sup> For correspondence on the effort to sever communications with the Axis, see *Foreign Relations*, 1942, vol. v, pp. 108 ff.

<sup>39</sup> Not printed; in this telegram the Under Secretary of State discussed a suggested procedure for changing membership in the Committee and advised that, in his opinion, if such a recommendation were made, it should be undertaken by prior agreement among all of the 20 American Republics who were cooperating against the Axis (710.Consultation (3)A/245).



710.Consultation (3) A/243 : Telegram

*The Secretary of State to the American Member, Emergency Advisory Committee for Political Defense (Spaeth)*

WASHINGTON, February 17, 1943—6 p. m.

129. From Knapp. Reference Embassy's No. 194, February 11 [10], 1943. Department believes it undesirable to request any further explanation from Argentina regarding consultative visit incident. Your assignment to Bolivian and Paraguayan consultations would appear most useful; it would not be desirable for you to participate in Argentine consultation. [Knapp.]

HULL

710.Consultation (3) A/283

*The American Member of the Emergency Advisory Committee for Political Defense (Spaeth) to the Under Secretary of State (Welles)*

MONTVIDEO, February 18, 1943.

DEAR MR. SECRETARY: In the course of a conversation with Dr. Guani concerning his recent trip we discussed the question of Argentine representation on the Committee for Political Defense. Dr. Guani stated that when the matter was considered in Washington, he had opposed the elimination of Argentina and had been in favor of suggesting to the Argentine government that it appoint a new member of higher "categoría", but that he now recognized that little or nothing would be accomplished by such a new appointment. He concluded by stating that the action to eliminate Argentina should be taken by the Governing Board of the Pan American Union rather than by the Committee. I explained that the Committee would, of course, not be competent to take such action and that therefore the matter would have to be presented to the Governing Board.

You will recall that on August 1, 1942, shortly after my return to Montevideo, I advised you that President Baldomir<sup>40</sup> and Dr. Guani were of the opinion that the Committee could not effectively meet its responsibilities so long as Argentina enjoyed membership, and stated that I agreed with their point of view.<sup>41</sup> I am now satisfied that action should be taken to remove Argentina from the Committee at the earliest possible date.

At one time there was some advantage to be gained by continued Argentine participation on the Committee. It was important that

<sup>40</sup> Gen. Alfredo Baldomir, President of Uruguay, 1938-1942.

<sup>41</sup> For letter of August 1, 1942, from Mr. Spaeth, see *Foreign Relations*, 1942, vol. v, p. 87.

Argentina be given an opportunity within the Committee to express its position on the recommendations being prepared on all the principal subjects of Resolution XVII.<sup>42</sup> It is also probably true that the publication of the memorandum on espionage activities in Argentina would have been less effective if the action had been taken by an inter-American entity which did not include a member appointed by the government of Argentina. But there do not now appear to be any such "tactical" reasons for continued participation. The Committee has virtually completed its basic studies and recommendations on all of the subjects covered by Resolution XVII. Argentina has had an opportunity to work on the recommendations from their very inception and in almost all instances has taken a position contrary to that recommended by Resolution XVII and to that adopted by the Committee. The "record" has been made, and it is my unqualified opinion, based on my association with the Committee, that there is now no appreciable tactical or other advantage to be gained by continued Argentine representation. On the other hand, I feel that the Committee's work must inevitably suffer by such representation.

The net effect of the Argentine vote on the Committee over a period of ten months is a repudiation of Resolution XVII. Argentina has in fact accepted Resolution XVII only as it relates to the formation of the Committee, and even as to this there is the recent unfounded allegation of an Argentine reservation regarding the Committee's powers. It is both practically and legally sound to maintain that a republic which has rejected the core and substance of the recommendations of Resolution XVII should not continue to exercise the privilege of membership on a Committee which is charged with the development of joint programs for the enforcement of the very same recommendations. This position is made even stronger by the fact that the republic in question views its nominee as a delegate charged with the advocacy of national interests rather than as a representative of twenty-one republics.

From time to time during the past two months the Argentine government and the Argentine member on the Committee have acted in a manner which suggested—superficially—the possibility of a change in basic position. In a recent communiqué to the Governors of the Provinces, for example, the Argentine Minister of the Interior made reference to the recommendations of the Regional Conference at Rivera and issued instructions in the very language of one of the recommendations of that conference. Again, on the occasion of the Committee's approval of the recommendation on censorship, the

<sup>42</sup> Resolution XVII of the final act of the Third Consultative Meeting of Ministers for Foreign Affairs of the American Republics, Department of State *Bulletin*, February 7, 1942, p. 128.

Argentine member voted affirmatively regarding the censorship of communications with the Axis and that part of the Committee's recommendation which reasserted Resolution XL of Rio<sup>43</sup> and charged that the mere limitation upon the daily number of code words, available to Axis diplomats, is not an adequate defense measure. It is obvious, however, that these occasional encouraging signs of cooperation are mere window dressing; they are an essential part of a policy of petty opportunism which one day encourages the democracies and another day reassures the Axis. The opinion is well founded that the spasmodic pro-Democratic gestures are designed to reassure and thus to mislead the pro-Democratic elements of the Argentine public. Furthermore, under the state of seige it is becoming increasingly difficult to publish the facts which would demonstrate that Argentina is not fulfilling its Hemisphere obligations and by its attitude is in fact doing positive harm to the defense effort. A recent illustration was afforded by the action of the Argentine censor in striking from press reports of your conference of February 11th, that part of your remarks in which you emphasized that *twenty* American Republics were cooperating effectively in the interests of Hemisphere defense.<sup>44</sup> I am satisfied that some such drastic step as the elimination of Argentina from representation on an inter-American body such as the Committee for Political Defense would assist greatly in demonstrating to the Argentine people the seriousness with which the other Republics view the position of their government.

Although the most important aspect of the Argentine attitude is their refusal to break diplomatic relations, to terminate telecommunications with the Axis and to act upon the recommendations which have their origin in Resolution XVII, there are other indications of the true attitude of the present government which should not be overlooked. I have in mind, for example, the first communication which the Committee received from the liaison officer of the Argentine government on the subject of the consultative visits, discussed at some length in my reports to the Department. The Argentine government represented that it had entered a reservation at the time of the organization of the Committee, a reservation which not only affected the Committee's exercise of power to send representatives to the several governments but which, in its more general aspects, afforded a basis for questioning other powers of the Committee. Our investigations disclosed that as a matter of fact the Argentine government not only did not enter any reservation, but, in writing, had in fact approved the basic statutes of the Committee. The degree of its disrespect and

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<sup>43</sup> This resolution was concerned with the control of telecommunications; for text, see Department of State *Bulletin*, February 7, 1942, p. 140.

<sup>44</sup> Remarks made in reply to a question at a press conference of the Under Secretary on February 11, 1943.

duplicity toward the Committee was then demonstrated by a second letter from Ruiz Guiñazú which invited the Committee to send representatives to Buenos Aires but which made no reference whatsoever to the first letter and its brazen misrepresentation.

Within the past few days another matter has come to my attention which illustrates the tactic which the Argentine Foreign Office is prepared to pursue in order to handicap the Committee and to divide the American Republics. The Brazilian member of the Committee, Pimentel Brandão, advised me early this week that the Argentine Ambassador in Rio de Janeiro had protested to the Brazilian government against the statements made by Pimentel in the course of the Committee meeting on February 2nd when we discussed the first Argentine reply to our proposal for a consultative visit. Pimentel did use "undiplomatic" language in his sharp criticism of the Argentine position. But the important fact from our standpoint is that the Argentine protest to the Brazilian Foreign Office demonstrates once again the complete disregard by Argentina of the nature and fundamental character of the Committee. It is part of the Argentine tactic, since it has generally served its opportunistic ends, to treat the members of the Committee as "delegates" of the governments which were privileged to nominate them. By so doing, the Argentine government feels that it is able to go behind the "delegate" to protest on a bi-lateral basis to the government which was privileged to nominate him. In this manner, it can use various types of pressure which would not be available if it were to present its protest to the appropriate tribunal, that is, in this instance, the Committee itself or, conceivably, the Governing Board of the Pan American Union. To describe the tactic more bluntly, by disregarding the representative character of the Committee the Argentine government is able to "divide and conquer"; it can approach the several governments individually and in so doing indirectly control the conduct of Committee members. The practice is one which, if tolerated, would jeopardize the effective functioning of any truly international and representative body.<sup>45</sup>

In their efforts to secure unanimous support for their program of joint defense, the American Republics have done everything that any individual or any nation could properly expect, within a democratic family of nations, to win the full support of the government of Argentina. It has now become clear that that government, as presently constituted, will not change its basic policy. In order, therefore, to protect their joint and common interests the twenty republics can justly maintain that in the management and planning of their joint defense

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<sup>45</sup> Concerning the Department of State viewpoint that the seven members of the Emergency Advisory Committee represented not the individual nations from which they came but all 21 states as a whole, see telegram No. 250, May 7, 1942, 9 p. m., to the Ambassador in Uruguay, *Foreign Relations*, 1942, vol. v, p. 77.

only those republics should be represented which are committed to and are acting upon the fundamental principles and recommendations of the program of joint defense. To do otherwise would jeopardize the defense of twenty republics by granting a directive voice to a nation which is not in sympathy with the basic policy. The voice of Argentina on the Committee for Political Defense has jeopardized and will continue to jeopardize the political defense program to which twenty American republics are committed.

It should be emphasized that a change in the Committee's membership would not be a resort to a "sanction". It would merely be responsive to Argentina's repeated assertions that it cannot accept or act upon the fundamental principles of the Committee's charter, Resolution XVII. We do not question the sovereign right of Argentina to reject Resolution XVII. On the other hand, we do not believe that Argentina may properly enjoy direct membership on a Committee charged with the implementation of the very principles which her government rejects.

On April 15, 1943, the Committee will have completed the first year of its work. If the recommended action is to be taken, this might be an appropriate effective date for the reorganization of the Committee.

With best regards,

Sincerely yours,

CARL B. SPAETH

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710.Consultation (3)A/269 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, March 11, 1943—5 p. m.

[Received 7:55 p. m.]

284. At a meeting of the subcommittee on organization called to discuss detailed plans for the visits to the countries represented at Rivera and to draft the communication to the Governments of Peru and Chile, the Mexican member asserted the urgent necessity for sending communications to all of the remaining Republics inquiring as to the desirability of the consultative visits. The proposal will be submitted to the full Committee at tomorrow's meeting, March 12. In view of the unqualified opinion of my colleagues that the work of the Committee has now reached a stage where it cannot be fully effective without the consultations, I feel that it would be extremely impolitic for me to oppose the scheme. I would emphasize that my relations with the majority of the Committee, the support of which I have enjoyed on a number of important issues, would be prejudiced by a negative vote on a matter which they consider of primary importance. Such a vote would be most difficult for me to justify in

view of the fact that opposition to the visits has been identified with the Argentine Foreign Office.<sup>46</sup>

The Department will recall that Dr. Guani has publicly announced on several occasions, including his speech to the Inter-American Defense Board,<sup>47</sup> that the Committee has decided to dedicate a large portion of its future program to visits to all of the American Republics. At tomorrow's meeting I will suggest that the communications to the remaining Republics be postponed at least until the completion [of] the visits to La Paz and Asunción. It is probable, however, that my suggestion will not be favorably received and that the question will come to a vote, in which event I feel that it would be very unwise to vote in the negative. I do not consider that a decision to open negotiations with the remaining Republics necessarily precludes a subsequent decision not to undertake a visit to a particular Republic.

DAWSON

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710.Consultation (3)A/283

*The Under Secretary of State (Welles) to the American Member,  
Emergency Advisory Committee for Political Defense (Spaeth)*

WASHINGTON, March 15, 1943.

DEAR CARL: I am grateful for your letter of February 18 recommending that some other republic be designated, in place of Argentina, to appoint a member of the Committee for Political Defense. I have given this matter considerable attention and discussed it with interested officers of the Department. Our ultimate conclusion coincides with yours.

However, for your strictly confidential information, no adequately satisfactory procedure has been apparent by which any member or members of the Union <sup>48</sup> could assume the initiative for undertaking the informal and formal steps necessary to remove Argentina by formal action of the Governing Board. In the meantime, Aranha has tactfully suggested to the Argentine Ambassador to Brazil that Argentina might well consider a voluntary withdrawal. I think we should await the results of this suggestion, apart from the unresolved difficulties I mention concerning a forced change.

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<sup>46</sup> In telegram No. 176, March 18, 6 p. m., to the Ambassador in Uruguay, the Department indicated that it had no objection to the Committee's proposal to visit countries concerning the regulatory control measures recommended by the Committee.

<sup>47</sup> A body composed of the military, naval, and aviation technical representatives of the American Republics, having its headquarters at Washington, and its purpose to study and recommend defense measures.

<sup>48</sup> Pan American Union.

There is a lesser move upon which I would appreciate your views. I understand that the Committee plans to submit an annual report along in April. It has been suggested that one method of keeping the matter alive would be for the Committee to make brief reference in its report, in connection with the termination of the first year's work, to the authority of the Governing Board to alter the membership under Article 3 of the Regulations of the Committee.

Naturally, I would want your personal reaction and an opportunity to consider it further here before any other mention were made of such a maneuver.

With warm regards [etc.]

SUMNER WELLES

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710.Consultation (3)A/302

*The Ambassador in Uruguay (Dawson) to the Under Secretary of State (Welles)*

MONTEVIDEO, April 5, 1943.

MY DEAR MR. SECRETARY: I understand that Carl Spaeth is writing you fully with respect to the effort being made to remove Dr. Guani from the chairmanship of the Political Defense Committee, and particularly with respect to the role being played in that effort by the Argentine Ambassador to Uruguay.<sup>49</sup>

Carl and I considered the matter at length on the morning of April 3 and decided that the situation was sufficiently serious to justify my discussing it personally with President Amézaga.<sup>50</sup> Furthermore, we felt that I should see the President, if possible, before this morning's Cabinet meeting. He was out-of-town over the week-end but I was able to obtain an audience at 9:30 this morning.

In view of the delicate nature and importance of the matter, I prepared in advance exactly what I was going to say. In order that you may be fully informed, I enclose the text of my notes<sup>51</sup> which I read verbatim to the President. Of course, no copy was given to him.

As you will see, my statement was extremely frank but couched in very friendly terms. Incidentally, it had been discussed with Carl who approved it and felt, as I did, that a vigorous and clear statement might have a salutary effect above and beyond the immediate issue.

I am happy to say that the President took my remarks in very good part. In fact, he said that he appreciated my frankness. He then

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<sup>49</sup> Carlos Quintana.

<sup>50</sup> Juan José Amézaga, President of Uruguay.

<sup>51</sup> Not printed.

went on to say that Dr. Guani's retention of the chairmanship of the Committee was incompatible with the Vice Presidency and that furthermore Dr. Guani had been appointed Uruguayan delegate on the Committee in his capacity as Foreign Minister. For this reason, he said, Sr. Serrato<sup>52</sup> ought to replace Dr. Guani on the Committee. The President added, however, that in view of my statement the matter would be held up and no change would be made for the present.

I reiterated to the President that my action was not influenced in the least by any question of persons.

With reference to the policy of his Administration, Dr. Amézaga remarked that, far from contemplating any change, he intended to accentuate Uruguay's cooperation with the United States. I told him that I appreciated this and had not of course wished to imply anything to the contrary. I said that in referring to that phase of the matter I had merely desired to point out how the Nazis would exploit anything which might be distorted into an indication of a weakening of the all important united American front.

The Argentines are undoubtedly going to make a strong effort to regain their former influence now that Dr. Guani is no longer Minister of Foreign Affairs. They probably consider that conditions are favorable since both Dr. Amézaga and Sr. Serrato have many friends in Buenos Aires and have the reputation of maintaining rather close ties with Argentina. It is probable that both the President and his Minister desire to improve relations with Argentina and they may feel that Dr. Guani went further than was necessary in antagonizing the Argentines.

It is too early to form an accurate picture of the situation and to size up the new Administration and its tendencies. I do not for a moment question the loyalty to the democracies of either the President or Sr. Serrato. However, I think that we must consider the possibility that for various reasons the present Government may prove less likely than its predecessor to take a strong stand against Argentina. Consequently, if we are to maintain our own position and keep Uruguay in line, it is more essential than ever that we render every possible assistance and keep the Uruguayans convinced that we can and will help them.

[Here follows a paragraph on the desirability of providing Uruguay with armaments and other commodities.]

With cordial personal regards,

Sincerely yours,

WILLIAM DAWSON

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<sup>52</sup> José Serrato succeeded Alberto Guani as Minister for Foreign Affairs.



710.Consultation (3)A/281 : Telegram

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

WASHINGTON, April 16, 1943—11 p. m.

1420. From the Under Secretary. Your 1608, April 2, 4 p. m.<sup>53</sup> Please tell Aranha that I have no further suggestions to make at this time regarding Argentina's membership on the Committee for Political Defense. It seems to me that taking into account Argentina's reception of a group from the Committee for consultative purposes and the growing intensity of the Argentine political struggle, we might wish to avoid for motives of expediency any further action for the present, even though of course, I recognize that Argentina's presence on this inter-American body is illogical. [Welles.]

HULL

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710.Consultation (3)A/293 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, April 20, 1943—5 p. m.

[Received 9:59 p. m.]

430. For Welles from Spaeth. The report of the Committee representatives who undertook the consultation with Argentine officials will demonstrate that no adequate defense against political aggression is possible so long as diplomatic relations are maintained with the Axis. This will confirm that Resolution I of Rio<sup>54</sup> is the indispensable basis of all the Committee's work and will refute the Argentine thesis that her neutrality is compatible with continental solidarity and that she can remain neutral and yet take adequate measures against political aggression. The report could include a statement by the Committee, with supporting data, that the Argentine failure to act upon the Rio recommendations seriously weakens the defense structure of other Republics. I propose that the Committee release this report for publication because such action by an inter-American body, following upon a detailed study in consultation with Argentine officials, would effectively answer the Argentine position, which has become increasingly pronounced, that neutrality is compatible with adequate political defense.

As an alternative to publication or as an additional subsequent move following publication it is my opinion that a report based upon the points mentioned above would constitute a sound basis for a recommendation by the Committee to the Governing Board of the Pan-American Union that there be a change in the membership of the

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<sup>53</sup> Not printed.

<sup>54</sup> This was the resolution to break diplomatic relations with the Axis nations; see Department of State *Bulletin*, February 7, 1942, p. 118.

Committee. The recommendation would emphasize that the organization created by Resolution XVII for the express purpose of proposing ways and means by which the principles of political defense agreed upon in Rio can be effectively applied is not able adequately to fulfill its task so long as its membership includes a representative who cannot subscribe to those principles. Under this procedure the initial step in removing the Argentine delegate would be taken by the Committee, thus making it unnecessary for a member or members of the Union to take the initiative.

The recent Argentine policy of superficial, token cooperation with the Committee, coupled with the Argentine Ambassador's participation in the effort to have Dr. Guani removed from the Committee, referred to in my letter to you under date of April 6,<sup>55</sup> make it sufficiently clear that Argentina will not voluntarily withdraw from the Committee and that she is engaged in an active campaign to weaken its leadership and destroy its effectiveness. The report which the Committee is now in a position to submit to the Governing Board of the Union on the basis of the visit to Argentina and the completion of the first year of its work offers what may well be a final appropriate opportunity for presenting the entire problem to the other Republics.

If you are of the opinion that either or both of the above proposals warrant further exploration, I recommend that I be authorized to discuss the matter with Dr. Guani. [Spaeth.]

DAWSON

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710.Consultation (3) A/293 : Telegram

*The Secretary of State to the Chargé in Uruguay (Dwyer)*

WASHINGTON, May 10, 1943—2 p. m.

274. For Spaeth from Welles. Your 430, April 20, 5 p. m. While both your proposals have merit, I believe that treatment of the subject in the annual report to the Union, as outlined in the second paragraph of your telegram, is to be preferred. However, to achieve the desired effect it would appear necessary that the Committee's action be approved by unanimous vote of all members other than the Argentina one. Please discuss the matter discreetly with Guani with a view to having him sound out the members other than Chiappe. So far as possible, it would be wise for you to avoid taking the initiative.

Before any action is taken to raise this matter in the Committee please advise the Department of the results of your conversation with Guani and of any conversations he, in turn, may have had with members other than Chiappe. [Welles.]

HULL

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<sup>55</sup> Not printed.

710.Consultation (3)A/306: Telegram

*The Chargé in Uruguay (Dwyer) to the Secretary of State*

MONTEVIDEO, May 20, 1943—11 p. m.

[Received 11:50 p. m.]

504. For Welles from Spaeth. Reference Embassy cable No. 500 of May 17.<sup>56</sup> Guani has just received a letter from the Foreign Minister of Chile stating that his Government does not deem a consultative visit to Chile necessary or desirable at the present time. The letter from Fernández y Fernández is another evidence of the hostility which he has shown toward the Committee since our publication of the memorandum of Axis activities in Chile.<sup>57</sup> In view of this attitude Guani feels and I concur that there is some reason to doubt that Chile will support the proposal to submit a report to the Governing Board of the Union recommending a change in the Committee's membership.

That [at] an informal meeting this morning with Guani which was attended by the Mexican and Brazilian members, it was agreed that no mention should be made to the Chilean member at this time of the proposed reports to the Governing Board of the Union. It was also agreed, however, that it is highly desirable to start the procedure with reference to Argentina by having the Committee, at its meeting on May 25, take the preliminary step which is mentioned in the cable under reference, but without presenting the proposal for a report to the Union. It is believed that the proposed procedure for securing an Argentine comment on the delegation's report has merit and need not await the final decision on the latter proposal.

During the time that we are waiting upon an Argentine reply it is proposed that Guani carry on the necessary conversations with the Chilean member with respect to a possible change in attitude concerning the consultative visit, and, after a decision is reached with Amézaga, with respect to the report to the Union.

I have concurred in the procedure as set forth above but am in a position to carry out any instructions which you may have in the matter. [Spaeth.]

Dwyer

710.Consultation (3)A/316: Telegram

*The Chargé in Uruguay (Dwyer) to the Secretary of State*

MONTEVIDEO, June 5, 1943—2 p. m.

[Received 5:55 p. m.]

553. For Duggan from Spaeth. Dr. Guani advised me this morning that President Amézaga approved the proposal for a report to

<sup>56</sup> Not printed.<sup>57</sup> See footnote 14, p. 4.

the Governing Board of the Union which will recite the basic facts with respect to Argentina as developed during the past year and which would conclude with the assertion that the defense of the hemisphere will be seriously prejudiced so long as any American Republic maintains diplomatic relations with the Axis and that the work of the Committee for Political Defense cannot be effective so long as it includes a member who cannot subscribe to the policies approved at Rio. Although Dr. Beanills [*Guani is*] thus authorized to support a strong affirmative statement with documentation he is not free to support an explicit recommendation that the membership be changed.

Guani recommends that the matter be submitted to the Chilean member on Monday, June 6, with the frank oral explanation that the documentation and assertions of the report will be the equivalent of a recommendation for a change of membership.

It is Guani's present opinion in which I concur that it is desirable to proceed to negotiate the matter with Chile notwithstanding yesterday's developments in Argentina.<sup>58</sup> Guani feels that it will be some time before the international policy of the new regime is made clear and believes that if the developments of the next few weeks indicate a change by Argentina the report to the Union can be appropriately modified.

If the Department is of the opinion that the conversations with the Chilean member should be postponed in view of the developments in Argentina please advise me by return cable. [Spaeth.]

DWYER

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710.Consultation (3)A/319: Telegram

*The Secretary of State to the Chargé in Uruguay (Dwyer)*

WASHINGTON, June 16, 1943—5 p. m.

328. For Spaeth from Duggan. Your 573 June 10, 6 p. m.<sup>59</sup> While the Department perceives no objection to negotiations to secure Chilean approval of the proposed report concerning Committee membership, it is inclined to believe that the formal adoption or issuance of report should be withheld long enough to ascertain whether Argentina intends to sever relations within a reasonable time. Please report views of Guani and yourself. [Duggan.]

HULL

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<sup>58</sup> For correspondence concerning the recognition of the Government of Gen. Pedro P. Ramírez, see pp. 365 ff.

<sup>59</sup> Not printed.

710.Consultation (3) A/326 : Telegram

*The Chargé in Uruguay (Dwyer) to the Secretary of State*

MONTEVIDEO, June 24, 1943—2 p. m.

[Received 6:07 p. m.]

615. For Duggan from Spaeth. Reference Department's cable No. 328, June 16, 1943, 5 p. m. After a full discussion with Ambassador Armour and members of his staff in Buenos Aires it is my opinion that it would not be advisable to issue a report at this time which would be expressly directed at Argentina.

It seems very unlikely, however, that the new Argentine Government will decide to break relations until they have had an opportunity to negotiate a number of matters with our Government. Since the period of negotiations might carry on for many weeks the Committee's annual report to the Governments and to the Pan American Union would probably be indefinitely postponed if we were to proceed in accordance with the suggestion of the cable under reference.

Apart entirely from the Argentine issue, I am certain that a majority of my colleagues would be reluctant to postpone our report of year's activities for an indefinite period. The work on the report has been under way for some time with the full cooperation of a majority of the Committee and it has been planned to publish the report before the start of the consultation on or about July 10th. Furthermore, since most of the members have been and still are strongly in favor of a direct indictment of the Argentine position, I feel that it is important that I present an alternative proposal.

I therefore recommend that the Committee issue the planned comprehensive report of its work to date and that it include a statement of the principles which have governed its action pursuant to the recommendations of the Rio Conference. In the general statement of basic principles we would include a brief reference to the relation between Resolution I and Resolution XVII and to the fact that Resolution XVII is aimed directly at the Axis. The statement would thus indirectly question the Argentine position. There would, however, be no direct analysis of the Argentine attitude through references to the consultation in Argentina or to the position taken on the Committee by Chiappe. Ambassador Armour agrees that such a general statement of basic guiding principles would not adversely affect the developing Argentine situation and might give the new Government an opportunity to distinguish its position from that of the Castillo<sup>60</sup> administration. In the event that we proceed with this type of report I would arrange to have Armour see the text so as to guard against statements that might jeopardize developments in Argentina.

<sup>60</sup> Ramón Castillo, former President of Argentina, who resigned June 5.

In order to have a basis for a future recommendation on a change of membership, I also suggest that the Committee send copies of all of the documents relating to Argentina for deposit in the Archives of the Pan American Union. I understand that a request that the documents be held by the Union will insure that their contents will be known only to the Director General and one or two other officials of the Union. We would include among these documents the report of the delegation which made the visit to Argentina as well as the minutes of Committee meetings. It is my opinion that the recommended alternative procedure will enable the Committee substantially to satisfy its responsibilities under Resolution XVII and that it will not adversely affect developments in Argentina.

I have not yet discussed the matter with Doctor Guani, because I feel that I should go to him with a concrete alternative to the report as originally planned rather than with a proposal for an indefinite postponement.

If the Department perceives no objection we will proceed to revise the report along the lines indicated above with a view to an immediate presentation to Guani. [Spaeth.]

DWYER

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710.Consultation (3)A/354

*The Ambassador in Peru (Norweb) to the Secretary of State*

No. 7337

LIMA, July 13, 1943.

[Received July 24.]

SIR: I have the honor to report that Mr. Carl Spaeth, the United States delegate on the Emergency Advisory Committee for Political Defense, passed through Lima on July 11 en route to Central America, Mexico and the United States.

Mr. Spaeth explained that the Committee has adopted the plan of sending two or three of its members to visit the various American republics for the purpose of discussing the work of the Committee. He said that this plan was submitted to the various governments and that all countries in South America except Chile and Peru accepted it. In reply to the Committee's recommendation regarding these visits, the Peruvian Government stated that the time did not seem opportune for such visits. Mr. Spaeth believes that the Chilean Government influenced Peruvian action. He explained that the Committee's unfavorable report regarding Chile<sup>61</sup> was published about a week after the present Chilean Minister for Foreign Affairs<sup>62</sup> had returned to Santiago to take office. Mr. Fernández, prior to entering the Chilean

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<sup>61</sup> See footnote 14, p. 4.

<sup>62</sup> Joaquín Fernández y Fernández.

cabinet as Minister for Foreign Affairs, was the Chilean representative on the Committee. Mr. Spaeth stated that Mr. Fernández never will forgive the Committee for its action and that it will be difficult for the Committee to obtain Chilean cooperation for some time to come. He believes that the Chilean Minister for Foreign Affairs may have stated his position to the Peruvian Government and suggested the convenience of a similar attitude on the part of Peru.

In view of the present situation with respect to relations among Peru, Chile and Bolivia as a result of the recent re-opening by Bolivia of the question of a port on the Pacific, it is quite possible that Mr. Spaeth's estimate of the situation is correct. The question has not been mentioned by any official of the Peruvian Government, and the first news that the Embassy had of the matter came from Mr. Spaeth.

It would be helpful if the Department could keep the Embassy informed regarding the work and the various projects of the Emergency Advisory Committee for Political Defense.

Respectfully yours,

For the Ambassador:

GEORGE H. BUTLER

*First Secretary of Embassy*

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710.Consultation (3) A/404

*The Peruvian Embassy to the Department of State*<sup>63</sup>

[Translation]

MEMORANDUM

The Government of Peru considers that the designation of a liaison officer, duly authorized by the Advisory Committee for the Political Defense of the Continent to attend its deliberations, serves the purposes of interchange of information between the Committee and non-member countries such as Peru.

Because of this view, the Peruvian Government deemed it unnecessary and declined its permission for a special Delegation of the Committee to travel to Peru on an official mission. The Peruvian Government was of the opinion that no special end would be served by a such a visit, but that, on the contrary, there might be occasion that in certain quarters such a trip would be interpreted as an act of control which invaded or impaired the powers reserved to national sovereignty.

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<sup>63</sup> Transmitted to the Secretary of State by the Peruvian Ambassador in his letter of August 17, 1943, not printed.

The Government of Peru believes that the work of coordinating emergency and defense measures may be achieved efficiently through established channels, without the need of recourse to extraordinary measures which may arouse resistance if adjudged to be interventions in internal affairs; and considers that its denial of permission for the visit of the special Delegation, in the light of these observations, does not in any way reflect upon its willingness to contribute, and to continue to contribute, to such defense, for which it was one of the first nations to adopt the necessary measures.

WASHINGTON, 18 August 1943.

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710.Consultation (3)A/424

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

[WASHINGTON,] September 18, 1943.

During a conversation in which the Foreign Minister<sup>64</sup> reviewed once again his attitude with respect to Argentina, I raised with him the problem created for the CPD<sup>65</sup> by Argentina's representation in the Committee. I said that it seemed obvious that the work of the CPD would be hampered by Argentine membership since the functions of the Committee were clearly premised upon the necessity for break of relations with the Axis powers by each one of the American republics. I therefore inquired the Minister's attitude towards action by the CPD (without specifying what this action would be) to eliminate the Argentine member of the Committee.

The Minister replied without hesitation that he thought any such action would be a mistake. He referred to his previous comments that President Ramírez<sup>66</sup> and the Argentine Government wanted to break diplomatic relations<sup>67</sup> and had delayed only because they were uncertain as to method and timing. Steps to eliminate Argentine membership on the CPD would simply have the effect of antagonizing the Argentine Government rather than of presenting them an additional reason why diplomatic relations should be broken. He therefore thought that no further consideration should be given to this idea until there was certainty as to Argentine foreign policy.

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<sup>64</sup> Joaquín Fernández y Fernández, Chilean Foreign Minister, on a visit to the United States.

<sup>65</sup> Emergency Advisory Committee for Political Defense.

<sup>66</sup> Gen. Pedro P. Ramírez, President of Argentina.

<sup>67</sup> For correspondence on concern of the United States at the failure of Argentina to sever political relations with the Axis Powers, see pp. 415 ff.



710.Consultation (3) A/426 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, November 5, 1943—7 p. m.

[Received 11:40 p. m.]

948. For Duggan from Spaeth. Brazilian and Venezuelan members have questioned whether the country reports based on the consultative visits should be made available to the Argentine member. The reports include confidential data furnished to the Committee's representatives by police and military officials as well as commentaries on the principal defects of the political defense systems of the countries visited. My colleagues fear that if the reports are made available to officials of the present Argentine Government, they will ultimately reach enemy hands. There is also good reason to believe that the Argentine Government desires to obtain information which will show that the Argentine political defense system is as good or better than that of other Republics.

The problem has been discussed with Guani who agrees that the documents should not be made available to the Argentine member and believes that the matter should be referred to the Governing Board of the Union for decision. He recognizes that this may raise the entire question of Argentine membership and states in the strongest possible terms that it is "unworkable and absurd" that the Argentine member should participate in the follow-up program, which is now the Committee's principal task. This work involves the preparation and approval of communications to the Governments pointing out in detail discrepancies in their political defense structure and urging action pursuant to a policy that has been repudiated by the Argentine Government.

It will be recalled that for substantially the reasons expressed by Guani the Argentine member was not included on the delegations which made the consultative visits.

Guani is strongly of the opinion that we should not resort to any internal arrangement or subterfuge to keep the documents from the Argentine members. He does not therefore favor the appointment of a special subcommittee with exclusive access to the documents, a suggestion tentatively advanced by one of the members as an alternative to presenting the matter to the Union. The Department will recall that on all proposals affecting Argentine membership Guani has favored reference to the Union.

In order to keep the reports already prepared from the Argentine member and give the majority time in which to arrive at a final decision, the Brazilian member at today's meeting referred to the confidential character of the materials which are being included in the

country reports and proposed the appointment of a special subcommittee to recommend measures to insure the security of the documents. This motion was approved unanimously and Guani named the Brazilian, Venezuelan and American members to the subcommittee. In voting for the motion the Argentine member, of course, had no idea of its real purpose. It is understood that there will be no distribution until the subcommittee has reported.

It is my opinion that the documents in question should not be made available to the Argentine member and that the issue forcefully demonstrated the fundamental cleavage between Argentina and the rest of the continent.

The matter has not been discussed with the Chilean member.<sup>68</sup>

The Department's instructions with respect to Guani's proposal that the question be presented to the Union are respectfully requested. [Spaeth.]

DAWSON

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710.Consultation (3) A/431 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, November 16, 1943—4 p. m.

[Received 8:37 p. m.]

977. For Duggan from Spaeth. The Argentine member has requested the Secretary General<sup>69</sup> to make available certain of the documents referred to in Embassy's cable No. 948 of November 5. The Secretary General has advised the Argentine member that there is to be no distribution of documents until the subcommittee, to which reference is made in the above-mentioned cable, has reported.

The Brazilian and the Venezuelan members of the subcommittee have suggested provisionally a formula which would recite the nature of the documents received, stress that they were given the delegations in strict confidence by Cabinet Ministers, military and law enforcing officials of countries which have either declared war or broken relations with the Axis, and conclude that the documents can therefore be of interest and should be made available only to members of the Committee who are competent to act on behalf of countries which have declared that they are the victims of Axis military or political aggression by adopting measures pursuant to the resolutions agreed upon at Rio de Janeiro. My colleagues suggest that upon approval of this or a similar formula the Committee simply notify the Pan American Union of its decision without requesting any action. They recognize that such a notification could eventually raise the member-

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<sup>68</sup> Alfredo Rodríguez MacIver.

<sup>69</sup> José L. Chouhy Terra.

ship issue in the Union but are of the opinion that Argentina will not choose to do so. It is also their opinion that if the member from Chile does not agree to the formula, the Committee should act by majority of five.

Pending instructions I am postponing formal subcommittee action but as it will be difficult to delay much longer without taking a position, it is important that I receive the Department's views at an early date.

During the past 2 weeks statements by Argentine officials and additional appointments of pro-Nazis to high Government posts have strengthened the opinion of the majority of the Committee as expressed in the above-mentioned cable. [Spaeth.]

DAWSON

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710 Consultation 3(A)/431 : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, November 20, 1943—4 p. m.

568. For Spaeth from Duggan. Department perceives no objection to your supporting the formula and procedure suggested by the Brazilian and Venezuelan members described in your 977, November 16, 4 p. m. This step would appear to be consistent with more positive action, your 948 of November 8 [5], the advisability of which the Department desires to consider further. [Duggan.]

HULL

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710 Consultation (3)A/444 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, December 3, 1943—4 p. m.

[Received 8:49 p. m.]

1017. For Duggan from Spaeth. At today's meeting which was attended by all members except the Argentine representative the formula and procedure described in my No. 977, of November 16 were unanimously approved. The following is a paraphrased translation of the most important paragraphs of the report as approved:

"The documents shall be made available only to the members of the Committee who act on behalf of the community of states which, breaking diplomatic relations with or declaring war against the Axis, have recognized that acts or [of] aggression, as defined by the pertinent resolutions of inter-American Conferences, have been committed against them, either individually or collectively, by the said Axis.

"The subcommittee recommends that the conclusions set forth above be approved as a provisional emergency measure to continue in effect so long as the circumstances in which said conclusions originate remain unchanged.

"In submitting these conclusions the undersigned subcommittee recommends that in the event of their approval they be communicated to the Pan American Union."

With regard to the absence of the Argentine member the following facts are pertinent. Friday is the regular meeting day of the Committee. The agenda of today's meeting was delivered to the Argentine Embassy 48 hours prior to the meeting and, in accordance with the regulations, a copy of the subcommittee's report was delivered 24 hours prior to the meeting. Shortly before the meeting the Secretary General telephoned the Embassy to inquire whether Achaval<sup>70</sup> was going to attend and was informed that the latter had been detained by important matters at the Foreign Office in Buenos Aires and that Escobar, the adviser to Achaval, would call on the Secretary General later in the day for information on the Committee's action.

The member from Chile voted with the other five members without any reservation and without presenting a negative argument. This unqualified support from MacIver came as a surprise because when the proposal was discussed with him yesterday he emphasized its delicacy and indicated that he might present an alternative formula pursuant to which the documents would be made available only to those members who participated in the recent consultative visits. [Spaeth.]

DAWSON

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710.Consultation (3) A/452: Telegram

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

Buenos Aires, December 20, 1943—3 p. m.

[Received December 20—2:54 p. m.]

2921. Espil<sup>71</sup> tells me when news of the resolution referred to [in] Department's 1895, December 14, 9 p. m.<sup>72</sup> reached Foreign Office here they were very angry, in fact were inclined not to appoint successor to Achaval, recently designated Minister to Switzerland. Espil who was apparently consulted recommended against such a stand, on ground that Pan American Union, to which resolution has been referred, would then be in a position to designate a delegate from some other country leaving Argentine unrepresented. This, he told them, would, he felt, be a serious mistake. While Espil personally understands reasons prompting Committee in its action, he doubts whether Pan American Union has power to act in sense recommended. Espil does not know

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<sup>70</sup> Guillermo Achaval was reported on July 3 to have succeeded Miguel Chiappe as the Argentine member of the Committee.

<sup>71</sup> Felipe A. Espil, Argentine Ambassador to the United States.

<sup>72</sup> Not printed; for substance, see telegram No. 1017, December 3, 4 p. m., from the Ambassador in Uruguay, *supra*.

whether his Government will act on his recommendation, but he is working quietly to have Ricardo Bunge<sup>73</sup> designated as Achaval's successor.

Repeated to Montevideo.

ARMOUR

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710 Consultation (3) A/459: Telegram

*The Chairman of the Emergency Advisory Committee for Political Defense (Guani) to the Secretary of State*

[Translation]

MONTVIDEO, December 24, 1943.

I have the honor of transmitting to Your Excellency the text of the recommendation approved this date by the Emergency Consultative Committee for Political Defense:

WHEREAS:

(a) That notwithstanding the lack of success in its purposes of annulling the contribution which the American peoples are making to the war effort and to the political defense of the continent, in compliance with the agreements in effect, it is evident that the Axis continues to exert itself to carry out these designs, with grave danger that totalitarian elements may through force take possession of Governments of American Republics, separating them from the principles of union and solidarity adopted in the face of the common enemy and from support to the cause of the United and Associated Nations;

(b) That rights and duties are derived from the afore-mentioned agreements which consecrate the solidarity which should exist between said Republics for the defense of the continent against the dangers indicated in the preceding paragraph;

(c) That the Third Consultative Meeting of the Ministers of Foreign Affairs, in creating this Committee, assigned to it the mandate of recommending measures with respect to the problems relating to all aspects of the defense of the continent against the political aggression of the Axis;

The Emergency Consultative Committee for Political Defense

RESOLVES:

"To recommend to the American Governments which have declared war on the Axis powers or have broken relations with them, that for the duration of the present world conflict they do not proceed to the recognition of a new government instituted by force, before consulting among themselves for the purpose of determining whether this government complies with the Inter-American undertakings for the defense of the continent, nor before carrying out an exchange of information as to the circumstances which have determined the establishment of said government."

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<sup>73</sup> Director of the Division of American Political Affairs of the Argentine Foreign Office.

In communicating said resolution and by express provision of the Committee, I have the particular honor to express that it does not refer to any particular case, but has been adopted having in view the general interests of continental political defense.

I greet Your Excellency [etc.]

ALBERTO GUANI

710 Consultation (3) A/459 : Telegram

*The Secretary of State to the Chairman of the Emergency Advisory Committee for Political Defense (Guani)*

WASHINGTON, December 27, 1943.

I have the honor to acknowledge the receipt of Your Excellency's telegram of December 24 transmitting the text of a resolution approved by the Emergency Advisory Committee for Political Defense on December 23 [24] in which it resolved :

"To recommend to the American Governments which have declared war on the Axis powers or have broken relations with them, that for the duration of the present world conflict they do not proceed to the recognition of a new government instituted by force, before consulting among themselves for the purpose of determining whether this government complies with the Inter-American undertakings for the defense of the continent, nor before carrying out an exchange of information as to the circumstances which have determined the establishment of said government."

I desire to inform you that this Government wholeheartedly approves of the foregoing resolution. In accordance with it, this Government stands ready to consult and exchange information with the other American Republics which have declared war against or have severed diplomatic relations with the Axis, in situations to which the resolution applies.

HULL

710 Consultation (3) A/456 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, December 27, 1943—1 p. m.

[Received 1:58 p. m.]

1086. From Spaeth for Duggan and Bonsal.<sup>74</sup> Valdes Musters, Bolivian Minister in Uruguay and liaison officer between the Committee and his Government, has presented a brief memo to Dr. Guani declaring the intention of the new Government<sup>75</sup> to comply with its

<sup>74</sup> Philip W. Bonsal, Chief of the Division of the American Republics.

<sup>75</sup> For correspondence regarding the recognition of this new Bolivian Government, see pp. 533 ff.

inter-American commitments. The Minister's memo states that the declaration is presented pursuant to instructions from La Paz. Guani does not intend to acknowledge the communication and recognizes of course that the declaration is irrelevant to the purposes of the Committee's recommendation.

Committee's regularly scheduled Tuesday meeting will not be held since Guani considers that the Committee should meet again only after it has received some indication of the reaction of the Governments to its recommendation. Guani stated that he was most anxious to receive a reply from the Department and inquired whether the Department might have suggestions as to procedure for effecting contemplated consultation and exchange of information. Guani also stated that we should consider what if any further action should be taken by Committee either on its own initiative or at request of the Governments and it is therefore desirable that I receive the Department's views.

I have just learned that Valdes has given the press a copy of the memo he delivered to Guani. [Spaeth.]

DAWSON

710 Consultation (3) A/502a : Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics*<sup>76</sup>

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WASHINGTON, December 30, 1943—9 p. m.

In view of the grave considerations of Hemisphere security and solidarity which underlie the December 24 resolution of the Committee for Political Defense at Montevideo the Department attaches great significance to action by all of the 19 republics concerned indicating their approval of that resolution. You are requested, by discreet inquiry, to ascertain whether the Government to which you are accredited intends to reply favorably to the Committee. Should there be any doubt on that score, you should make clear the importance which this Government attaches to the matter and express the hope that a favorable response to the resolution will be promptly made.

HULL

710 Consultation (3) A/456 : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, December 30, 1943—11 p. m.

640. For Spaeth. The Department has received suggestions that it might be feasible to effect the exchange of information envisaged

<sup>76</sup> Except Argentina, Venezuela, Guatemala, Cuba, Uruguay, and Bolivia.

by the Committee's resolution by the following method. Reference immediately preceding telegram from Duggan,<sup>77</sup> and your No. 1086 of December 27, 1 p. m.<sup>78</sup>

The Committee would take the initiative by calling to a meeting to be held in Montevideo authorized representatives of the 19 governments concerned, for the purposes of engaging in the exchange of information contemplated by the resolution. The representatives would each be expected to submit to each other all information secret and otherwise pertinent under the resolution, and thus be able to report such information in full back to their respective governments.

The Committee would not be expected to exercise any responsibilities for analysis or evaluation of the information or for making any report or recommendations to the governments based upon the information exchanged. The Committee mechanism would be employed, therefore, merely as a convenient method of facilitating in an expeditious and orderly way, the meeting, and the multilateral exchange of information recommended. Furthermore, it has been suggested that the exchange of information at the meeting should be without prejudice to the right of any participating government to consider other evidence in its possession.

The suggestions made thus rather clearly distinguish between the function of exchanging information, and the function of consultation. As to the latter, the governments would remain free to and probably would consult with one another before and after the meeting, presumably through the usual diplomatic channels, with respect to the basic question of recognition. It would also be clearly understood that the ultimate decision as to recognition was one for each government to determine. It is felt that, with these clear understandings on consultation and recognition, various governments sensitive to considerations of sovereignty would be more inclined to cooperate in such a meeting.

It is also assumed that the meeting should take place at an early date.

The Department has in mind the prospect of promptly sounding out certain other key governments with regard to these suggestions. Before doing so, however, it is imperative that it know whether the Committee would be in a position to carry forward such a plan or some suitable modification. You should promptly confer with Dr. Guani on the matter. You may also confer with any other members of the Committee in whom you have absolute confidence, if necessary to ascertain with confident accuracy the majority sentiment. The strictest confidence should be enjoined upon those consulted, to be maintained until the matter, if feasible so far as the Committee is concerned, has otherwise been adequately explored and determined upon.

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<sup>77</sup> Department's telegram No. 633, December 30, not printed.

<sup>78</sup> Not printed.



A full report from you is desired at the earliest possible moment, both upon the substance of the plan and the mechanics for its inauguration.

HULL

710. Consultation (3) A/553b : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, December 31, 1943—7 p. m.

641. For the Ambassador and Spaeth. According to reports received from the Missions through December 21 to December 30, inclusive, the great majority of republics have indicated that they are agreeable to delaying recognition, and that they are also agreeable, in general, to the procedure of consultation prior to recognition. With regard to the Committee resolution, our information is that Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Mexico, Peru, and Venezuela have signified their specific approval either by formal replies to the Committee or declarations to our Ambassadors, and that qualified approval has been signified or otherwise believed probable in the cases of Brazil, Colombia, Paraguay, and Uruguay. No clear reactions to the resolution are yet known here regarding Chile, Dominican Republic, Haiti, Honduras, Nicaragua, and Panama.

This information is for your strictly confidential information.

HULL

710 Consultation (3) A/489 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTVIDEO, December 31, 1943—4 p. m.

[Received 6:05 p. m.]

1105. For Duggan from Spaeth. Reference your telegram No. 633, December 30.<sup>79</sup> Committee has received unqualified acceptances from following countries: Cuba, Dominican Republic, Mexico, Guatemala, Honduras, Costa Rica, Panama, Venezuela, Peru, United States, Ecuador and Paraguay.

We are advised today by Serrato that Uruguay will reply favorably today or tomorrow.

Brazilian reply states in part as follows: "Your Excellency may be certain that the Brazilian Government will study it (recommendation) with the attention which the decisions of the Committee always merit. We have been and are advocates prior consultation among the

<sup>79</sup> Not printed.

American Governments whenever there are continental interests to be protected”.

Colombian reply states that Government is studying the recommendation and will inform the Committee of its decision shortly.

No answer has been received from Haiti, Nicaragua, Chile and El Salvador.

Committee has also received a telegram from Anze Matienzo, ex-Bolivian Foreign Minister now in Arica, offering to supply the Committee with secret information concerning the totalitarian aspects of the Bolivian Government. He requests a reply from Guani.

Yesterday afternoon Valdes Musters the Bolivian Minister acting pursuant to instructions from La Paz presented a strongly worded protest which accused the Committee of acting beyond its authority, of violating the international principles of juridical equality of states and the self-determination of people to decide their form of government, and of putting unjustified pressure on a weak country. The document also repeats previous statements made concerning adherence of the new Government to the principles of democracy and the cause of the United Nations. [Spaeth.]

DAWSON

PROPOSAL BY COLOMBIA FOR CONSULTATION AMONG  
AMERICAN REPUBLICS NOT AT WAR REGARDING  
STATUS AS TO COOPERATION WITH THE UNITED  
NATIONS, ESPECIALLY IN UNRRA <sup>1</sup>

840.50/2321 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, August 3, 1943—6 p. m.

[Received 11:55 p. m.]

1331. For the Secretary and Under Secretary. Embassy's airgram 530, July 1, 6 p. m.,<sup>2</sup> and Department's circular instructions of July 7 and July 13 regarding Draft Agreement for United Nations Relief and Rehabilitation Administration.<sup>3</sup>

I called on Minister for Foreign Affairs<sup>4</sup> today at his request. Turbay said that following a discussion of the draft agreement by the Council of Ministers the President<sup>5</sup> had instructed Turbay to inform the United States Government through this Embassy as follows:

First of all the Colombian Government expresses its appreciation for our "deference" in inviting Colombia to be associated with the United Nations in this most important post-war project. The Colombian Government, however, is of the opinion that the clause "being United Nations or being associated with the United Nations in this war" would imply a change in the juridical and political status of Colombia's vis-à-vis the war, and as Colombia does not wish to change its status without consulting the other nations of this continent which are in a status similar to Colombia (i.e. have broken relations with the Axis but have not declared war) the Colombian Government yesterday sent telegrams to the Governments of Chile, Ecuador, Paraguay, Peru, Uruguay, and Venezuela suggesting that if they have no objection instructions be sent to their respective Ambassadors in Washington to consult one another and the Department of State with a view to arriving at an agreement in connection with the draft project for United Nations relief. The view of the Colombian Government is that some means should be worked out unanimously among Colombia and the six other nations which are at present in the same position as Colombia, so that the distinction which now exists between them and

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<sup>1</sup> For further correspondence regarding the agreement for the establishment of a United Nations Relief and Rehabilitation Administration, see vol. I, pp. 851 ff.

<sup>2</sup> Not printed.

<sup>3</sup> Circular instruction of July 7 not printed; it transmitted a Spanish translation of the draft agreement, as of possible assistance in facilitating consideration of the agreement. For circular instruction of July 13, see vol. I, p. 932.

<sup>4</sup> Gabriel Turbay.

<sup>5</sup> Alfonso López Santos.

the fourteen nations of America (including Canada) which have declared war against the Axis may be minimized or eradicated. Turbay said that it may be that some nations may desire to take some concrete step, such as adherence to the United Nations Declaration<sup>6</sup> or some other definitive action (while he did not so state, I inferred that he had in mind declaration of war against the Axis).

Dr. Turbay said that the motive behind the Colombian action is to bring about a greater unification of the American nations, and if possible to influence Argentina to join the others of the continent. He said that if all the American nations with the exception of Argentina definitely agree to be "associates" in connection with the war, it will be a very difficult matter for Argentina to remain outside of the fold.

During the commencement of Dr. Turbay's explanation of the Colombian Government's position I received the impression that he was leaning over backwards in a legalistic interpretation of the draft agreement. As he proceeded with his argument, however, it became evident that President López and he are again taking the initiative to bring about a greater and more effective collaboration between the American nations and specifically to eradicate the differences between the nations which may appear to exist as a result of variance in the action which the three groups have taken vis-à-vis the Axis pie [Powers] (the three groups are: 1, the fourteen nations which have declared war; 2, the seven nations which have broken off relations but have not declared war; and 3, Argentina).

I should appreciate the Department's comments on the foregoing so that I may seek an audience with President López as well as another interview with Dr. Turbay and discuss the matter in greater detail.

LANE

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840.50/2389a : Circular telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*<sup>7</sup>

WASHINGTON, August 5, 1943—9 p. m.

In connection with the Draft Agreement for the United Nations Relief and Rehabilitation Administration, the Colombian Minister for Foreign Affairs has raised the question whether the clause "being United Nations or being associated with the United Nations in this war" would imply any change in the juridical and political status of Colombia vis-à-vis the war. The Colombian Government has sent telegrams to the Governments of Chile, Ecuador, Paraguay, Peru, Uruguay and Venezuela suggesting the sending of instructions to their respective Ambassadors in Washington to consult one another as well as the Department on this point.

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<sup>6</sup> Declaration of January 1, 1942, *Foreign Relations*, 1942, vol. I, p. 25.

<sup>7</sup> Sent also to the Embassies in Chile, Ecuador, Paraguay, Peru, and Venezuela.

The objective of the Colombian Government appears to be [to] find a formula to minimize or even to eradicate through the process of consultation the distinction now existing between the seven American republics which have broken with the Axis but have not declared war and the republics which are members of the United Nations.

The Department's point of view is contained in the following telegram which is being sent to the American Ambassador at Bogotá and which you may use as background in any discussions which you may have with the local officials.

[Here follows text of telegram No. 971, August 5, midnight, to the Ambassador in Colombia, printed *infra*.]

HULL

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840.50/2321 : Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, August 5, 1943—midnight.

971. Your 1331, August 3, 6 p. m. Please express to Turbay our sincere appreciation for his friendly cooperation in consulting with us regarding any possible change in Colombia's status vis-à-vis the war which might result from participation in the United Nations Relief and Rehabilitation Administration. In doing so you may assure Turbay that it has not been the intention or desire of this Government to bring up this question in connection with the plans which must necessarily be made for handling problems of international importance in the post-war period, and that in our opinion no new problems are presented by the United Nations Relief and Rehabilitation Administration which had not already been considered in connection with the United Nations Conference on Food and Agriculture.<sup>8</sup> At that Conference all participating nations played a helpful role without distinction in regard to their degree of participation in the present war; and in the work of relief and rehabilitation which must be undertaken no need is perceived for raising such distinctions among the participating governments. It is very doubtful that participation by Colombia in this humanitarian work, in co-operation with most of the civilized world, would be interpreted in any quarter as affecting in any degree the juridical or political status of Colombia. It is the hope of this Government that Colombia, as well as the other American republics which have broken relations with the Axis, will take an active interest in such cooperative undertakings and lend the full force of their influence and support toward bringing about a better world organization.

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<sup>8</sup> See vol. I, pp. 820 ff.

The foregoing comments should not be considered as affecting in any way the further suggestion of Turbay as to the desirability of Colombia and the other American republics in a similar situation exchanging views and progressing in harmony towards a further clarification of their status in regard to the war and the post-war problems which will follow its conclusion. The Department believes that joint action in this respect should facilitate the working out of satisfactory procedures, and will be glad to lend its full cooperation in any joint discussions of the matter which may take place in Washington between the Ambassadors of those countries.

The Department has already informally suggested, when its opinion has been requested, that consultation between those republics which have not declared war on the Axis but which have complied with their inter-American commitments would be in order with a view to a determination as to any further definition of their position which they might wish to undertake. The Department, however, does not feel that this Government should have any formal participation in such consultation although, as you know, we are always ready to discuss such matters on an informal and individual basis with the representatives in Washington of the republics concerned.

In conclusion, I hope you will emphasize to Turbay my appreciation of his helpful attitude in this and in all other matters of inter-American concern and at the same time stress my confident hope that this question of the definition of the juridical and political status of Colombia vis-à-vis the war will not be permitted to hinder or delay the splendid cooperation which Colombia has rendered in such practical matters as the Food Conference and can continue to render in relation to the relief and rehabilitation program.

HULL

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840.50/2340 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, August 6, 1943—6 p. m.  
[Received August 7—1:51 a. m.]

1354. I discussed with Turbay this afternoon subject of the Department's 971, August 5, midnight. Turbay requested me to express to the Department his deep appreciation for the frankness with which the Department discussed his proposal and to point out that the Colombian Government desires in no way to hinder or to delay the proposals for the United Nations Relief and Rehabilitation Administration, regarding which the Colombian Government has the deepest sympathy.

Turbay said that in his telegram to the Governments of Chile, Ecuador, Paraguay, Peru, Uruguay and Venezuela three points had been stressed: (1) desirability that all seven Governments should adhere to the relief and rehabilitation plan; (2) that the diplomatic representatives of the seven Governments in Washington should consult one another and with the Department regarding the most efficacious manner in which they might cooperate with the United Nations in this relief and rehabilitation plan; (3) Colombia raised the question as to whether it would not be advisable for all seven nations to adhere to the United Nations Agreement (Atlantic Charter).<sup>9</sup>

Turbay said that he has received replies from the Ecuadoran, Peruvian, Uruguayan and Venezuelan Governments. All four Governments accept in principle points 1 and 2. The Uruguayan Government stated that it is in principle in sympathy with the view of the Colombian Government regarding the desirability of taking favorable action on point 3 but that consultation with the President of Uruguay will be necessary before a final decision can be taken. The Government of Ecuador which according to Turbay is probably misinformed as to the actual situation in Argentina would be prepared to adhere to the Atlantic Charter but expressed the opinion that as the Argentine Government is likely to break with the Axis in the very near future adherence to the Charter at this moment might adversely prejudice the attitude of the Argentine Government. Dr. Turbay said that according to reports received from Ambassador Lleras<sup>10</sup> the Argentine Government is not going to break relations with the Axis.<sup>11</sup> I informed Turbay that I had also confidentially received similar information.

Turbay informed me in strict confidence that if Colombia receives favorable responses from Chile and Paraguay, thus forming a bloc of the nations which are in the same international juridical status as Colombia, it will then be possible for this bloc to influence Argentina not to remain outside of the nations associated with the United States in the prosecution of the [war?]. He said further that the Colombian proposal has as its principal aim the unification of the continent and to avoid any idea of distinction of policy among the various nations during the postwar period and specifically at the peace conference.

The Minister said that he is especially appreciative of the Secretary's "wisdom and tact" as indicated by the statements contained in the Department's telegram under acknowledgment as it is evident that

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<sup>9</sup> Declaration of January 1, 1942, *Foreign Relations*, 1942, vol. I, p. 25. For text of the Atlantic Charter, see *ibid.*, 1941, vol. I, p. 367.

<sup>10</sup> Alberto Lleras Camargo, Colombian Ambassador at Washington.

<sup>11</sup> For correspondence on the concern of the United States at the failure of Argentina to sever political relations with the Axis Powers, see pp. 415 ff.

the Department is using no pressure whatever on the other American Republics yet at the same time desires to cooperate with the other Governments in bringing about a closer union of the continent.

LANE

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840.50/2354 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, August 10, 1943—11 a. m.

[Received 6 p. m.]

1371. For the Secretary and Under Secretary. My 1354, August 6, 6 p. m. Turbay informed me this morning that a reply has now been received from Chile which is far more satisfactory than had been anticipated by the Colombian Government. Turbay said that Chile accepts wholeheartedly points 1 and 2. As to point 3 Chile was noncommittal, but as Colombian Government considers that it is essential that the two first points should be clarified before the discussion of point 3 Chile's reply is eminently satisfactory.

A further reply has been received from the Uruguayan Government following reference of the matter to the President of Uruguay.<sup>12</sup> Turbay said that either the Colombian Minister at Montevideo<sup>13</sup> had not understood instructions or had badly expressed himself to the Uruguayan Government, and consequently Turbay is calling in today Uruguayan Minister here<sup>14</sup> to clarify the Colombian position. (Colombian Minister at Montevideo who is also accredited to Paraguay left for Asunción August 9 to approach Paraguayan Government. For this reason no answer has yet been received from Paraguay.) Turbay said that Uruguay has answered the Colombian proposal, which contained three distinct steps, as though it were merely one general question. Uruguay expressed the opinion that it would be inadvisable at this time, when it is clear that the Allied nations are winning the war, to make a flat declaration of war which would be badly interpreted in certain quarters. Turbay emphasized to me that no intimation had been made regarding a declaration of war, and that it was made clear in the instructions to each Colombian representative that if the various Governments should agree on points 1 and 2 a discussion would then be had in Washington as to what further steps might be taken to bring about a closer unification of the continent.

Turbay said that he had also instructed Ambassador Lleras to deliver to the Department a copy of the memorandum which had been

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<sup>12</sup> Juan José Amézaga.

<sup>13</sup> Raimundo Rivas.

<sup>14</sup> Alfredo de Castro.



telegraphically transmitted to those Governments which Colombia had approached in this matter and that he will shortly deliver to me a copy.

Turbay said that he had also instructed Lleras to inform the Under Secretary that the Colombian diplomatic move owes its origin to the message sent by Mr. Welles to President López on the occasion of the latter's address of welcome to President Peñaranda<sup>15</sup> (see Department's telegram 737, June 10, 1 p. m.<sup>16</sup>). Turbay said that Mr. Welles' message had so encouraged President López that he in turn communicated the text of his<sup>17</sup> remarks to each of the Foreign Offices of the Governments which are in the same juridical status as Colombia.

LANE

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840.50/2363 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, August 11, 1943—4 p. m.

[Received 10:15 p. m.]

1378. For the Secretary and Under Secretary. Reference my 1376, August 11, 11 a. m.,<sup>18</sup> and my 1371, August 10, 11 a. m. President López said to me this afternoon that following his address to President Peñaranda, which he had hoped would elicit some enthusiasm among other American states but which had evoked no reply, he decided after the receipt of Mr. Welles' message (see Department's 737, June 10, 1 p. m.<sup>19</sup>) to make a concrete attempt with a view to attaining greater solidarity of the continent. He said that it had been obvious that certain countries were willing to take "this or that" step on their own in order to obtain some practical advantage for themselves. After his talks with President Medina,<sup>20</sup> with whom he found himself to be in fundamental agreement, he decided that it was preferable for those states in the same juridical status as Colombia to unite themselves in such form as might be considered convenient, but without indicating that they would or could render any physical aid in the prosecution of the war. López observed that instead of being able to render physical aid most of them require such aid from the United States.

The President said that his aim is, as Turbay explained to me, to bring the nations together in support of the United Nations Relief

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<sup>15</sup> Enrique Peñaranda, President of Bolivia.

<sup>16</sup> Not printed; in it the Under Secretary expressed his agreement with and commendation of President López' appraisal of the Argentine situation and the need for continental unity (740.0011 European War 1939/29741).

<sup>17</sup> i.e., President López.

<sup>18</sup> Not printed.

<sup>19</sup> See footnote 16 above.

<sup>20</sup> Isaías Medina Angarita, President of Venezuela.

and Rehabilitation plan and then to give them all an opportunity to discuss the matter frankly among themselves and with the Department. He said that he has not favored a joint declaration of war as such action would no doubt be misinterpreted as taking advantage of the victories of the United Nations to gain advantages for these nations. He said that as far as Colombia is concerned it is not attempting to bargain in any way and that its sole aim is to obtain greater solidarity. The purpose of the joint discussion would be as to how best to achieve that aim.

Dr. López informed me confidentially that Laureano Gomez <sup>21</sup> has sent word to him that he will accept the presidency of the Advisory Commission for Foreign Affairs and that he entirely supports the President's proposal to bring the other American Nations together as Turbay has explained to me. Dr. López said that if his move is successful it will result in a far stronger international cooperation on the part of Colombia with the United States and the Allied Nations, as from now on there should be no difference between the two parties on this score. (Dr. Urrutia <sup>22</sup> subsequently informed me in the same sense but intimated that the Conservative Party might go so far as to advocate adherence to the United Nations Agreement on the part of all those American states which had not done so.)

Speaking specifically regarding the unfavorable reply from Uruguay the President said that he is disappointed that none of the replies had been enthusiastic as in [*to?*] point 3 of Turbay's memorandum. He said that whether or not joint action were taken regarding adherence to the United Nations Agreement, the fact that the interested Governments should discuss with the Department "the most helpful means" by which they could contribute to closer collaboration with our cause would in itself be an effective step in the right direction.

LANE

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840.50/2370 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, August 12, 1943—noon.

[Received 9:15 p. m.]

1384. My 1378, August 11, 4 p. m. Local press of this morning publishes United Press report from Caracas dated August 11 referring to article published in *El Nacional* to the effect that Colombian Am-

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<sup>21</sup> Leader in the Conservative Party.

<sup>22</sup> Francisco Urrutia, one of the younger leaders of the Conservative Party and close associate of Laureano Gomez.

bassador Galvis<sup>23</sup> in a speech before the Chamber of Commerce of Maracaibo referred to a uniform movement on the part of those countries which had broken off relations with the Axis, such as Colombia and Venezuela. *El Siglo* published the Caracas report under the headline "Colombia may declare war".

Minister for Foreign Affairs informed me this morning that Galvis statement was an indiscretion and was made entirely on his own responsibility. Turbay said that obviously the Government here could not disauthorize the statement in view of negotiations now pending, but that he considered it most unfortunate.

Turbay said that he had spoken to local diplomatic representatives of all countries mentioned with exception of Paraguay (Paraguay has no representative here)—namely, Chile, Ecuador, Peru, Uruguay and Venezuela—regarding three points of memorandum transmitted to respective Governments, but had not informed them of his conversation with me. I informed Turbay that I likewise had not informed any of my colleagues here regarding my conversation with the Colombian Government on this subject.

In connection with the Department's circular telegram of August 10, 10 p. m.,<sup>24</sup> I reminded Dr. Turbay of the last paragraph of the United Nations Declaration. The Minister stated to me that he considered this of the greatest importance and said that he would have this in mind in connection with the countries involved.

Turbay said that as yet no reply has been received from the Paraguayan Government.

Repeated to Caracas.

LANE

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840.50/2439 : Telegram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTVIDEO, August 24, 1943—8 p. m.

[Received August 25—10:55 a. m.]

766. Department's circular telegram of August 5, 9 p. m. Serrato<sup>25</sup> sent for me this afternoon to inform me as to the position of Uruguay regarding the Colombian proposal, this being the first time he has mentioned the matter to me.

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<sup>23</sup> Alejandro Galvis Galvis resigned as Minister of War and was named Ambassador to Venezuela in March 1943.

<sup>24</sup> Sent to the Ambassadors in Colombia, Ecuador, Peru, Uruguay, and Venezuela; it read: "In connection with current discussions of possible adherence of certain South American states to United Nations Declaration, please refer again to Department's instruction of March 25, 1942 which sets out conditions for adherence." (740.0011EW1939/3070b) Instruction of March 25, 1942, not printed.

<sup>25</sup> José Serrato, Uruguayan Minister for Foreign Affairs.

He has declined to join in the proposed action which he has viewed from the outset and still regards as an attempt to form a "league" for the purpose of imposing conditions on the United States and other United Nations in return for collaboration. He said that he is opposed to blocs in America and that he considers it inopportune and indelicate to bring pressure or seek assurances and concessions from the United Nations at a time when they are devoting all their energies to winning the war.

I informed Serrato of the Department's position as set forth in its telegram of August 5. He said that he would have had no objection to informal consultations in Washington among the respective Ambassadors and with the Department but that the Colombian proposal as presented to him went far beyond this.

I have of course asked myself whether any Argentine influence or consideration for Argentina may have played any part in Serrato's decision. I doubt this. The excerpts of telegrams which he read me seem to show clearly that he was opposed to the Colombian proposal from the very outset for the reasons which he gave me.

Serrato requests that the information furnished by him be treated as strictly confidential.

DAWSON

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840.50/2463 : Telegram

*The Ambassador in Ecuador (Scotten) to the Secretary of State*

QUITO, August 24, 1943—9 p. m.

[Received August 25—3:05 p. m.]

748. The Minister for Foreign Affairs <sup>26</sup> spoke to me this afternoon regarding draft of reply he has prepared to a note received from the Colombian Minister for Foreign Affairs, suggesting joint action by the other American Republics which have severed relations with the Axis vis-à-vis the Declaration of the United Nations. The Colombian note, with which the Department is probably already familiar, expressed a willingness to adhere to the United Nations Declaration in case the other Republics did likewise. The Ecuadoran draft reply as explained by the Minister, while by no means closing the door to an eventual adherence to the United Nations Declaration suggests that Ecuador's adherence would not further the cause of the Allies in the war in view of the material inability of Ecuador to furnish more aid to the Allied cause than it is doing at present. The Minister said he would give me a copy of the reply as soon as he hands it to the Colombian Ambassador here, which he will probably do day

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<sup>26</sup> Francisco Guarderas.

after tomorrow after having submitted it to the Foreign Relations Committee of the Congress.

SCOTTEN

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840.50/2437: Telegram

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

CARACAS, August 25, 1943—8 p. m.

[Received August 26—4:55 a. m.]

761. My 727, August 13, 8 p. m.<sup>27</sup> During a conversation today with Foreign Minister Parra Pérez, inquired his views concerning the Colombian proposal for the formation of a bloc. The Minister replied that he is now examining the Colombian proposal with [President] Medina who only yesterday returned to his office from an inspection of the flooded areas. The Minister expressed his own view that such matters should be dealt with on a Pan-American basis rather than through blocs. This has been the tenor of press editorial comment in recent days.

Repeated to Bogotá.

CORRIGAN

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840.50/2446: Telegram

*The Ambassador in Paraguay (Frost) to the Secretary of State*

ASUNCIÓN, August 26, 1943—10 a. m.

[Received August 26—12:40 a. m.]

466. Department's circular telegram August 5, 9 p. m. regarding Colombian proposals to South American nations which have not declared war on the Axis.

Foreign Minister<sup>28</sup> informed me this morning that Paraguay will reply to Colombia in the sense that global and all inclusive American unity must be permanently inalterable and that Paraguay is fundamentally contrary to any proposals which might tend toward the formation of blocs or groups within that unity. Foregoing language is textually that of Foreign Minister if my memory serves me and was twice repeated. He sensed in Colombian *démarche* a danger to continental solidarity which to him is sacred and mentioned again his personal thesis that future wars will be between continents not nations so that this hemisphere must be welded into cohesive unit.

FROST

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<sup>27</sup> Not printed.

<sup>28</sup> Luis A. Argaña.

840.50/2479 : Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, August 26, 1943—noon.

[Received 10 p. m.]

1151. My despatch number 7688, August 23.<sup>29</sup> The Secretary General of the Ministry for Foreign Affairs yesterday gave me the following information regarding the Colombian initiative for inter-American consultation on postwar problems.

He said that the Colombian communication raised three specific points:

(1) Should any distinction be made between countries which have declared war on the Axis Powers and those which are aiding the United Nations by measures short of war? The Peruvian answer to this was in the negative. The Secretary General observed that Peru has taken all measures short of belligerency in support of the United Nations and consequently should have an equal voice in postwar problems with others of the American Republics even though some of the latter had declared war.

(2) Should there be a meeting for inter-American consultation regarding policy on postwar problems? Peru answered this in the affirmative. The Secretary General emphasized that the Peruvian view is for consultation by all of the American Republics. This is in line with Peruvian objection to the formation of any bloc or the holding of regional meetings. In reply to my question the Secretary General stated that the matter of participation by Argentina is a separate problem. He expressed the opinion that Latin American Governments generally would resent active participation by Argentina unless there is a change in the present policy of that country. He repeated, however, that Peru favors a united front by all of the American Republics.

(3) Would Peru be willing to sign the Declaration of the United Nations? Peru would be willing to do so if anything were to be gained by such action and if a good occasion could be found. The Secretary General recognized that there is some confusion on this point. Belligerent countries sign the declaration and other countries adhere to it. Peru has taken the latter step. The Secretary General observed that the Colombian question amounts to asking if Peru is willing to declare war on the Axis Powers. He said that Peru could not do more than it is doing now even if war were declared. Perhaps the technicalities of the declaration are not entirely clear to those who drafted the Colombian communication. However, the Peruvian answer indicates that Peru would be willing to take action equivalent to declaring war if such action would be of value to the United Nations and if a suitable occasion could be found.

From the foregoing it appears that the Colombian desire is to clarify the attitude of Latin American Governments and to attempt

<sup>29</sup> Not printed.

to reach inter-American agreement on the approach to postwar problems although the Colombian communication was addressed to only a few Governments. The Peruvian reply was favorable but makes clear the view that any consultation should include all of the American Republics.

NORWEB

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840.50/2450 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, August 26, 1943—1 p. m.

[Received 5:48 p. m.]

1493. My 1354, August 6, 6 p. m. Foreign Minister informed me today that only three formal replies have been received to the Colombian proposal:

1. Ecuador has accepted unconditionally.
2. Uruguay has accepted point 1 of the memorandum but appears unenthusiastic regarding points 2 and 3.
3. Peru's reply is virtually the same as that of Uruguay.

Chile has replied tentatively but sympathetically and has suggested that Chilean Foreign Minister<sup>30</sup> after his visit to Washington shall stop at Bogotá to discuss matter at greater length with Colombian Government.

No direct reply has been received from Caracas.

Paraguay has not yet replied, formally or informally.

LANE

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840.50/2340 : Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, August 27, 1943—11 p. m.

1073. Reference is made to Embassy's telegram 1354, August 6, 6 p. m. and subsequent telegrams concerning the Colombian Government's approach to six other Governments regarding adherence to the United Nations Declaration.

While the Department does not wish you to take the initiative in approaching the Foreign Minister, it would be glad to receive from you such further information as may come to your attention which may indicate the latest position which appears to have been taken by each of the six governments in reply to this Colombian proposal.

HULL

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<sup>30</sup> Joaquín Fernández y Fernández.

840.50/2460 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, August 28, 1943—1 p. m.

[Received 6:46 p. m.]

1516. Department's 1073, August 27, 11 p. m., which presumably crossed my 1504 and 1505.<sup>31</sup> . . .

Dr. Turbay recapitulated the present status of the negotiations:

The Uruguayan, Peruvian and Ecuadoran Governments have delivered written replies to the respective Colombian diplomatic representatives. These replies have been summarized by the Colombian representatives by telegraph:

Uruguay accepts point (1) but is vague and unenthusiastic about points (2) and (3).

Peru replies along the same lines as Uruguay but is more cordial with respect to points (2) and (3).

Ecuador accepts all three points in principle.

A written reply from Venezuela is expected any day.

Chile has stated orally that Foreign Minister Fernández will discuss the project in Bogotá on his return from Washington.

Paraguay has not replied but has informed Colombian Minister that there will be some delay due to the Cabinet crisis there.

Because of the local political situation to which I referred in my 1505 I hesitate to confirm the situation with President López and take the liberty of reiterating the suggestion contained in my 1504 that it would be well for our diplomatic representatives in the six countries mentioned to ascertain the attitude of the respective Governments.

LANE

840.50/2644 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, October 2, 1943—noon.

[Received 3:13 p. m.]

1762. My No. 1759, October 1st, 6 p. m.<sup>32</sup> Acting Minister for Foreign Affairs<sup>33</sup> informed me this morning that in his opinion there is little likelihood of successful outcome to plan for obtaining joint action on part of Colombia and those nations in the same juridical international status as Colombia with respect to a clarification of their international position. Gonzalez Fernández said that with the ex-

<sup>31</sup> Telegrams Nos. 1504 and 1505 not printed.

<sup>32</sup> Not printed.

<sup>33</sup> Alberto Gonzales Fernández.



ception of Ecuador none of the Governments approached indicated enthusiasm for the proposal. He said that it was significant that some of the unenthusiastic replies such as that from Paraguay were received immediately subsequent to the visit of the Chilean Foreign Minister to the respective countries. He expressed the opinion that therefore little was expected in favor of the project from Fernández <sup>34</sup> when he visits Bogotá.

LANE

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<sup>34</sup> Joaquín Fernández y Fernández.

## VISIT OF VICE PRESIDENT HENRY A. WALLACE TO SOME OF THE AMERICAN REPUBLICS

033.1125/5

*Memorandum of Conversation, by the Acting Secretary of State*

[WASHINGTON,] February 5, 1943.

The Chilean Ambassador<sup>1</sup> called to see me this evening at his request.

The Ambassador said that some days ago he had met the Vice President at lunch and, in the course of a purely informal discussion, the Vice President had made it clear that while he did not like official visits on account of the number of ceremonial functions involved, he would like very much to visit Chile, provided the visit could be so arranged as to make it possible for him to see the agricultural and labor problems of Chile at first hand.

The Ambassador said that he had reported this by air mail to his Government and had now received instructions to inquire whether the Vice President could accept an invitation to be the official guest of the Government of Chile. The Ambassador intimated that his Government believed that if the Vice President's visit could take place, it would be easier for President Rios<sup>2</sup> to visit Washington, which he was very anxious to do.

I stated that this of course was a question which would have to be submitted to the President and that I would do so and after I had learned the President's wishes I would talk informally with the Vice President and I would then give the Ambassador the views of this Government with regard to the invitation extended.

S[UMNER] W[ELLES]

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033.1110 Wallace, Henry A./14a : Telegram

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

WASHINGTON, February 18, 1943—7 p. m.

176. From the Under Secretary.<sup>3</sup> The President approves the acceptance by the Vice President of the invitation of the Chilean Government to visit Chile. I have, consequently, suggested to the Chilean

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<sup>1</sup> Rodolfo Michels.

<sup>2</sup> Juan Antonio Rios, President of Chile.

<sup>3</sup> Sumner Welles.

Ambassador that he personally transmit the official invitation of the Chilean Government to the Vice President, which was arranged to take place today.

For your personal information you will understand, of course, that the Vice President will have to accept similar invitations from the Governments of the countries through which he will have to pass on his way to Chile. [Welles.]

HULL

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033.1110 Wallace, Henry A./10 : Telegram

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

SANTIAGO, February 24, 1943—noon.

[Received 2:08 p. m.]

342. For Vice President Wallace. The President and all Chileans elated over your coming visit and the press this morning announces it with a great flourish. You are extraordinarily popular here. I shall send you some suggestions and thumbnail sketches of personalities uncolored by local party considerations. Unless the Government insists on putting you up in an old mansion it owns, I assume, of course, you will be my guest at the Embassy. All I am insisting upon is a dinner to which the President and Ministers will be asked, followed by a reception to which Chilean officials, members of Congress, Army and Navy men, the Diplomatic Corps, and leading citizens will be invited.

I am hoping you come in early April rather than in March. Will keep you informed of the plans for your entertainment there. Am delighted that you are able to come and confidently expect very wholesome results. Here you will find a real democracy in which governmental actions come through democratic processes, sometimes slowly but soundly.

BOWERS

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033.1110 Wallace, Henry A./33b : Circular telegram

*The Acting Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>4</sup>

WASHINGTON, March 2, 1943—8 p. m.

From the Vice President. The gracious invitations which I have received from seven of our sister Republics have pleased me greatly. Between the middle of March and the middle of April I hope to visit each of these countries. Mr. Laurence Duggan of the Depart-

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<sup>4</sup> The Ambassadors in Panama, Colombia, Ecuador, Peru, Bolivia, and Chile, and the Minister in Costa Rica.

ment of State<sup>5</sup> will accompany me. Due to the urgency of war, I shall unfortunately not be able to spend as much time in the different countries as I would like. Later on I am hoping to have the pleasure of visiting the other Republics where there are many esteemed personal friends with whom I should like to talk at length about the problems in which we are all interested.

In the short time at my disposal I am hoping not only to become acquainted with the leaders at the seat of government but also with some of the farm and labor people in the smaller places. My objective is to create the maximum of good will toward the United States on the part of all the elements of the population. I should appreciate it greatly, therefore, if you could arrange matters so that as high a percentage of the time as possible can be taken up with meeting representatives of all the various groups and regions. I am equally interested in farmers, workers and businessmen. If the official relationships with the executive and legislative branches of government can be concluded within a day and a half or less, I shall greatly appreciate it, for that would give me more time for visiting in the open country away from the larger centers of population. Because of my interest in seeing a little of the country outside of the capital I hope you will cooperate with me to hold down the Embassy social functions to one and Government social functions to one. Before making other social engagements, please wire. [Wallace.]

WELLES

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033.1110 Wallace, Henry A./128f : Circular telegram

*The Acting Secretary of State to Certain Diplomatic Representatives  
in the American Republics*<sup>6</sup>

WASHINGTON, March 5, 1943—10 p. m.

The itinerary of the Vice President is as follows:

COSTA RICA

Wednesday	March 17	Leave Miami	6:15 a. m.
		Arrive Balboa	12:50 p. m.
Thursday	March 18	Leave Balboa	9:30 a. m.
		Arrive San José	11:20 a. m.

PANAMA

Sunday	March 21	Leave San José	12:45 p. m.
		Arrive David	3:00 p. m.
Monday	March 22	Leave David	3:15 p. m.
		Arrive Balboa, C.Z. (Panama City)	4:45 p. m.

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<sup>5</sup> Adviser on Political Relations.

<sup>6</sup> The Ambassadors in Panama, Chile, Bolivia, Peru, Ecuador, and Colombia, and the Minister in Costa Rica.

## CHILE

Wednesday	March 24	Leave Balboa Arrive Cali, Colombia (En route to Santiago)	1:15 p. m. 4:30 p. m.
Thursday	March 25	Leave Cali Arrive Lima, Peru (En route to Santiago)	7:30 a. m. 4:15 p. m.
Friday	March 26	Leave Lima Arrive Santiago, Chile	5:30 a. m. 5:35 p. m.
Friday	April 2	Leave Santiago Arrive Antofagasta	6:45 a. m. 11:20 a. m.

## BOLIVIA

Sunday	April 4	Leave Antofagasta Arrive Arequipa (En route to La Paz)	11:35 a. m. 2:10 p. m.
Monday	April 5	Leave Arequipa Arrive La Paz	8:45 a. m. 12:45 p. m.
Thursday	April 8	Leave La Paz Arrive Oruro	11:50 a. m. 12:40 p. m.
Friday	April 9	Leave Oruro Arrive Cochabamba	1:00 p. m. 1:35 p. m.
Saturday	April 10	Leave Cochabamba Arrive La Paz	11:00 a. m. 11:40 a. m.

## PERU

Saturday	April 10	Leave La Paz Arrive Lima	11:50 a. m. 3:55 p. m.
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## ECUADOR

Thursday	April 15	Leave Lima Arrive Guayaquil (Ecuador) (En route to Quito)	6:30 a. m. 12:05 p. m.
		Leave Guayaquil Arrive Quito	12:20 p. m. 1:40 p. m.
Monday	April 19	Leave Quito Arrive Guayaquil	7:45 a. m. 10:00 a. m.

## COLOMBIA

Tuesday	April 20	Leave Guayaquil Arrive Cali, Colombia (En route to Bogotá)	12:25 p. m. 3:25 p. m.
		Leave Cali Arrive Bogotá	4:00 p. m. 5:25 p. m.
Thursday	April 22	Leave Bogotá Arrive Cali	7:45 a. m. 9:10 a. m.
Friday	April 23	Leave Cali Arrive Medellin	11:45 a. m. 1:35 p. m.

## RETURN

Saturday	April 24	Leave Medellin	11:30 a. m.
		Arrive Balboa	2:15 p. m.
		Leave Balboa	2:35 p. m.
		Arrive Miami	11:00 p. m.

All flights will be made by commercial plane.

A separate telegram<sup>7</sup> follows with respect to suggestions of visits Mr. Wallace would like to make.

WELLES

033.1110 Wallace, Henry A./129c: Circular telegram

*The Acting Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>8</sup>

WASHINGTON, March 11, 1943—11 a. m.

From the Vice President. It has come to my attention that the chief executive in one of the countries I am visiting is preparing to give me a costly and elaborate gift. I, of course, appreciate the generous spirit that has prompted this gift, but, frankly, I am highly embarrassed by the prospect of receiving from anyone a gift of such great value. In the event that you learn that thought is being given to similar action, would you please take steps to have such action headed off. As of possible usefulness to you should need arise, you may say that you happen to know that I have a collection of victrola records of the songs of the other American republics, so would probably be appreciative of a small gift of half a dozen records of local songs with the Spanish words written out just as they are sung on both sides of the record together with their English translations; also that I am always glad to receive small packets of a few of the seeds of fruit and vegetables which grow unusually well in other lands.

I have confidence that, if this matter arises, you can handle it satisfactorily. [Wallace.]

WELLES

033.1110 Wallace, Henry A./83: Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, March 12, 1943—9 p. m.

[Received March 13—1:03 a. m.]

348. For the Acting Secretary and Duggan. The Minister for Foreign Affairs<sup>9</sup> asked me to call on him this afternoon. He said

<sup>7</sup> Not printed.

<sup>8</sup> The Ambassadors in Panama, Colombia, Ecuador, Peru, Bolivia, and Chile.

<sup>9</sup> Alfredo Solf y Muro.

that it had come to the attention of his Government that an effort would be made to arrange a meeting between Haya de la Torre<sup>10</sup> and Mr. Wallace during the latter's coming visit to Lima. The Minister stated that while such a meeting would be natural according to the political system in the United States it would not be understood in Peru.

I am not sure if the Minister actually had some information about the alleged plan for a meeting or was sending up a trial balloon in order to find out if I had heard anything. I told him that I knew nothing about any such plan. Obviously any such contact would not be understood by the Prado<sup>11</sup> Government.

NORWEB

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033.1110 Wallace, Henry A./83 : Telegram

*The Secretary of State to the Ambassador in Peru (Norweb)*

WASHINGTON, March 15, 1943—8 p. m.

311. Your 348, March 12, 9 p. m. The Vice President states flatly that if any such arrangements are being made they are without his knowledge or consent since he does not intend to see Haya de la Torre.

HULL

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033.1110 Wallace, Henry A./129b : Circular telegram

*The Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>12</sup>

WASHINGTON, March 16, 1943—2 p. m.

The Vice President has been informed that there are a number of proposals that he receive honorary degrees from certain educational institutions in the countries he is to visit.

In as much as it has been his practice not to accept honorary degrees and he has not done so in the last 8 years in the United States, it will be most embarrassing if such degrees are offered him.

Accordingly, in reply to any suggestion that the Vice President receive an honorary degree, you are requested to explain that he is unable to accept such degrees for the reasons set forth in the foregoing paragraph.

HULL

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<sup>10</sup> Leader of the political opposition party, Apra (Popular Revolutionary Alliance).

<sup>11</sup> President Manuel Prado Ugarteche.

<sup>12</sup> The Ambassadors in Ecuador, Peru, Bolivia, Chile, and Colombia, and the Minister in Costa Rica.

033.1110 Wallace, Henry A./110 : Telegram

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

SAN JOSÉ, March 18, 1943.

[Received March 18—2:03 p. m.]

240. For Coordinator for Jamieson from Gaudet.<sup>13</sup> One greatest receptions ever arranged for visiting dignitary now completed for Wallace who arriving plane 11:00 this morning. Cooperating with Government's declaration national holiday all merchants closing stores his honor, all schools closed and thousands young school children will line streets welcome Wallace. Papers increased sizes order carry full page ads, editorials, front page news stories on Wallace's visit. Taking on carnival spirits, city bedecked with canopy American, Costa Rican flags. [Gaudet.]

SCOTTEN

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033.1110 Wallace, Henry A./119 : Telegram

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

SAN JOSÉ, March 20, 1943.

[Received March 21—8:25 a. m.]

248. Reference my telegram 246, March 18th.<sup>14</sup> The newspapers on March 19th continued to give the majority of their space to the visit of Vice President Wallace. Pictures of his arrival, of the procession from the airport to the Legation, of the reception by the Costa Rica Congress, and the official banquet last night were prominently displayed on both front and inside pages as were the speeches of the Vice President and those of the President of Congress and President Calderón welcoming him to Costa Rica. These speeches will be forwarded later by despatch. The *Diario de Costa Rica* headlined their March 19th edition with a press interview given by the Vice President. This interview stressed the sincerity of Mr. Wallace, his simplicity, lack of formality, his magnetic smile, and direct and exact method of speaking. They quoted the Vice President as saying, "My message is one of faith, hope and joy" and gave prominent place to Mr. Wallace's statements to the effect that the postwar world must eliminate existing inequalities, obtain sufficient food without which it would not be possible to enjoy the fruits of labor, and eliminate all possibility of wars in the future. The Vice President was asked whether he would be a candidate for the Presidency and whether

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<sup>13</sup> This telegram was a message from one official to another of the office of the Coordinator of Inter-American Affairs.

<sup>14</sup> Not printed.



President Roosevelt would run for a fourth term and to both he replied, "No soy un politico". The newspapers estimated that from 25,000 to 40,000 persons greeted Mr. Wallace on his arrival and the procession which followed. The most conspicuous element at the airport and in the procession were the labor syndicate groups carrying placards and the flag of the Soviet Union. Mr. Valverde, head of the anti-totalitarian front, and Mr. Buzman, General Secretary of the Union of Labor Syndicates, both spoke for about 10 minutes at the airport in welcome to the Vice President before the procession from the airport.

SCOTTEN

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033.1110 Wallace, Henry A./129 : Telegram

*The Ambassador in Panama (Wilson) to the Secretary of State*

PANAMA, March 22, 1943—6 p. m.

[Received 10:19 p. m.]

148. I have just returned with the Vice President from the trip to David and Boquete. In my judgment this part of the visit has been most successful. While the fair was of course on a modest scale, the farming and cattle people turned out in large numbers and showed unmistakably their great appreciation of the Vice President's visit and the interest and knowledge he showed of their problems.

Brief review of press follows.

WILSON

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033.1110 Wallace, Henry A./133 : Telegram

*The Ambassador in Panama (Wilson) to the Secretary of State*

PANAMA, March 24, 1943—1 p. m.

[Received 4:37 p. m.]

156. The Vice President and his party left here at 12:45 p. m. today for Cali. I felt that his visit to Panama has been outstandingly successful. Every act and aspect of the visit has taken place in an unusually friendly, cordial and informal atmosphere. The President of Panama<sup>15</sup> remarked to me yesterday: "A visit like this really brings us closer together". The press for the past 2 days has devoted itself mainly to accounts of the visit and to appreciative articles and editorials concerning the personality and views of the Vice President. Full report on press reaction follows.

WILSON

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<sup>15</sup> Ricardo Adolfo de la Guardia.

033.1110 Wallace, Henry A./156 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, March 26, 1943—2 p. m.

[Received 6:15 p. m.]

531. The Vice President's visit to Cali has been reported in highly enthusiastic terms not only by the press of Cali but also by that of Bogotá. Mr. Wallace's simplicity of manner and evidently sincere interest in the people and problems of Colombia have most favorably impressed the Colombians. The Vice President was welcomed at the Cali airport not only by the local municipal and departmental officials but also by the Acting Minister of Foreign Affairs<sup>16</sup> the Minister of National Economy<sup>17</sup> and the newly appointed Ambassador to the United States.<sup>18</sup> The Chilean Ambassador<sup>19</sup> accompanied me to Cali a day in advance of Mr. Wallace's arrival in order to pay his respects to the Vice President. The Peruvian Ambassador<sup>20</sup> traveling by commercial plane was unfortunately unable to reach Cali on account of bad weather.

LANE

0331.1110 Wallace, Henry A./164 : Telegram

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

SANTIAGO, March 29, 1943—7 p. m.

[Received March 30—8:24 a. m.]

595. I have sent no play-by-play account of the Vice President's visit to Chile leaving that to the press services and a later despatch. My judgment after the first 3 days of his stay is that it is one of the best things in Chilean-American relations that has happened since the "good neighbor" policy was enunciated.

The Chilean Government's elaborate preparations for Wallace's visit were not perfunctory but marked by friendly feelings for the man and the United States.

The enthusiastic reaction of the common people cannot be explained away by press preparations, party orders or anything else than the idea that here was a man representing the United States fresh from Washington who was their friend and deeply interested in their welfare. The hundreds of thousands that lined the streets, and the hundred thousand that surged and cheered—and stood for

<sup>16</sup> Alberto Gonzalez Fernández.<sup>17</sup> Santiago Rivas Camacho.<sup>18</sup> Gabriel Turbay.<sup>19</sup> Emilio Edwards Bello.<sup>20</sup> Carlos Arenas y Loayza.

hours—before the residence the night of his arrival, the cheers for “Mr. Wallace”, and the “viva los Estados Unidos” of the crowds when he made his unannounced and unscheduled trip through the poorer quarters yesterday morning, the hundred thousand that filled the stadium, the crowds that thronged round his car to shake his hand, did not do so because of curiosity, instructions or suggestibility.

The popular demonstration of affection has been to a large extent personal, not for Mr. Wallace alone but also for President Roosevelt. It has also, however, been marked by a new attitude of affection and confidence toward the United States. I am told by Chileans of all classes that there has been no such popular demonstration in Chile since those for Alessandri <sup>21</sup> over 20 years ago. No foreigner ever received a comparable manifestation.

The initial interest of the conservative classes in the visit was replaced in some quarters by a sense of alarm that these popular manifestations might be the starting point of assault against privilege and insistence upon sudden remedy of social conditions. However the Vice President is making a most favorable impression personally on conservative elements. President Ríos has expressed himself to his intimates as highly pleased with Wallace and the whole performance.

If no unfortunate incident or statement occurs here or in the United States to dampen the enthusiasm which has so far marked the Vice President's trip, his visit will complete the foundation of a new structure of friendship for the United States which is replacing the long tradition of hostility, suspicion and jealousy.

BOWERS

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033.1110 Wallace, Henry A./165 : Telegram

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

SANTIAGO, March 29, 1943—11 p. m.

[Received March 30—7:30 a. m.]

600. For the President from the Vice President. I send you greetings from your distant cousins in Chile, Señores Fernandes and Enrique Delano. One of the brothers in particular looks very much like your uncle Frederick. I found them in good spirits but they did not seem to be able to speak a single word of English.

The enthusiasm with which I have been received first in Costa Rica, later in Panama and now here in Chile is a great tribute to your policy of the good neighbor. The people in these countries have already seen in their daily lives definite benefit from this policy.

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<sup>21</sup> Arturo Alessandri, former President of Chile.

They have great expectations that the post-war period will see a vastly increased cooperation that will bring about the increase in the standard of living which all of the common people need so much in these countries. The results of the Good Neighbor Policy thus far have been so fruitful that the possibilities of extending our cooperation into new fields beneficial both to us and to the other American Republics seems to me worth whatever effort needed on our part.

We are all of us enjoying ourselves immensely, working hard, and send warmest regards. H. A. Wallace.

BOWERS

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033.1110 Wallace, Henry A./186b : Telegram

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

WASHINGTON, April 1, 1943—8 p. m.

380. Following for Vice President Wallace. "Many thanks for your wires. We are all happy in the great success of your trip. I wish I were with you. F.D.R."

HULL

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033.1110 Wallace, Henry A./183 : Telegram

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

SANTIAGO, April 2, 1943—11 a. m.

[Received 9:40 p. m.]

616. For the Under Secretary. Received telegram yesterday morning from Armour<sup>22</sup> announcing that Carlos Lucantis had just left Buenos Aires by plane for Chile claiming to be the bearer of a message to Wallace from Castillo,<sup>23</sup> and adding that "the Embassy knows Lucantis but not very favorably". This man intercepted me at the Military Club where I was waiting for Wallace and told me that this message was that Wallace should go at once to Buenos Aires; that if he agreed an official invitation would be sent; that something must be done to clear up the "misunderstanding" between Argentina and the United States; and he spoke mysteriously of Argentina's very close relations with England. He gave no remote indication that rupture was contemplated. I warned Wallace who entirely agreed with me that for him to go to Buenos Aires under existing circumstances would be used there as proof that failure to break with the Axis had not changed the very cordial relations between the two countries, and would not be understood by all the other American

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<sup>22</sup> Norman Armour, American Ambassador in Argentina.

<sup>23</sup> Ramón Castillo, President of Argentina.

nations. Wallace said he would tell this man that he had a warm feeling for the Argentine people, but that his plans for his trip cannot be changed and that he must get back to Washington at a certain time. The impertinence of the message is that it proposed he should cut or postpone trips to Peru, Ecuador, Bolivia and Colombia. My own impression of this man was very bad. He reminded me of a salesman of sky blue stock. Later Wallace told me he had followed his plan.

Repeated to Buenos Aires.

BOWERS

033.1110 Wallace, Henry A./228

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

SANTIAGO, April 3, 1943.

[Received April 9, 1943.]

DEAR MR. WELLES: You no doubt know of the most remarkable reception accorded Wallace in Chile. I accompanied him everywhere except to Valparaiso one day when I sent Butrick,<sup>24</sup> and to the north, where I sent Heath.<sup>25</sup> To condense, let me say that never in Chilean history has any foreigner been received with such extravagant and evidently sincere enthusiasm. Great crowds lined the streets shouting and cheering, small groups of farm workers lined the country roads, and great numbers were always standing before any house he had entered. The mass meeting at the stadium, with 100,000 people, and 80,000 of them seated, was one of the two greatest popular assemblies I have ever seen anywhere. In the mining town of Lota 40,000 miners, including wives, greeted him at a mass meeting and there Wallace made his best speech.

My impressions are more to the point. The visit is memorable because—

(1) It has demonstrated beyond all doubt the ardent democracy of the Chilean people and thus has given more confidence to Ríos and the Government which had been too much impressed by what it heard at the Union Club, et cetera. Thus, too, it has helped consolidate our victory in the matter of the rupture.<sup>26</sup>

(2) It has resulted in the unification of all parties as never before. The leaders of all parties united in a declaration to the people; they

<sup>24</sup> Richard P. Butrick, Counselor of Embassy for Economic Affairs.

<sup>25</sup> Donald R. Heath, Counselor of Embassy.

<sup>26</sup> For correspondence on the Chilean rupture of diplomatic relations with the Axis, see pp. 795 ff.

served together in the work of the committees; and actually on the southern trip I took with Wallace, Aldunate, chief of the Conservatives who opposed rupture to the last, and Labarca, chief of the Communists, were along on the same train, in the same coach, and all went well.

(3) The press publicity is without precedent. All papers have been flooded with the news and before and during the visit with special articles on Wallace and the United States. We furnished the special articles. The papers ran long and ably written editorials that have had the ring of sincerity.

(4) I have been delighted with the attitude not only of the opposition Rightist parties, but with that of the Church and the Army. The lovely old Archbishop, Caro, who is a good friend of mine and of our cause, attended every function conspicuously, even going on long trips into the country, though more than eighty years old. He is a Liberal and enormously popular with the masses of the people. In Concepción, the Archbishop there, also a friend of mine, went everywhere with us and at his request I rode in his car in the streets. This attitude of the Church given an opportunity for manifestation has been effective.

Wallace was put up at the beautiful Military Club, recently the home of Gustavo Ross; the Army and Navy gave a luncheon in his honor; Admirals and Generals accompanied him throughout the trip. You know, in view of the Army background, the significance of this.

(4) [(5)] Wallace is most *simpático*. His simplicity of manner, his mingling with all sorts of people, his visit to the workers quarters without notice and his talks there with them and his inspection of the housing projects absolutely amazed the masses who responded almost hysterically.

Ríos and Fernández<sup>27</sup> are delighted and I know feel strengthened in their position. I think they can go ahead now with greater confidence.

I had two weeks at Zapallar which were spoiled by two or three telegrams daily with problems pertaining to the program which kept my mind at work as much as if I had been in the office, and the trips with Wallace were no rest. I am returning for two weeks to Zapallar to finish my vacation.

I had a large reception for the Americans, a dinner for the staff so all could see Wallace and Duggan, a state dinner attended by Ríos, Fernández, Chief Justice, Presidents of Senate and House, Admirals and Generals, Senator Walker, Conservative, Senator Maza, Liberal, Marcial Mora, Radical, with their wives—about forty-two; and this dinner merged with a reception attended by about 700.

Warmest regards,

CLAUDE G BOWERS

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<sup>27</sup> Joaquín Fernández y Fernández, Chilean Minister for Foreign Affairs.

033.1110 Wallace, Henry A./197 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 7, 1943—11 a. m.

[Received 3:15 p. m.]

657. Vice President Wallace sent the following telegram on April 6 to the Ambassadors at Lima, Quito, and Bogotá:

April 6, 4 p. m. For the Ambassador from the Vice President. On the day of my arrival in La Paz the Bolivian Supreme Council of National Defense adopted a resolution recommending that Bolivia adopt a state of war. All signs point to the declaration of a state of war by the President of Bolivia<sup>28</sup> promptly and probably during my stay in Bolivia.

The coincidence of this action and my visit may give rise to belief by the Peruvian Government that there exists some connection between my trip and the action taken by the Bolivian Government. No such connection exists. My visit was undertaken for the general purposes explained in my earlier personal messages to you. My visit is designed to create the maximum of good will as a result of my personal contact with the Peruvian Government and people. I am not making the people put across any particular congressional actions.

It is my understanding that the attitude of our Government is neither to promote or oppose entry into the war by the other American Republics. We feel that each country should determine in accordance with its own interests whether it should enter the war or not. If the decision is in the affirmative, we of course welcome another adherent to the cause of the United Nations.

In order that there may be no misunderstanding I suggest in your discretion that you have a talk with the Foreign Minister and possibly with the President about this matter. [Wallace.]

BOAL

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033.1110 Wallace, Henry A./203 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 11, 1943—4 p. m.

[Received 11:20 p. m.]

696. I have just returned from accompanying the Vice President on his 3-day tour of Bolivia outside the Capital. Everywhere Mr. Wallace was received with genuine enthusiasm. I believe that his trip to Bolivia was successful in every way.

Repeated to Duggan at Lima.

BOAL

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<sup>28</sup> Enrique Peñaranda.

033.1110 Wallace, Henry A./205 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 11, 1943.

[Received April 12—7:30 a. m.]

697. When he departed from Bolivia on April 9, Vice President Wallace addressed the following telegram to President Peñaranda:

"Upon departing today from Bolivian soil I hasten to thank Your Excellency for the many pleasant memories which I am taking away with me. In less than 5 days I have been able to see many aspects of Bolivian life. I have seen the agricultural development on the Altiplano and on the shores of the beautiful Lake Titicaca, I have seen the fertile valley of Cochabamba and the marvelous vistas of the Yungas, I have also become acquainted at first hand with mining in Bolivia and I have been charmed by the beauty of La Paz, the majestic Illimani, the Cordillera Real and the unforgettable Illiampu which so well marks your own home in Sorata. Everywhere I have been received with the most sincere cordiality and have had shown to me the great Bolivian affection. The potentialities of the people of Bolivia have impressed me greatly. Everywhere I have seen the affection with which they treat their children, the effort that parents make to educate their children in order that they may contribute more effectively to the future of Bolivia.

Upon saying goodbye to Your Excellency I send you the sincere appreciation of the people of the United States of America for the great contribution which your country is making to the victory of the free peoples of the entire world, the strategic mineral products and the contribution of Bolivian agriculture are indispensable for victory. We express our appreciation also to the miners in the bottoms of the mines and to the laborers in the great agricultural fields.

I have just learned of the welcome surprise that you have taken one step more to place Bolivia at the side of the United Nations that are fighting against the Axis until they win total victory. I salute Your Excellency and through you the Bolivian people, in homage to this proof of solidarity in the common cause of the free world. It gives me great pleasure to look forward to your coming trip to my country where we will have the pleasure of greeting you in the name of the people of the United States. H. A. Wallace."

At the same time Vice President Wallace addressed a telegram of appreciation to the Bolivian Minister of Foreign Affairs<sup>29</sup> in which he mentioned the very helpful services of the Director and Assistant Director of Protocol and stated that he was looking forward with expectation to the visit of the Foreign Minister to the United States.

BOAL

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<sup>29</sup> Tomás Manuel Elio.



033.1110 Wallace, Henry A./221 : Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, April 15, 1943—1 p. m.

[Received 2:51 p. m.]

531. The Vice President and party left Lima by air for Guayaquil and Quito at 6:30 this morning. The Foreign Minister, the Ministers of War and of Marine and other important Peruvian officials were at the airport, while President Prado was represented by his chief aide.

The visit to Peru of the Vice President will be subject to his approval by despatch and in detail.<sup>30</sup> In summary the Peruvian official welcome to Mr. Wallace was elaborate without being too ostentatious or burdensome and popular demonstrations and contacts gave unmistakable evidence of a widespread sentiment of cordiality toward him and the ideas he represents. The compliment of a visit to several Peruvian cities by the Vice President of the United States has been appreciated here and Mr. Wallace's sincerity and friendliness should, I feel, by giving ocular and audible evidence of manifest good will definitely advance the interests of our country and aid the Embassy in its work of obtaining Peruvian cooperation in promotion of our war effort.

NORWEB

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033.1110 Wallace, Henry A./264

*The Ambassador in Peru (Norweb) to the Secretary of State*

No. 6588

LIMA, April 17, 1943.

[Received April 27.]

SIR:

[Here follow details of Vice President Wallace's itinerary in Peru.]

In my contacts with Peruvians of various categories before Mr. Wallace's visit, I found that while the mass of the people and, indeed, the middle class, were looking forward to it with pleasurable expectancy, members of the more conservative, but still influential, element showed themselves somewhat fearful of the possible repercussions on the future of their particular group through the sojourn in Peru of one who was anxiously regarded as holding different political views. I feel, however, that the friendly, approachable and informal, yet dignified, manner of the Vice President has, while realizing the favorable anticipation of the people, considerably reassured the conservatives.

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<sup>30</sup> Sentence apparently garbled.

As indicated in my abovementioned telegram, all groups of Peruvians here joined in indicating a sentiment of appreciation that the Vice President of the United States should have visited Peru, while Mr. Wallace's pleasing personality and his manifest interest in many aspects of life in this country have met with warm response among all of the many groups with whom he has come into contact. Mr. Wallace radiates sincerity, which is a quality of universal appeal, while his somewhat diffident, yet genial, manner has awakened a cordial response in the somewhat sensitive Peruvians.

All in all, I feel that the visit of Vice President Wallace has had a distinct tendency to personalize, to make visible, and to intensify realization of the "Good Neighbor" policy and will prove of very real, and, I trust, lasting assistance to the Embassy in its work of bringing about continuing and still closer cooperation from the Government and people of Peru in the cause of hemispheric defense and in support of the effort of the United States and of the United Nations.

Respectfully yours,

R. HENRY NORWEB

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033.1110 Wallace, Henry A./266

*The Ambassador in Peru (Norweb) to the Secretary of State*

No. 6590

LIMA, April 17, 1943.

[Received April 28.]

SIR: I have the honor to transmit a memorandum of a conversation <sup>31</sup> between Dr. Alberto Salomón <sup>32</sup> and Mr. Butler, First Secretary of Embassy, regarding the tour of workmen's districts in Lima made by Vice President Wallace and Mr. Laurence Duggan in company with Dr. Salomón.

When the question of this tour arose, Mr. Butler consulted Dr. Salomón with respect to the best way of making the necessary arrangements. It seemed desirable not to have a Government official act as guide. Dr. Salomón was known as a man of liberal and humanitarian sentiments. He has held no public office in Peru for about twelve years. Dr. Salomón immediately volunteered to act as guide himself, and informed Mr. Butler that he would tell President Prado of what he intended to do so that there could be no charge of acting behind the Government's back. Arrangements were made on this basis.

Dr. Salomón is enthusiastic in his admiration of Vice President Wallace. In summary, he believes that the interest shown by Mr. Wallace in workmen and in the way they live, in foodlines, wages,

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<sup>31</sup> Not printed.

<sup>32</sup> Former Peruvian Minister for Foreign Affairs.

and working conditions, will disturb President Prado to some extent and will be resented by vested interests which are primarily responsible for existing conditions. However, he is convinced that the long range result of the interest shown by Vice President Wallace in these matters will be of benefit not only to the people of Peru but to the Prado Administration. As set forth in the memorandum, Dr. Salomón believes that there have been immediate measures taken as a result of his account to President Prado of what Mr. Wallace saw.

Dr. Salomón further stated that he is sure that Mr. Wallace must be convinced that the basic freedoms for the common people, which mean so much to the Vice President, do not exist in Peru. He said that he regrets this as a Peruvian since it is not to Peru's credit, but that it is best to face the facts and tell the truth so that the situation may be remedied.

Respectfully yours,

R. HENRY NORWEB

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033.1110 Wallace, Henry A./279

*The Ambassador in Ecuador (Long) to the Secretary of State*

No. 4431

QUITO, April 21, 1943.

[Received May 5.]

[Here follow details of Vice President Wallace's visit in Ecuador.]

All told, everything connected with the Vice President's trip was felicitous. There were no disagreeable incidents so far as I am aware. It was, however, necessary, out of deference to the constituted authorities, to eliminate from the list of persons usually invited, some who were thought to be political enemies of Dr. Arroyo's <sup>33</sup> administration and others who had gone to the pains of snubbing the Arroyos in the past.

In addition, it was necessary to omit from the list of persons invited to the party the Honorable Galo Plaza, one of the most enthusiastic admirers of America, who lived in our country for about eight years, during which time he came to understand our way of thinking. As the leader of a certain group of younger men and organizer of the American School, it would have been natural to have invited Mr. Plaza to the reception but this was omitted, not because there was the slightest fear that he would do anything to mar the occasion but merely because the Ecuadoran President, or his immediate friends, dislike the younger group in general and some of the leaders, including Mr. Plaza, in particular. As between incurring the wrath of high officials in the Administration and incurring that of some of the leaders of the opposition, it was deemed to be preferable to take no chance

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<sup>33</sup> Carlo Alberto Arroyo del Río, President of Ecuador.

of casting any cloud over the highly successful visit of our Vice President.

It is to be reported that the Ecuadoran Government promulgated a decree on April 14 providing for the printing of 60,000 ordinary postage stamps and 60,000 airmail stamps commemorating the visit of the Vice President. The decree ordered that the stamps should bear the words "Bienvenido Wallace—Abril 15 de 1943."

The attitude shown by the press towards the Vice President's visit was characterized by extreme cordiality on the one hand and on the other by expressions of hope that the visit would serve to help solve some of Ecuador's problems, as indicated by the enclosed representative press clippings.

The attached enclosures are noted below.<sup>34</sup>

Respectfully yours,

BOAZ LONG

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033.1110 Wallace, Henry A./288

*The Ambassador in Colombia (Lane) to the Secretary of State*

No. 2091

BOGOTÁ, May 7, 1943.

[Received May 14.]

SIR: I have the honor to report that during his visit to Colombia Vice President Wallace was everywhere enthusiastically received. The warmth and extent of the popular reception was especially notable in Cali. In Bogotá, Medellín, and Barranquilla the Vice President's visit coincided with the most solemn days of Holy Week and made it desirable that there should be no demonstration on a scale which might cause ill-feeling through conflict with the religious ceremonies. In these cities, therefore, the reception was primarily official and the popular reception, though cordial, was entirely spontaneous and unorganized.

[Here follow details of Vice President Wallace's visit in Colombia.]

There is no question that Mr. Wallace, though his visit was brief, made a deep impression on the Colombians. His obviously sincere interest in the problems and aspirations of the several regions visited, together with his lack of pretension and the devoutly Christian spirit of his speech at the Teatro Colon, undoubtedly most favorably affected all classes of Colombians. In the word of *El Tiempo*, "this most successful of all good-will visitors . . .<sup>35</sup> awakened an immense sympathy and left with us a feeling of sincere and effective Pan-Americanism."

Respectfully yours,

ARTHUR BLISS LANE

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<sup>34</sup> Six enclosures are listed; only two (not printed) are attached to file copy of the despatch.

<sup>35</sup> Omission indicated in the original despatch.

033.1110 Wallace, Henry A./289

*The Chargé in Ecuador (Nester) to the Secretary of State*

No. 4498

QUITO, May 8, 1943.

[Received May 14.]

SIR: I have the honor to quote below for the Department's information a memorandum prepared at my request by Mr. Henry F. Vicinus, press officer attached to this Embassy.

"Pursuant to verbal instructions, the following reports a temporary trend in the attitude of the newspapers of Ecuador:

"(a) Immediately prior to the visit of Vice President Wallace, the United States missions and other interests in Ecuador were subjected to violent and frequent attacks.

"(b) Immediately upon the arrival of the Vice President, these attacks stopped completely and the attitude of the Ecuadorian press was everything that could be desired.

"(c) Since the first of May, there has been a tendency to drift back to the previous fractious attitude.

"This trend is obviously due to two causes, both related to the visit of Vice President Wallace.

"1. Newspapers here took the attitude that they could benefit by the visit of the Vice President by presenting their story and that of the nation in as bad a light as possible. An example is the newsprint situation: You will recall that both *El Día* and *El Comercio* threatened to discontinue, though it was known that they had not made proper applications for paper and that considerable paper existed in the country. *El Día* did suspend during the Wallace visit but continued afterwards.

"Consistent with this general contrary attitude, all newspapers refused almost unanimously to publish the 'cleared' releases of the Servicio Informativo, spread rumors about the injustice of the priorities system, published stories about the unnecessary goods being shipped from the U. S., which stories were largely inaccurate, published obviously 'planted' and inaccurate stories about the BEW's <sup>36</sup> balsa program, etc., etc.

"After the Wallace visit, of course, there was nothing to be gained by such an attitude, and it was abandoned.

"2. Of considerable importance during the Wallace visit were the remarks and interviews by Mr. Hector Lazo. He spoke directly from the shoulder, promised nothing but hardship ahead, and gave a clear picture of the reasonableness of the Allies' economic war.

"These remarks were infinitely helpful. In conversations with numerous newspapermen following the Lazo talks, everyone expressed a sensible and patriotic reaction except two of the most important editors of *El Comercio* and *Ultimas Noticias*. At the

<sup>36</sup> Board of Economic Warfare.

same time, Carlos and Jorge Mantilla, editor and business manager respectively of these two papers, were casual but not unfavorable toward the Lazo statements. The attitude of the two editors has never appeared in the news columns of the two papers mentioned, indicating that the editors had not had time to receive instructions from the Mantillas at the time I talked to them. There is no doubt that the Lazo talks improved press relations considerably.

"These two factors operated universally among the newspapers of the country, but the trend was most noticeable in *El Comercio*. The others followed suit. Since the first of May, two stories have appeared in *El Telegrafo* of Guayaquil attacking the balsa program. Other newspapers have not resumed attacks as pointed as those of *El Telegrafo*, but their general handling of news, headlines and columns indicates that a complete cycle has been reached in this trend.

"Generally, however, the attitude of the Ecuadoran press is more favorable now than it was before the Wallace visit. No doubt the visit had good effects which can be called permanent."

Respectfully yours,

ALFRED T. NESTER

## EFFORTS TO MINIMIZE THE PROBLEMS CAUSED BY LIQUIDATION OF THE UNITED STATES ARMY'S EMERGENCY HIGHWAY CONSTRUCTION PROJECT IN CENTRAL AMERICA <sup>1</sup>

810.154/1821 : Telegram

*The Secretary of State to the Ambassador in Costa Rica (Des Portes)* <sup>2</sup>

WASHINGTON, September 14, 1943—7 p. m.

With reference to the Department's telegram no. 255 of June 20, 1942, 7 p. m.,<sup>3</sup> instructions are being sent by the War Department to Colonel Kelton <sup>4</sup> to prepare immediately a plan for the orderly cessation of construction on the pioneer highway project, bearing in mind its effect on our relations with Central American countries. These orders have been sent as a result of a decision of the General Staff that there is no further military need for the pioneer highway, and that further expenditures must therefore be limited to the balance now available for the project. This balance is sufficient only for the liquidation of the project.

The Department is insisting that any plan for the liquidation of the project must take fully into account the disruptive effects of this liquidation on local economies and on our relations with the Central American countries, and that it must be so drawn up as to mitigate these effects to the greatest possible extent.

The above is for your own information only. The Department intends to send you further instructions as soon as more definite plans have been developed by the War Department.

HULL

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<sup>1</sup> For previous correspondence on construction of the Inter-American Highway, see indexes of the American Republics volumes of *Foreign Relations* for the years 1937, 1939, 1940, 1941, and 1942.

<sup>2</sup> The same, *mutatis mutandis*, September 14, to the Ambassadors in El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

<sup>3</sup> Not printed; it informed the Minister in Costa Rica of a proposed plan to link the finished segments of the Inter-American Highway, and requested that he secure Costa Rican cooperation. It was repeated to Panama (No. 578), El Salvador (No. 137), Guatemala (No. 236), Honduras (No. 137), and Nicaragua (No. 263). All the countries thus consulted assented to preliminary surveys and, by July 21, 1942, signified their general concurrence with the construction program outlined in the June 20 telegrams.

Survey and construction on the uncompleted segments of the Inter-American Highway were begun soon afterward by the Army Corps of Engineers with a fund of \$15,000,000 appropriated for the War Department for military construction. The construction of the uncompleted segments, approximately 625 miles total length, became known as the Pioneer, or Emergency, Military Highway Project. See press release on this highway, issued July 28, 1942, Department of State *Bulletin*, August 1, 1942, p. 661.

<sup>4</sup> Col. Edwin C. Kelton, United States Army Corps of Engineers, Director of the Pioneer Highway Project.

810.154/3081 : Telegram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, September 15, 1943—4 p. m.

[Received 8:40 p. m.]

559. Colonel Kelton, Director of the Pan American Highway, is in Managua and last night he conveyed to President Somoza<sup>5</sup> and me the information contained [in] the Department's circular telegram of September 14, 7:00 p. m. The Colonel stated that the decision of the War Department to close down the work on the highway would not seriously affect Nicaragua as he thought it would be possible to build the few remaining miles of unfinished highway as far as the Costa Rican frontier. Furthermore, he believes that it will be possible before November 1 to construct a passable all-weather road on to the Honduran border.

President Somoza did not appear to be unduly concerned. Incidentally Colonel Kelton told the President that it might be possible for the Nicaraguan Government to purchase some of the road building machinery now in the country.

I believe that the shutting down of the highway work will not seriously affect the economy of the country but rather will tend to place it again on a more normal basis. As there is a scarcity of labor in Nicaragua, labor now employed on the highway will no doubt soon be absorbed in agriculture and other pursuits.

STEWART

810.154/3099a : Telegram

*The President of Costa Rica (Calderón Guardia) to President Roosevelt*

[Translation]

SAN JOSÉ, September 16, 1943.

The engineer in charge of the Military Highway has just notified me of the total suspension of work in Costa Rica. This news has brought me profound regret because it is enormously prejudicial to this country, which will be the only one so harmed in Central America, in as much as the highway will be completed as far as Nicaragua, inclusive. I understand that it has not been the intention to cause us deliberately such injury and for this reason and since the Costa Rican section is the only one lacking for the United States to be able to establish contact by land with Panama, and also since the work is so far advanced and by virtue of the loss which suspension would

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<sup>5</sup> Anastasio Somoza.



mean of the millions already invested in the project, I take the liberty of appealing to the sentiments of friendship which you have always manifested so clearly to us, in order that through your good offices we may avoid this harm. I have confidence in the good will with which you, Mr. President, will receive this plea, for which I beg you to pardon me. I know that it will inconvenience you, but your aid in this case would be decisive and the people of Costa Rica would always be grateful for it.

With the greatest respect, I remain, your sincere friend.

R. A. CALDERÓN GUARDIA

810.154/3093 : Airgram

*The Ambassador in El Salvador (Thurston) to the Secretary of State*

SAN SALVADOR, September 18, 1943.

[Received September 22—1 p. m.]

A-370. Department's circular telegram September 14, 7 p. m.

Captain Barton,<sup>6</sup> U.S. Army Engineer Corps, who is in charge of the Pioneer Highway work in El Salvador and Honduras, states that the Salvadoran section of this undertaking will be complete in every respect by the end of this month. He also states that the international bridge over the Goascoran River linking the Salvadoran and Honduran sections of the Highway probably will be completed and usable by October 31.<sup>6a</sup>

In consequence, the abrupt cessation of the Pioneer Highway project will fortunately cause no inconvenience or unfavorable reaction here.

THURSTON

810.154/3102

*Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Cabot)*

[WASHINGTON,] September 18, 1943.

Participants: General Robins,<sup>7</sup> Assistant Chief of Engineers  
Colonel Person<sup>8</sup>  
Major Mage<sup>9</sup>  
Mr. Bonsal<sup>10</sup>  
Mr. Cabot

<sup>6</sup> Capt. George H. Barton.

<sup>6a</sup> The bridge was opened on December 15, 1943.

<sup>7</sup> Gen. Thomas M. Robins.

<sup>8</sup> Col. John L. Person, Chief of Military Construction Branch, Army Corps of Engineers.

<sup>9</sup> Maj. Jack D. Mage, Army Corps of Engineers.

<sup>10</sup> Philip W. Bonsal, Chief of the Division of the American Republics.

Mr. Bonsal and Mr. Cabot called on General Robins to express their concern at reports which had been received from our missions regarding the cessation of construction on the pioneer highway project. Mr. Bonsal pointed out that the State Department had not contemplated that Colonel Kelton would communicate the War Department's intentions to the local Governments until a plan for the orderly liquidation of the project had been drawn up and approved. General Robins replied that such a decision could not long be kept secret. To this Mr. Bonsal agreed; he intimated that it was nevertheless unfortunate that it had come out before we had had a chance to discuss our plans with the local Governments, and mentioned a telegram which we had just received from Panama stating that work would stop September 30.<sup>11</sup>

Mr. Bonsal then said that he had understood that there would be no definite curtailment of the work until the plan had been evolved. General Robins pointed out that Colonel Kelton had a \$40,000,000 ceiling on his expenditures, and that if this ceiling were not to be exceeded Colonel Kelton had no choice but to stop work almost immediately. He said that he thought Colonel Kelton wanted to put through some sort of road in the more northerly republics, and that to do this and to undertake the very expensive liquidation of the project he must retrench immediately in Costa Rica and Panama. Mr. Bonsal said that he was very much perturbed at the fact that the War Department had repeatedly granted extra allotments to keep the highway construction going but now was apparently unwilling to do so even though it was important to our relations with the Central American countries. Later he mentioned that much of this extra money had been necessitated because of the lack of priorities, which did not seem as valid an excuse for extra allotments as the question of our relations with the countries traversed. General Robins said that he fully appreciated this, but that the War Department's orders precluded an expenditure of more than \$40,000,000, and that only General McNarney<sup>12</sup> could authorize a higher expenditure. Mr. Bonsal pointed out that the total cost of the project would probably not be known in any case for some six months, but General Robins countered that this was the reason it was so important to remain well below the ceiling now.

Mr. Cabot read excerpts from the War Department's directives. He pointed out that they contemplated a cessation of work only after an orderly plan had been worked out, and that the State Department had understood that such a plan would be evolved before work

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<sup>11</sup> Telegram No. 500, not printed.

<sup>12</sup> Lt. Gen. Joseph T. McNarney, Deputy Chief of Staff, United States Army.

stopped. General Robins said that the ceiling allotment would almost certainly be exceeded if Colonel Kelton waited for the preparation of such a plan. General Robins in the course of his remarks made it clear that he personally was in agreement with the expressed State Department viewpoint. He added that he had made almost precisely the same recommendations to the General Staff, but that he had been over-ruled.

Mr. Bonsal expressed the need for more factual information. General Robins and Major Mage agreed that the latter should telephone Colonel Kelton to secure it. (Later Major Mage made note of the specific points regarding which Mr. Bonsal wanted information.)

In the course of the conversation, various fragmentary references were made to the progress of the work in the respective countries.

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810.154/3099

*The Ambassador in Honduras (Erwin) to the Secretary of State*

No. 389

TEGUCIGALPA, September 20, 1943.

[Received September 25.]

SIR: With reference to this Embassy's despatch No. 163, dated June 25 [24], 1943,<sup>13</sup> the Department's circular telegram of September 14, 7 p. m., and Department's telegram No. 248 of September 17, 11 p. m.,<sup>14</sup> I have the honor to report that since the notification of stoppage on the Pioneer Highway was received, Captain George H. Barton, U.S.E.D.,<sup>15</sup> came to Tegucigalpa on orders of Colonel Edwin C. Kelton, Director of the Pan American Highway, and discussed this subject both with the Embassy and the President of the Republic.<sup>16</sup>

Captain Barton stated he had instructions to call on President Carías and inform him concerning the decision to liquidate the Pioneer Highway project. At his request I accompanied him to the Casa Presidencial on September 17; while I had not received the Department's final instructions indicated as forthcoming in its circular telegram of September 14, 7 p. m., 1943, it appeared desirable that I should be a witness to any conversation Captain Barton had with the President on this subject. Captain Barton handled the matter discreetly, confining himself to the limited instructions of Colonel Kelton, which conformed to the language of the first paragraph of the Department's circular telegram of September 14, 7 p. m.

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<sup>13</sup> Not printed.

<sup>14</sup> Telegram No. 248 not printed.

<sup>15</sup> United States Engineer Department.

<sup>16</sup> Tiburcio Carías Andino.

President Carías, while obviously greatly disappointed, contented himself with asking that the liquidation be made as gradual as possible so as to permit the absorption of the workers elsewhere before the actual closing down occurred. Captain Barton told the President orders were being issued to stop work on October 31st; he further stated to the President that Colonel Kelton, as Director of the project, regretted he could not personally come to Tegucigalpa to give the notification.

There are approximately 4,000 persons employed on the Pan American Highway in Honduras; approximately 3,500 of these are constructing the Pioneer Highway. To throw this many persons out of work in so small a country as Honduras, and especially on the South Coast where there is virtually no other opportunity for employment, would produce serious repercussions on the economic and political life of the country. The effect will be felt throughout south and central Honduras. The continuation of the bridge construction will require only approximately 300 men.

While I am certain the Department has fully considered all phases of this subject, I venture to make the suggestion that if the Public Roads Administration (which will in any event, it is believed, continue with the construction of bridges on the Highway) could release out of the \$3,000,000 originally authorized as provided by Public Law 375—77th Congress, approved December 26, 1941,<sup>17</sup> sufficient funds to bring up to P. R. A.<sup>18</sup> standards the sub-standard sections of the pioneer highway in Honduras resulting from the premature shutdown and the hasty joining up of uncompleted sections of the road, this would not only benefit the project by providing a Pan American Highway conforming for its entire length in Honduras to the specifications of the P. R. A.; but would keep much of the labor at work for several months longer.

It is my understanding that of the \$2,000,000 which was allocated for the Honduran part of the Highway at the outset, plus the \$1,000,000 which Honduras borrowed from the Export-Import Bank, less than \$400,000 has been expended for bridges or otherwise. Thus it would seem that most of this money is still available for the continuation of the Honduran section of the highway.

One more important feature that should not, in my judgment, be overlooked is that before the private contractors who have performed this work under the supervision of the U.S.E.D. are released from their performance bonds all their obligations in the various communities should be squared. This Embassy has no late information on the

<sup>17</sup> 55 Stat. 860; for a short résumé of the history of the Inter-American Highway Project since 1923 when the first steps toward cooperative action were taken, see Department of State *Bulletin*, May 10, 1941, p. 557.

<sup>18</sup> Public Roads Administration.

amount owed to Honduran merchants by the private contractors, which was approximately Lempiras 150,000 a few months ago. Whatever is outstanding should be liquidated before the contractors are released; otherwise this Embassy and other agencies would be flooded with claims for a long time to come.

Respectfully yours,

JOHN D. ERWIN

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810.154/3095 : Telegram

*The Ambassador in Guatemala (Long) to the Secretary of State*

GUATEMALA, September 23, 1943—noon.

[Received 8:18 p. m.]

490. For immediate consideration Duggan,<sup>19</sup> Bonsal, Cabot. Reference Department's circular telegram of September 14, 7 p. m. It is urgently requested that Department bring up the following considerations regarding liquidation of Pioneer Highway at the conference which is understood will be held September 24.

Last Monday Colonel Kelton tentatively proposed to Colonel Bickford,<sup>20</sup> head of Rume, special agency set up by Guatemala for the construction of the road, that we turn over to it all equipment, machinery and material now in the country for which Guatemala would agree to spend an amount equivalent to the value thereof estimated at about \$1,000,000 for the completion of the route from Escuintla to Ayutla. Bickford does not desire to submit this proposal to the President<sup>21</sup> until it is a "firm offer". If accepted he fears that the job will be turned over to the regular Guatemala road organization which would probably take years to finish it. In any event I believe that Guatemala has no need for such a tremendous amount of machinery even though it would be a bargain at that price under present shortage conditions.

Bickford tentative[ly] proposes as an alternative that we carry out our contract with the Rume under which we are committed to an expenditure of about one and a quarter million by the end of April 1944. I am confident that by practicing rigid economy he can do the job by about that time and that the work will be performed honestly and efficiently with little or no supervision by us.

Rume now employs approximately 60,500 men. If work on the road is suspended abruptly, many of the common laborers could be absorbed in other fields of employment but there would be a large number of skilled and semi-skilled workers such as chauffeurs and mechanics (formerly employed on his [*bus?*] lines closed down due

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<sup>19</sup> Laurence Duggan, Adviser on Political Relations.

<sup>20</sup> Col. Charles Bickford, in charge of construction of the Pioneer Highway in Guatemala.

<sup>21</sup> Jorge Ubico.

to war shortages) who would be thrown out of employment and it is feared would create a serious political problem for the Government. If Bickford can continue construction for the period indicated, he can gradually cut down on his payroll with a minimum of disturbance to the national economy.

The advantage of such a plan would be that we would thus comply with our signed contract with the Guatemalan Government and would avoid the charge of bad faith which would undoubtedly be made by our critics and enemies. Such action would furnish Axis sympathizers with propaganda material against us which could undo our efforts to promote better relations and closer understanding over the past decade and might seriously jeopardize the continuance of Guatemala's wholehearted participation within the limits of its resources in our common war effort.

The Department should bear in mind that this is the only one of the five Central American Governments with which we have a direct construction contract and that our situation here consequently is not comparable to that in the remaining countries and any over-all plan for liquidation should take this into consideration. The proposal to have Rume under Bickford complete construction within the limit of time and funds set forth above would probably be no more expensive than Kelton's plan, would not create a drain on American manpower and would obviate most or all of the unfavorable features attendant on any other alternative. There would be the advantage that at the end of construction, we would have available for use elsewhere a large amount of critical machinery and equipment.

Please cable me promptly the decision taken as the Government will inevitably learn through other channels of the proposed liquidation and I fear serious repercussions. I should also be authorized at as early a date as possible to discuss the situation fully and frankly with the President.

LONG

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810.154/3073

*The Secretary of State to the Secretary of War (Stimson)*

[WASHINGTON,] September 23, 1943.

MY DEAR MR. SECRETARY: I have received your letter of September 10,<sup>22</sup> in which you inform me of the War Department's decision that there is no further strategic necessity for the construction of the pioneer highway, and that the War Department in consequence wishes

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<sup>22</sup> Not printed.

this Department's recommendations for the termination in as expeditious a manner as possible of War Department participation in the construction of the highway.

The international implications of this decision are, as you indicate, important. In presenting the pioneer highway project to the respective countries which it was to traverse, certain facilities were obtained from these countries. Much popular interest was aroused in the plan for the expeditious construction of the highway. In making plans for the withdrawal of the War Department from this highway project, it would therefore seem imperative not only that the possible disruptive effects of this move on the economies of the respective countries be fully taken into account, but also that any prejudicial effects on our prestige and on our relations with those countries be mitigated to the greatest possible extent. I have, consequently, been gratified to learn that in the orders which have been transmitted to the Director of the Highway Project to prepare plans for this withdrawal, emphasis has been placed on the necessity for the orderly termination of the project and for particular consideration to be given to its effects on our relations with the Central American countries. The courtesy of the pertinent officials of the War Department in communicating the texts of these orders informally to this Department is greatly appreciated.

I am pleased to note the views of the War Department regarding the continuation of the permanent highway project, and am confident that both the Department and the Public Roads Administration can count upon the War Department's collaboration in this connection. I believe that if conferences are immediately held between representatives of the War Department and the Public Roads Administration, they would be helpful both in facilitating the War Department's objectives and in aiding the Administration to carry out the permanent project in the most efficient and economical manner. This course would also further our joint purpose of effecting the withdrawal in the most orderly and harmonious fashion possible.

The Department is, of course, not in a position to make very specific recommendations in the absence of more complete factual data. An informal request for such data has already been transmitted to the War Department, and will doubtless be answered at the earliest possible moment. As soon as this information has been received, this Department will be pleased to discuss the matter further with the War Department and the other interested Governments, and to make the specific recommendations which you were so kind as to request.

Sincerely yours,

CORDELL HULL

810.154/3099a : Airgram

*The Secretary of State to the Ambassador in Costa Rica (Des Portes)*

WASHINGTON, September 25, 1943—7 p. m.

A-692. Department's 607 of September 21, 8 p. m.<sup>24</sup> In accordance with agreements reached at conferences with officials of the War Department and the Public Roads Administration, the Army Engineers will stop construction work on the northern Costa Rica section of the pioneer highway on October 31 and the contractor<sup>25</sup> will stop work on the southern Costa Rica section on September 30. It will of course be some weeks before demobilization is completed. Because of this factor employment will be reduced gradually. As you know, a considerable number of employees have been discharged recently in any case due to the fact that the rainy season prevents construction work.

The Public Roads Administration believes that it can do considerable work during the coming year on the north section and a small amount on the south section in addition to working as planned on the Cartago-San Isidro section, but the PRA's plans are somewhat dependent upon its ability to secure and finance a transfer to it of Army equipment now in Costa Rica. The Army is legally unable to turn this over without payment to Costa Rica or to the Public Roads Administration.

For your background and possible use in conversations with Costa Rican officials, the following considerations have led the Department to agree to the above proposals: (1) About \$10,000,000 or nearly twice the amount originally estimated has already been spent in Costa Rica. (2) Employment has already been furnished in greater volume and over a longer period than originally contemplated. (3) The disruptive effect of withdrawal now will probably be no greater than would have been the effect on completion last May or next June. Thus the only unanticipated prejudicial effect on Costa Rica has been the failure to complete the road at an early date. The new plans will permit the PRA to continue the Inter-American highway project at a more economical pace. They will make far less inflationary impact on Costa Rican economy than the large expenditures earlier contemplated for the forthcoming construction year and will tend to sustain that economy over a longer period. Moreover, Costa Rica has been provided even as it is with new useful roads from Bebedero via Las Cañas to Bagaces and from San José to Puntarenas with the exception of an eight mile gap the early construction of which is now being planned by the PRA, and with two access roads

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<sup>24</sup> Not printed.

<sup>25</sup> Marvin Wunderlich Company of Jefferson City, Missouri, construction engineers under contract with the United States Army Corps of Engineers.



and a short railroad in south Costa Rica. Although Costa Rica under present plans will be the only Central American country except Panama without some kind of a through highway completed, it must be mentioned that it is also the only country which has received a special appropriation (of \$12,000,000)<sup>26</sup> for its section of the Inter-American Highway without the necessity of providing cooperation under the provisions of the Inter-American Highway Act.

HULL

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810.154/3096 : Airgram

*The Secretary of State to the Ambassador in Honduras (Erwin)* <sup>27</sup>

WASHINGTON, September 25, 1943—7 p. m.

A-389. Your A-431, September 22, 12 noon.<sup>28</sup> In conferences with representatives of the War Department and the Public Roads Administration it has been agreed that work on the pioneer highway in Honduras will be suspended on October 31. It is the intention by that date to push through an all weather highway on the entire Honduran section although those parts as yet uncompleted will of course be constructed to lower standards than the sections which have already been completed.

The War Department and the Public Roads Administration are in urgent consultation with respect to the purchase by the latter of machinery and supplies owned or subject to recapture by the former and not wanted elsewhere. The Public Roads Administration will endeavor rapidly to build up an organization to undertake construction under the Project Statement<sup>29</sup> already concluded, as early as possible in the forthcoming dry season.

The Department believes that these measures will cushion any shock which the liquidation of the pioneer highway project may occasion to Honduran economy.

Please inform the appropriate Honduran authorities of the foregoing.

HULL

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<sup>26</sup> Appropriation by Act approved July 12, 1943; 57 Stat. 540.

<sup>27</sup> A similar message was sent to the Ambassador in Nicaragua as airgram No. A-558, September 25, 7 p. m.; it carried the supplementary information that the South Nicaragua section of the Pioneer Highway would be completed as originally planned, and that some work might be undertaken on the Rama Road (810.154/3081). For correspondence on the Rama Road Project, see *Foreign Relations*, 1942, vol. VI, pp. 568 ff.

<sup>28</sup> Not printed.

<sup>29</sup> A general agreement between the Honduran road authority and the United States Public Roads Administration, determining the location and the cost of the section of the Inter-American Highway traversing Honduras. This Project Statement and those for other countries referred to subsequently were signed by the PRA after authorization by the Department of State.

810.154/3095 : Telegram

*The Secretary of State to the Ambassador in Guatemala (Long)*

WASHINGTON, September 25, 1943—8 p. m.

512. Your 490, September 23, noon. The Department has given careful consideration to the views which you express and has discussed them at length at conferences with representatives of the War Department and the Public Roads Administration. It has been agreed that the decision of the General Staff precludes completion of the pioneer highway project in Guatemala as originally planned. Work is being stopped throughout Central America by October 31.

The Department has acceded to the War Department's desire to present its proposal outlined in your telegram<sup>30</sup> to the Guatemalan Government. The War Department considers it so advantageous to the latter that it anticipates the proposal's acceptance. Lieutenant Colonel Zass<sup>31</sup> will proceed within the next few days to Guatemala to place this proposal before the Guatemalan authorities. You are requested to give him all possible assistance and to accompany him in any discussions he may have with the President, to whom you may of course fully and frankly explain the situation.

The value of the equipment which would be transferred and construction performed by the Republic would be somewhat less than \$1,000,000, in as much as the Army plans to withdraw a certain amount of machinery. The Army and the Public Roads Administration do not believe that the amount which will be left will be excessive for Guatemala's needs. From Guatemala's viewpoint the machinery would be acquired very cheaply; from the Army's, the heavy cost of returning it to the United States would be avoided and shipping space saved.

The Army wishes to stop construction in Guatemala on October 31 even if the Guatemalan Government will not accept the Army's proposal. In as much as the contract is understood merely to call for construction up to a certain amount (\$3,189,250) it would not appear that this would be a breach of contract, the more so as that amount should practically be reached by October 31. The Department has of course insisted that there must be no breach of contract, and that in abandoning construction a complete through highway must be provided even though some sections have not been improved to contemplated standards. You should emphasize these two points to Colonel Zass if any question regarding them arises in the course of discussions.

If the Guatemalan Government accepts the Army's proposal, there

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<sup>30</sup> Telegram No. 490, September 23, noon, p. 82.

<sup>31</sup> Col. William W. Zass, Army Corps of Engineers.

would of course be no disruptive effect to Guatemalan economy, and the work would presumably be continued under Rume.

HULL

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810.154/3115

*The Ambassador in Guatemala (Long) to the Secretary of State*

No. 466

GUATEMALA, September 28, 1943.

[Received October 1, 1943.]

SIR: In amplification of my despatch no. 439 of September 21, 1943,<sup>32</sup> I have the honor to report that Colonel Bickford was rather jittery lest the President be unwilling to operate under the Kelton plan. He came to the Embassy for two extended conferences during which consideration was given to almost all phases of "liquidating" the Pioneer Highway and as a result of his impressions our telegram no. 490 of September 23, 12 noon, was despatched.

Sunday, September 26, at 7 p. m., Lieutenant Colonel Zass, Majors Spickard and Tobin and Colonel Bickford called. Lieutenant Colonel Zass stated that when he left Managua on the 25th he was advised that the Army was not in a position to turn over the equipment to Guatemala as there were legal inhibitions.

Mr. Drew,<sup>33</sup> upon joining the meeting, pointed out that this obstacle was not mentioned in the Department's cable no. 512 of September 25, 8 p. m. Its purport was then conveyed to Colonel Zass who wished to consult the War Department before seeing President Ubico.

On September 27, 9 a. m. Colonel Zass telephoned to San José and then he spoke with Washington over the long distance telephone and was informed that the position taken in the Department's telegram last above mentioned could be carried out. Immediately thereafter the gentlemen above mentioned joined me for a conference.

Colonel Bickford informed us that he had just seen President Ubico and thought that the matter could be arranged, but nothing had been said about which Guatemalan organization would carry on the actual work; also it was certain there would be a reduction in the weekly expenditure. Guatemala would not rush so much after it took over. It was regretted that October, probably the rainiest month of the year, would be the last under the present set up.

Those present at the conference decided that it would be better to submit to the President an amended contract which would cover, as nearly as possible, the Kelton or War Department plan.

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<sup>32</sup> Not printed.

<sup>33</sup> Gerald Drew, Second Secretary of Embassy and Consul at Guatemala.

At 5:30 p. m. on the 27th the draft contract was read in the presence of all the persons mentioned. We pointed out to Lieutenant Colonel Zass that the Army might wish to retain certain of the equipment. He stated that, as the contract said that Guatemala would do work up to the value of the equipment, and as there was a great deal of the latter, he thought there would be no difficulty in arranging the withdrawal prior to October 31st. However, he was without details as to precisely what equipment the Army might wish to retain but that the proposed amendment, if it could be signed up, would be referred to Washington, which would no doubt outline what it was desired to remove from the country before October 31st.

President Ubico received Lieutenant Colonel Zass, Colonel Bickford and myself on September 28 at 10 a. m. After a preliminary discussion of the work remaining to be done in the country, the contract was read by the President and I explained that the Army might retire certain of the equipment which was why the contract gave October 31st as the inventory date. President Ubico expressed the hope that Guatemala might retain as much as possible and referred to his ambition to undertake additional road building after the completion of the present Pioneer Highway.

Having read carefully the contract President Ubico requested Colonel Bickford to ask General Ydigoras Fuentes<sup>34</sup> to the Presidential Palace to sign the amendment.

#### PUBLICITY

In response to the President's query regarding publicity, it was suggested that the arrangement be regarded as confidential because its terms might be different from those in the other countries and after all it was not firm until approved by the War Department. The President thought this a good plan and instructed Colonel Bickford to inform General Ydigoras in this sense, which was done. President Ubico then suggested, instead of issuing a decree announcing the signing of this supplemental agreement, that a statement be inserted at the bottom that it had executive approval.

As the Pioneer Highway has never supplied this office with copies of the other amendments English copies are enclosed as per list below.<sup>35</sup>

It is hoped that the latest supplement will be satisfactory.

Respectfully yours,

For the Ambassador:

GERALD A. DREW

*Second Secretary of Embassy*

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<sup>34</sup> Director General of Highways, Guatemala.

<sup>35</sup> Supplementary contracts of June 14, August 8, and September 28 not printed.

810.154/3119a : Telegram

*The Acting Secretary of State to the Ambassador in Nicaragua  
(Stewart)* <sup>36</sup>

WASHINGTON, September 30, 1943—11 a. m.

Department's A-558 of September 25, 7 p. m.<sup>37</sup> The Department is issuing no press release with regard to the stoppage of work on the pioneer highway project. However, you are authorized to issue the following statement in the event that you deem it advisable:

The military situation which confronts the western hemisphere no longer justifying intensive efforts to complete various military projects, instructions have been given for the early cessation of work on the pioneer highway in Central America.

The expressed policy of the United States Government to cooperate in the construction of the permanent Inter-American Highway, which is intended to provide a through road to Panama, is not affected by the abandonment of construction on the pioneer highway. The Public Roads Administration is continuing its plans to carry through this project at the most efficient and economical pace for an undertaking of this nature. The work already completed on the pioneer highway project will be of definite value to the completion of the permanent highway project, and the pertinent officials are in consultation with respect to the transfer of the maximum benefits from the pioneer to the permanent project in the liquidation of the former. Agreements have already been concluded with all of the Central American republics and Panama<sup>38</sup> for the cooperative construction of the Inter-American Highway in accordance with the provisions of Public Law 375 of December 26, 1941. Work will proceed under the terms of these agreements and the appropriations already voted by Congress.

In any discussions which are sought by any of the pioneer highway officials with the President or the Minister of Foreign Affairs of the country to which you are accredited, you should be present and you should be informed of and approve the matter which the highway official proposes to discuss.

BERLE

810.154/3164 : Telegram

*The Acting Secretary of State to the Ambassador in Honduras  
(Erwin)*

WASHINGTON, October 23, 1943—8 p. m.

282. The Department has no objection to the sale of United States Engineers' equipment to the Honduran Government, as described in

<sup>36</sup> The same, *mutatis mutandis*, September 30, to the Ambassadors in Panama, Honduras, Guatemala, and El Salvador.

<sup>37</sup> See footnote 27, p. 86.

<sup>38</sup> For texts of these agreements, see Department of State Executive Agreement Series Nos. 293 (Costa Rica), 294 (El Salvador), 295 (Nicaragua), 296 (Honduras), 345 (Guatemala), and 365 (Panama) or 56 Stat. (pt. 2) 1840, 1842, 1845, 1848, and 57 Stat. (pt. 2) 1111 and 1298, respectively.

your 227 of October 22, 5 p. m.,<sup>39</sup> provided it is to be used for public purposes and is not intended for resale to private individuals. The Department hopes, however, that the Public Roads Administration will be given an opportunity to purchase from the Army Engineers or to obtain from the Honduran Government the equipment needed to carry on work on the Inter-American Highway. The Public Roads Administration reserves the right to decline to accept any equipment proffered by the Honduran Government as part of its collaboration under the existing Project Statement.

STETTINIUS

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810.154/3167a

*The Secretary of State to the Commissioner of the Public Roads Administration (MacDonald)*

WASHINGTON, October 23, 1943.

MY DEAR MR. MACDONALD: The Department has been giving the most careful consideration to the effects which the cessation of work on the pioneer highway project will have on the Inter-American Highway project. At the conferences which have been held between representatives of this Department, the Public Roads Administration and the War Department, specific plans for the liquidation of the pioneer highway in an orderly manner were discussed. Every effort was made to arrange for the transfer of the maximum possible benefits from the pioneer highway project to the permanent Inter-American Highway project, and for the continuation of the latter at a pace which would mitigate the disruptive effects of the stoppage of work on the former on Central American economy.

Having carefully considered the points brought out in these conferences and subsequent developments, the Department believes that the program for the construction of the Inter-American Highway should now proceed on the following basis:

(1) In as much as the Guatemalan Government has indicated that it does not wish to sign a Project Statement until it has completed work under its recently revised contract with the Army,<sup>40</sup> it would appear inappropriate to undertake further negotiations with that Government at the present time.

(2) In El Salvador, work should proceed in accordance with the existing Project Statement with that country, and the revision thereof recently proposed by your Administration if it is accepted by the Salvadoran Government.

(3) In Honduras, it is essential, in order to prevent economic dislocations, for the Public Roads Administration to arrange at once to

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<sup>39</sup> Not printed.

<sup>40</sup> A copy of the text of this revised contract, signed September 28, 1943 (not printed), was transmitted to the Department by the Ambassador in Guatemala in his despatch No. 466, September 28, p. 88.

carry on a considerable volume of work under the existing Project Statement. The Department believes that Honduran economy would be adequately bolstered if a monthly rate of local expenditure of \$200,000-\$250,000 were maintained during the forthcoming dry season. The Public Roads Administration will doubtless wish to build up its organization in Honduras with this end in view. The Department also understands that the Public Roads Administration will discuss with the War Department and the pioneer highway contractors the matter of securing from them such machinery as can be purchased economically and is needed on the Honduran section of the Inter-American Highway.

(4) The Department understands that the existing Nicaraguan highway construction organization, headed by Mr. Thomas A. Jones, is to be shifted to the north Nicaragua section of the Inter-American Highway as soon as it has finished work on the south Nicaragua section. For your confidential information, the Department does not favor construction on the Jinotega-Condega section of the highway until the rest of the highway in Nicaragua has been completed, but feels that work may proceed on the other north Nicaragua sections as technical and practical considerations may indicate.

(5) The Department believes that the Public Roads Administration should make urgent efforts to undertake construction in the forthcoming dry season on the north section of the Inter-American Highway in Costa Rica and in this connection to take over an appropriate part of the existing Army Engineers' organization on this section of the highway. It believes that Costa Rican economy will be adequately bolstered if a monthly rate of local expenditure of \$200,000-\$250,000 is maintained during the forthcoming dry season.

The War Department has now issued orders, so this Department is informed, for the Army Engineers in Costa Rica to turn over to the Public Roads Administration such Army owned machinery now in use on the north Costa Rica section of the highway as the Army does not require elsewhere and the Public Roads Administration needs to undertake construction. This machinery is to be transferred without charge and for an indefinite period on loan evidenced by a memorandum receipt. In order to implement the War Department's decision, this Department would be grateful if representatives of the Public Roads Administration should urgently discuss with the appropriate officials of the Army Engineers in San José the question of what machinery is actually to be transferred if the rate of construction activities mentioned above is to be maintained.

In addition, Army orders call for demobilization of the Army construction organization on this section of the highway beginning November 1. It is essential that the Public Roads Administration make every effort to effect by that date the transfer of that part of the existing Engineers' organization that the Public Roads Administration can use in continuing the construction on this section of the highway. The Department wishes to emphasize the importance of avoiding not only the complete demobilization of the pioneer highway organization, with its disruptive economic effects, but also the uneconomical remobilization of men and machinery under Public Roads Administration auspices at a later date. The Costa Rican Government has understandably expressed its serious concern at this prospect.

Funds for the construction of this section of the highway can be secured from the balance of cooperative funds still available under the original Project Statement, from any savings which may develop from drainage projects, and from any new cooperative funds which the two Governments may be in a position to furnish.

(6) The Department understands that the Public Roads Administration now intends to continue construction on the Cartago-San Isidro section of the Inter-American Highway, with emphasis on efficiency and economy rather than speed, and that it believes that it will be able to construct this section well within existing appropriations.

(7) The Department does not consider it necessary to undertake a considerable construction program in south Costa Rica in the immediate future, although it agrees with the view of the Public Roads Administration that enough work should be done to permit bridge construction for some miles south of San Isidro as originally planned.

(8) The Department has arranged with the Panamanian Government for the initiation of negotiations looking to the conclusion of a Project Statement under the basic agreement which has been concluded. It is understood that a representative of the Public Roads Administration will shortly undertake these negotiations. The Department wishes to make clear its view that the Panamanian Government should pay any extra costs which may accrue from the construction of any section of the highway in Panama to standards higher than those contemplated in other countries.

(9) The Department believes that the standards of construction contemplated should in general be as close as possible to those which formed the basis for the \$30,000,000 estimate embodied in Public Law No. 375 of December 26, 1941. While on certain sections, such as that between Cartago and San Isidro, it may be desirable to build to higher standards than originally contemplated, it is obvious that, in laying plans for future construction, the original Congressional authorization should not be exceeded except in so far as this is unavoidable. The Department also feels that it would be inadvisable to build the highway to higher construction standards than the immediately foreseeable needs of the countries may require, and that the standards should be so chosen as to necessitate a minimum rate of maintenance.

I shall be very grateful if you will inform me whether you are in agreement with the program described above for the continuation of work on the Inter-American Highway in the immediate future.

I shall also greatly appreciate it if you will transmit at your early convenience a revised estimate of the cost of completing the various sections of the highway in Costa Rica to contemplated standards. In view of the obstacles which have been encountered in securing funds for the continuation of construction on the northern section of the highway in Costa Rica, it appears highly desirable that such an estimate should be prepared and urgent consideration given it. It would also be helpful if revised estimates for the cost of constructing the other sections of the highway could be prepared in the near



future, to reflect any revisions which the stoppage of work on the pioneer highway may have necessitated.

Sincerely yours,

For the Secretary of State:

A. A. BERLE, JR.  
*Assistant Secretary*

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810.154/3173

*President Roosevelt to the President of Costa Rica (Calderón Guardia)*

[WASHINGTON, October 25, 1943.]

I have received and given careful study to your Excellency's telegram of September 16. The decision to suspend work on the pioneer highway in Central America was taken because the military situation confronting the United Nations no longer justified the intensive efforts required to rush this highway to completion. I am gratified that the project has nevertheless provided permanent benefits to Costa Rica.

The War and State Departments together with the Public Roads Administration are now completing arrangements for the systematic continuation of the permanent Inter-American Highway project in Costa Rica under the cooperative agreement already concluded. The special appropriation recently voted by Congress will contribute to this end. It is my conviction that in carrying out this revision of plans, the pertinent agencies of this Government are seeking the greatest possible benefit to the progress and prosperity of Costa Rica.

FRANKLIN D. ROOSEVELT

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810.154/3174 : Telegram

*The Acting Secretary of State to the Ambassador in Costa Rica (Des Portes)*

WASHINGTON, October 29, 1943—10 p. m.

668. (1). The Department is unable to give precise figures, as requested in your 729 of October 28, 7 p. m.,<sup>41</sup> for the cooperative funds which may be available for the continuation of work on the Inter-American Highway in Costa Rica. It appears, however, that at least one and one-quarter million dollars of the original commitments are still unallocated, and that at least an equal amount now allocated to drainage structures could also be made available by re-negotiating existing Project Agreements. The Department, after consultation

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<sup>41</sup> Not printed.

with the Public Roads Administration, believes that even after prudent purchases of that Army equipment which the Army will not turn over without charge, this should suffice to continue the work for some months.

(2). It is the Department's position, moreover, that the Inter-American Highway project having been undertaken it must be carried to completion, and that should it prove demonstrably necessary to secure extra funds for this purpose they will be sought. Although the Department obviously is not in a position to guarantee that such funds will be forthcoming it believes that plans should be made on the supposition that funds will be available when required.

(3). In order that the Department may be in a position to seek at the appropriate moment any additional funds which may be required to complete the highway, you are requested to emphasize to Mr. James<sup>42</sup> the urgency of forwarding at the earliest possible moment the revised estimates for the completion of the highway, particularly those for Costa Rica, which the Department has already requested him to make.

STETTINIUS

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810.154/3239½

*Memorandum by the Assistant Chief of the Division of the American Republics (Cabot)*

[WASHINGTON,] November 2, 1943.

On December 26, 1941, the so-called Inter-American Highway Act (Public 375), which had passed Congress after a year's efforts on the Department's part, was signed by the President. By this Act Congress authorized the expenditure of \$20,000,000 on the Inter-American Highway, provided the six Central American countries would provide at least one-third of the cost of their respective sections. Basic agreements providing United States cooperation have now been signed with the above-named countries and Project Statements, which provide for the actual construction of the highway, with Costa Rica, El Salvador, Nicaragua and Honduras. Work is proceeding in all four of these countries.<sup>43</sup> Guatemala has completed an all-weather road of inferior construction and Panama has almost completed a similar road.

In the early summer of 1942 the War Department concluded that military considerations made it advisable to complete a highway, from

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<sup>42</sup> Edward James, Chief, Inter-American Regional Office, Public Roads Administration.

<sup>43</sup> Public Law 90 of June 26, 1943 (57 Stat. 179) appropriated \$5,000,000 for survey and construction work on the Inter-American Highway plus \$100,000 for special engineering services of the Public Roads Administration in fulfilling United States obligations under the several Inter-American Highway Agreements.

standard railhead on the Mexico-Guatemala border to Panama City. The plan called for the construction of a narrow all-weather road ("pioneer highway") which would join together the already completed segments of the Inter-American Highway. The War Department agreed to pay the cost of construction, except for rights of way. The highway was to be built directly on the line of the permanent project so that it might be gradually improved as a part of the latter. After the Department had successfully negotiated basic agreements with the respective countries, work was undertaken partly under contract with the local Roads Administration and partly by American contractors. Original plans called for construction of the pioneer highway in one dry season, November 1942-May 1943, but work was much delayed by the acute shipping shortage and comparatively low priorities. In September 1943, when the project was less than half completed at a cost of \$40,000,000, the War Department decided that there was no further military necessity for the highway, and that its construction was to be discontinued. The Department has been helping to make arrangements ever since for the orderly liquidation of the project.

By an arrangement between the Army and the PRA the latter undertook the construction of the difficult mountain section between Cartago and San Isidro in Costa Rica. In the spring of 1943, it became evident that the PRA had grossly under-estimated the cost of this section, and indeed of the whole Inter-American Highway project. An extra appropriation of \$12,000,000 was secured from Congress, which placed no obligation on Costa Rica to provide cooperative funds in order to complete this section of the highway.

The present situation is approximately as follows: In Guatemala, the Army has turned over its construction machinery to the local Roads Administration, and the latter has agreed in substance to finish the pioneer highway. In El Salvador, the pioneer highway was completed, and the Inter-American Highway is being completed on a somewhat different route. In Honduras, the PRA is arranging to take over the construction of the highway from the Army contractors. In southern Nicaragua, the local Roads Administration has completed the pioneer highway and will now shift to the north Nicaraguan section, taking over where Army contractors left off. In north Costa Rica, the PRA is completing arrangements to continue work with machinery lent without charge by the Army. In south Costa Rica, except on the Cartago-San Isidro section, work is practically abandoned for the moment; it is to be resumed when the Cartago-San Isidro section is finished. Negotiations with Panama for the conclusion of the Project Statement are about to be undertaken.

810.154/3204

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

[WASHINGTON,] November 19, 1943.

The Nicaraguan Ambassador <sup>44</sup> stated that he had instructions from President Somoza to request the Department's assistance in the following:

The War Department was using in Nicaragua a considerable quantity of road-building equipment for the construction of the Pioneer Highway. With the cessation of work on the Pioneer Highway this equipment is standing idle. Although the War Department may have plans for its disposal, the Nicaraguan Government would like to secure it for use in Nicaragua, principally on the Inter-American Highway but also for the Rama road. Since the machinery is now in Nicaragua the Government believes that its disposal there is the simplest and most efficient way of the Government's getting the new machinery that it needs for highway construction.

The Ambassador then stated that General Somoza hoped that the purchase of this machinery could be included within the Nicaraguan lend-lease allocation.

I told the Ambassador that while I was not informed as to the details of the arrangements of the War Department for disposal of road-building equipment which was being used for the construction of the Pioneer Highway I would immediately go into the matter. I said that if the machinery was to be sold I saw no reason why the Nicaraguan Government should not have an opportunity to buy it.

I informed the Ambassador that I saw little hope of transferring the machinery to Nicaragua under Nicaragua's lend-lease allocation. I told him that in the first place the War and Navy Departments, with the support of other departments of the Government, had limited the lend-lease allocations for the other American republics strictly to armament and military equipment. Although from time to time inquiries similar to that now being made by the Nicaraguan Government had been raised, the decision had always been contrary to including the delivery of nonmilitary items within the lend-lease allocations. There was a new factor in this particular situation, however. The War Department had determined that the completion of the Pioneer Highway was no longer necessary for reasons of security. No lend-lease items could be transferred until the War and Navy Departments had certified that the acquisition of these items by the Government to which they were being transferred was necessary to the defense of

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<sup>44</sup> Guillermo Sevilla Sacasa.

the United States. How could the War and Navy Departments now certify that this was necessary when the War Department had just stopped construction of the Pioneer Highway since it did not consider it any longer vital to our security?

The Ambassador expressed keen disappointment at what I said with regard to the scant possibility that the machinery could be transferred within Nicaragua's lend-lease allocation. He went into a long peroration about the friendship of General Somoza for the United States, the cooperation of Nicaragua with the United States in the war, *et cetera*, *et cetera*.

I told the Ambassador that I would look into the matter but that I was distinctly not optimistic.<sup>45</sup>

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<sup>45</sup> The Ambassador was informed December 23, 1943, by the Assistant Chief of the Division of the American Republics (Cabot) that the machinery might be purchased by Nicaragua and rented to the Inter-American and Rama Projects, or the larger part of the machinery could be purchased with funds allocated for the construction of the Rama Road, and title allowed to remain with the United States.

## TERMINATION OF OPERATIONS ON THE CARIBBEAN LAND-SEA ROUTE THROUGH HAITI AND THE DOMIN- ICAN REPUBLIC <sup>1</sup>

810.5018/150

*The Vice Chief of Naval Operations (Horne) to the Chairman of the  
United States Section, Anglo-American Caribbean Commission  
(Taussig)*

WASHINGTON, February 13, 1943.

MY DEAR MR. TAUSSIG: At a recent conference on the subject of food supplies in the Caribbean area, you desired that the viewpoint of the Navy in this matter be confirmed.

At present the Axis submarine warfare is not directly affecting the local supply problem in the Caribbean area as it did last summer when the situation became quite acute. It is, nevertheless, understood that local food conditions are none too good in a number of islands throughout the area.

Submarine activity among the islands may be renewed within the course of six weeks or two months. With this in mind, it would be very desirable to increase the supplies of food in that area so that an emergency situation, if it comes, can be handled with supplies on hand.

It is understood that the land-water transportation route across Haiti and Dominica <sup>2</sup> has been tested to the extent of about 1000 tons, and that it costs approximately \$80.00 to \$90.00 per ton as compared to \$18.00 to \$20.00 per ton for direct water transportation. Despite the increased cost it appears desirable to maintain this system as an emergency route. It does not appear necessary to operate the route at maximum capacity but rather to maintain it in a skeletonized status operating at a minimum capacity sufficient to keep the route ready for use. In this connection it is understood that the route at best could only supply a portion of the needs of Puerto Rico. Also to maintain the route at any capacity before the emergency arrives would wear out trucks, tires and other essential parts.

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<sup>1</sup> For previous correspondence, see *Foreign Relations*, 1942, vol. v, pp. 269 ff.

<sup>2</sup> In October of 1942 the Public Roads Administration was allotted \$500,000 for completion and maintenance of a 235-mile road from Port-au-Prince, Haiti, to San Pedro de Macoris, Dominican Republic, for the purpose of supplying food and other necessities to Puerto Rico and other eastern islands of the Caribbean. For reasons of high transport costs, decreasing submarine activity, and pressure from United States agencies that favored sea over land transport, operations over the still unfinished roadbed were suspended after the hauling of some 100,000 tons of critical supplies.

The following specific recommendations are made:

(a) That each Island produce the maximum amount of food for its own consumption with a view to approaching as far as practicable self-sufficiency.

(b) That reserves of food and other essential supplies should be built up in the Islands where they are to be consumed. These reserves should be built up *first* in those localities where the population is directly connected with the war effort, *second*, in those islands which are the more difficult to supply under heavy submarine warfare conditions.

(c) Coordinated planning and operation should be provided to get the best results out of such small vessels, schooners, etc., as may be available for the purpose. Construction of schooners for the purpose, provided it does not interfere with our war procurement, would be very desirable.

(d) The land-water route across Haiti and Dominica should be maintained in a skeleton status operating at a minimum capacity sufficient to keep the route ready for use as an emergency measure.

I would like to take this opportunity to stress my opinion that adequate coordinated planning and operations should be conducted to meet this problem before it again becomes acute.

Sincerely yours,

F. J. HORNE

810.5018/210a : Telegram

*The Secretary of State to the Ambassador in the Dominican Republic (Warren)*<sup>3</sup>

WASHINGTON, June 17, 1943—7 p. m.

163. Without approaching local authorities please cable your own confidential estimate of the repercussions to a termination of the food stockpiling and overland highway projects. The road improvements would continue as planned.

HULL

810.154/2060 : Airgram

*The Ambassador in Haiti (White) to the Secretary of State*

PORT-AU-PRINCE, June 18, 1943—11 a. m.

[Received June 21—3 p. m.]

A-277. Your No. 132, June 17, 7:00 p. m.<sup>4</sup> re termination of transportation part of overland highway. The principal detriment would be to a few individuals who have spent much time and quite a little money to make the Overland Highway a success. I consider that

<sup>3</sup> The same telegram was sent on the same date to the Ambassador in Haiti as Department's No. 132.

<sup>4</sup> See footnote 3, above.

either they should be reimbursed or that the project should be allowed to run for a sufficient time to enable them to recoup.

There are also a number of chauffeurs (I believe less than 25) who have obtained tires for this project, which they are under contract to return. Whether they would have any claim to indemnification would require study.

The Haitian Government has issued decrees and made provisions and arrangements to facilitate the transportation. Should these remain a dead letter or be rescinded, I suppose no great harm to anyone would accrue.

From the point of view of general prestige the impression would be unfortunate. Possibly if a good and sufficient reason could be announced, such as marked diminution of the submarine menace, this unfortunate impression might be overcome. Care would have to be taken however that such a statement would not lead to clamor for increased tonnage for Haiti, on the theory that this country might be underprivileged as compared with Puerto Rico.

WHITE

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810.5018/211 : Telegram

*The Ambassador in the Dominican Republic (Warren) to the  
Secretary of State*

CIUDAD TRUJILLO, June 18, 1943—5 p. m.  
[Received 9:20 p. m.]

201. Department's telegram 163, June 17, 7 p. m. Ambassador White has given me the impression that the Haitian Government is anxious that the stockpiling continue and that the Overland Highway be used for transportation of foodstuffs. The Dominican Government has lent the project its support as a contribution to the war effort. While the use of the route is a potential source of friction between the Dominican Republic and Haiti I believe that the opportunity should be given to test its practicability and allow it a trial period of perhaps 2 months working out the full promised tonnage of 2,000 tons monthly. Cargo and tires have only just become available and in my opinion there is an obligation on the part of the American Government to give the two countries a chance to demonstrate whether they are able to put the route to use on an amicable basis.

Should the Department consider it advisable to terminate the project I hope I may be authorized to discuss the matter with the appropriate Dominican officials before definitive action is taken.

WARREN



810.5018/219a : Airgram

*The Secretary of State to the Ambassador in the Dominican Republic  
(Warren)*

WASHINGTON, June 30, 1943—7:45 p. m.

A-435. Your telegrams 201 and 205 of June 18 and 21<sup>5</sup> and previous correspondence regarding the Overland Supply Route.

The situation which impelled the several interested Governments last year to cooperate in supplying the populations in the Eastern Caribbean islands over the emergency "Land-Water Route" was of course the serious submarine menace to shipping. Fortunately the naval situation has now greatly improved, thanks to the concerted campaign to which each United Nation gave its share. There is, therefore, at present a reasonable assurance that adequate supplies of food-stuffs can be maintained in this area without resort to the emergency Route.

The respective agencies of this Government,<sup>6</sup> in the interest of safety, economy and efficiency are accordingly resolved to suspend the stock piling and transportation of foodstuffs for the emergency Route.

The commitments which have been made for road improvements between Port-au-Prince and Ciudad Trujillo will, of course, be fulfilled. From information now available it appears that it will be a matter of several months before those projects are completed.

Please inform the Foreign Office in the above sense and add that the acceptance by the various Governments of the plans for the Overland Route, and their unfailing cooperation in its operation are a cause for gratification for all concerned. The positive advantages that are accruing from the improved shipping situation in the Caribbean will be shared by all the Caribbean Republics. In making the decision to suspend the operations on the emergency Route, made possible by the success of the anti-submarine campaign, we have examined all phases, including the effect on the countries immediately affected. The road improvement program originally undertaken as an emergency will now constitute a permanent contribution to the transportation system of the Dominican Republic.

For your own background: The arrangements which have been made by the Food Distribution Administration for the leasing of warehouses and refrigeration space, et cetera are such that they can be suspended in most instances either immediately or at the expiration of one month's notice according to contractual provisions. This

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<sup>5</sup> Telegram No. 205 of June 21 not printed.

<sup>6</sup> Anglo-American Caribbean Commission, Commodity Credit Corporation, Food Distribution Administration, and Office of Lend-Lease Administration. Representatives of these agencies and of the Department of the Interior agreed to the wording of this airgram.

is also the case with respect to the contract between the Federal Surplus Commodities Corporation (of which the FDA <sup>7</sup> is the successor) and the Haitian Transportation Company which similarly does not require a long period of notification. Present plans call for the continued movement of foodstuffs along the Route bringing the present storing and trucking operations to a close on or about the first of August 1943. The agencies are being asked to inform our Missions of the steps they propose to take.

A similar message is being sent to Habana and to Port-au-Prince.

HULL

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810.154/3002

*The Ambassador in Haiti (White) to the Secretary of State*

No. 2072

PORT-AU-PRINCE, July 10, 1943.

[Received July 13.]

SIR: I have the honor to enclose herewith copies of a note from the Haitian Government <sup>8</sup> acknowledging receipt of my communication to the effect that the Land-and-Water Transportation was to be stopped.

The note contains no criticism of the information and expresses gratitude for the contribution to the road system which the sector of the road (through the Cul de Sac and Barahona), which is at present under construction or improvement, will afford.

Respectfully yours,

J. C. WHITE

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810.154/3266

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

[WASHINGTON,] October 11, 1943.

Mr. Warren <sup>9</sup> came in to pay his respects. He stated that the Inter-American Highway <sup>10</sup> financed with Lend-Lease funds was not going well. He also informed me of the changed conditions resulting in there now being very little reason for the road, and that Haiti and the Dominican Republic are not interested. He feels that unless there are impelling military reasons for its construction it should not proceed.

I have informed Mr. Bernhard Knollenberg of Lend-Lease of this.

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<sup>7</sup> Food Distribution Administration.

<sup>8</sup> Not printed.

<sup>9</sup> Avra M. Warren, Ambassador in the Dominican Republic.

<sup>10</sup> Caribbean land-water route.

810.154/3180

*Memorandum by the Chief of the Division of the American  
Republics (Bonsal)*<sup>11</sup>

[WASHINGTON,] October 19, 1943.

OVERLAND HIGHWAY CROSSING THE DOMINICAN REPUBLIC  
AND HAITI

As the Under Secretary is aware the construction of a highway to connect Port-au-Prince and Ciudad Trujillo by a road passable to automobile traffic was undertaken in 1942 as a part of the project to furnish emergency and alternative routes of supply to Puerto Rico and the eastern Caribbean. The Lend-Lease Administration allocated \$500,000 for the task and the Public Roads Administration entered into contractual arrangements with the road bureau of Haiti and the Dominican Republic, making commitments of \$150,000 and \$200,000 respectively. This left \$150,000 undivided between the two countries. This would allow for any changes in plans or expenditures that might be deemed advisable.

HAITI

The Public Roads Administration reports that of the \$150,000 allocated to Haiti agreements have been entered into covering \$100,000 worth of work of which \$78,000 has already been expended. The amount of the original allocation for Haiti which has not yet been allocated is \$50,000. Of the Haitian construction there was at first some repair work to permit emergency hauling across a northern mountainous route. Most of the Haitian construction, however, is on a southern route passing near some lakes on the border and closely following a water level with few bridges or culverts. The road has a gravel surface. Part of it is new and part of it is re-construction. The Public Roads Administration anticipates that the Haitian part of the highway will be completed in the first part of 1944. It is not yet known whether the \$150,000 allocation will completely finish the Haitian portion.

DOMINICAN REPUBLIC

On the Dominican side agreements have been reached for the expenditure of \$122,000 of which \$40,000 has already been expended. The road is only twenty per cent completed and there remains \$78,000 of the original Dominican allocation which has not yet been earmarked. There was some delay in agreeing upon the route of the highway east from the Haitian border to pass through or near Barahona. The route now having been determined, the Public Roads

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<sup>11</sup> Addressed to the Under Secretary of State (Stettinius) and the Adviser on Political Relations (Duggan).

Administration anticipates that this section of the highway which will connect with the regular Dominican roads near Barahona will be completed by the middle of 1944. This section of the highway, which is new construction, will also be of gravel surface. Mr. James of the Public Roads Administration is expected to arrive in the Dominican Republic by November 10 for the purpose of speeding up the work. There may also be a change in personnel contemplated by the Public Roads Administration.

#### CONCLUSIONS

(1) We have definite commitments to the two Governments to complete the highway.

(2) The need for, and the recommended division of the extra \$150,000 for this highway apparently cannot be determined by the Public Roads Administration until the construction work is more nearly completed.

(3) As I recall, President Roosevelt recently stated, in the course of a conversation with President Lescot of Haiti, that the highway should be completed.<sup>12</sup>

PHILIP W. BONSAI

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<sup>12</sup> A memorandum from Under Secretary Stettinius to President Roosevelt dated January 12, 1944, stated that work on the Hispaniola Road through the Dominican Republic and Haiti had been going forward as requested by the President, and was expected to be completed by midyear of 1944 (838.154/121).

## ARRANGEMENTS REGARDING THE CONTROL OF EXPORTS FROM THE UNITED STATES

### GENERAL

811.20 (d) Regulations/9639b: Circular airgram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina, Brazil, and Mexico, and to the American Consul at Martinique*

WASHINGTON, January 19, 1943—8 p. m.

As the Missions are aware several months ago the Board of Economic Warfare<sup>1</sup> and the Department of State discussed the possibility of "decentralizing" certain operations of the Office of Exports.<sup>2</sup>

In February of 1942 the "Certificate of Necessity" procedure was adopted and each American republic established or designated an agency with authority to issue certificates. As originally planned under the Certificate of Necessity procedure it was proposed to notify each country *after* the allocation of material had been made by the War Production Board or other supply control agency in the United States and well in advance of the beginning of each quarterly period, with the Country Agency<sup>3</sup> in each country issuing certificates of necessity to importers who would forward them to the exporters in the United States. The exporters would attach the Certificate to the export license application and forward to the Board of Economic Warfare.

In actual practice it proved impossible to obtain firm allocations of materials sufficiently far in advance of the calendar quarters to which the allocations applied to permit notification of this amount to the Country Agencies, the issuance of Certificates and the filing of export licenses and Certificates with the Office of Exports, prior to the beginning of the quarter to which the allocations applied.

In 1942 there was much less shipping available for the American Republics than had been in service in prior years. It seems likely that there will be a further restriction of shipping in 1943. Obviously

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<sup>1</sup> The Board of Economic Warfare superseded the Economic Defense Board on December 17, 1941. Its purpose was to develop policies and plans in the field of international economic relations in the interest of national defense.

<sup>2</sup> This office, a constituent part of the Board of Economic Warfare, directed the flow of commodities in commercial export channels.

<sup>3</sup> That office which, under a variety of names, administered the import controls in each country.

all available cargo space must be used to the fullest advantage, and space can no longer be used to send goods or materials which are not prime essentials to the country of destination. It is believed that one of the soundest ways to secure the most advantageous use of critical materials and the most efficient use of cargo space is to secure advice from each importing country as to its needs.

In consideration of the above factors, and in accordance with the general idea of decentralization, there has been developed a plan under which it is proposed that each country expand the functions of its Country Agency to the point where no materials, with certain exceptions (see 12.)<sup>4</sup> will be imported from or by way of the United States unless a "Preference Request" has been issued by the Country Agency.

The basic reasons for the plan are:

1. The desire to accord the foreign government a participation in the determination of imports within the limited shipping availabilities.
2. The necessity of correlating the issuance of licenses with estimated available shipping for forward periods so as to avoid the accumulation of excessive cargo backlogs.
3. The necessity of developing further information of the advance requirements for many end-products soon to be brought within the Controlled Materials Plan<sup>5</sup> of the War Production Board.
4. To establish a procedure under which the recommendations of the Mission will be in such form that the Office of Exports can give full weight thereto.

The type of plan (with interpretative comment) under consideration is as follows:

1. The government of each country will designate one of its agencies (hereinafter referred to as "Country Agency") with which all parties, desiring to import articles and materials from or by way of the United States will file applications for "preference requests". These preference requests and the procedure outlined hereafter are to replace the present Certificates of Necessity procedure or similar device now in use.

- a. This means that all products (with certain exceptions, see 12.) which are to be imported by a country are to be covered by a preference request.

- b. The preference request, the form of which is being transmitted by air mail, is a controlling document which will take the place of the Certificate of Necessity.

2. The Country Agency will be furnished with an estimate, on a quarterly basis, of (1) the total amount of specified materials which, under then prevailing conditions, it is expected will be authorized

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<sup>4</sup> See paragraph 12, p. 109.

<sup>5</sup> For an explanation of this plan, see circular instruction of April 26, p. 111.

for export to the country, and (2) the total amount of available shipping space. The estimates so furnished will not constitute an allocation, allotment or assurance that the articles, materials or shipping will be available. The country agency will, as soon as practicable, announce a list of articles and materials which are importable.

a. Points (1) and (2) above anticipate the continuance of the present procedure of announcing advance estimates of available supply for all commodities under allocation for export, and certain other products (largely end-products) which are, or may be, under restrictive licensing quota.

b. The Country Agency and the Mission, will proceed as soon as possible to compile a list of licensable items in accordance with the classifications of Commerce "Schedule B Statistical Classification",<sup>\*</sup> copies of which have been furnished the Missions. This list will be sent to the Board of Economic Warfare. Pending the development of the proposed decentralization procedure to a point where all imported materials are subject to preference requests, the Board of Economic Warfare will remove the articles and materials which the Country Agency does not wish to import from General License, and endeavor to reject individual export license applications therefor. It may be easier for the Country Agency to compile and have published a list comprising items which it does not desire to import. This may be done.

3. The Country Agency will transmit to the Mission (Embassy or Legation of the United States) copies of all preference request applications. The Mission will screen the preference requests issued by the Country Agency not only in the light of the factors considered by it but also:

a. Against Proclaimed and Confidential Lists and,

b. Commodity involved and end use. This commodity control will be for the purpose of assuring that the product or materials in question is not approved in quantities in excess of the requirements of satisfactory consignees and consumers.

4. The Country Agency, jointly with the Mission, will examine, select and recommend preference requests within the limits of the estimated amount of articles and materials and estimated available shipping (as referred to in paragraph 2). The preference requests will be classified according to three categories as follows:

Category A—Orders relating to the production and transportation of materials essential to the war program of the United Nations.

Category B—Orders relating to the maintenance of essential services of the local government (this category will include public utilities).

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<sup>\*</sup> Statistical classification of domestic and foreign commodities exported from the United States; issued by the Bureau of the Census, Department of Commerce.

Category C—Orders relating to the maintenance of civilian enterprises essential to the economy of the country of destination.

[Here follow sections 5-8 dealing with methods of handling preference requests.]

9. The Board of Economic Warfare will endeavor to issue export licenses for which the country agency has issued preference requests. The Board of Economic Warfare in Washington reserves the right to deny preference requests approved by the Country Agency and the Mission, and to issue export licenses without approved preference requests when it deems such action necessary to the best interests of the war program of the United Nations.

10. The Mission will be informed of the action taken by the Board of Economic Warfare, Office of Exports, on the recommended preference requests and of the issuance of export licenses not covered by preference requests. Through appropriate channels, the Country Agency will also be informed.

11. All shipments, whether permitted by an individual, multiple order or project type license, will come within the scope of this plan.

*a.* In connection with project licenses and multiple order licenses, one preference request for each license may be issued.

12. A project, for the purposes of this plan, is defined as any single undertaking involving (*a*) new construction, (*b*) establishment of new facilities, (*c*) expansion of existing facilities or (*d*) the maintenance, repair and supply of industries operating for the purposes of the war program of the United Nations or vital to the subsistence of the economy of a country. Preference requests for the material requirements for projects shall, where such are necessary, be separately identified and consolidated as such. The Country Agency will be advised by the Board of Economic Warfare, through the Mission, of all project licenses now outstanding and of all projects hereafter initiated by the Board of Economic Warfare, Washington, D. C. Requirements for all such projects as well as requirements for petroleum companies producing for the war program of the United Nations and mining enterprises holding mine serial numbers of the War Production Board must be provided for in preference to all other requirements. Materials required for such projects for each quarter year will be charged by the country against the estimated amounts of available materials and shipping space although no preference request will be issued therefor.

Projects initiated in the country will be submitted to the Country Agency for approval and a preference request recommended or denied. Preference requests so filed may list on a single document all the materials involved.



a. The question of handling project licensing under the proposed decentralization procedure will be explained and clarified by officials of the Department and the Board of Economic Warfare upon their arrival.

Representatives of the Department and the Board of Economic Warfare are leaving on or about January 23 to visit the Missions for the purpose of presenting and explaining the operation of the proposed plan. Pending the arrival of this special mission, it is suggested that any discussions of the proposed new procedure with officials of the Government to which you are accredited be deferred. The Mission will be advised by cable of the names of these officials and their approximate date of arrival.

HULL

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124.06/362a

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

WASHINGTON, February 13, 1943.

SIRS: The Department in the course of its conversations with the Board of Economic Warfare regarding decentralization of export control offered the Board the privilege of designating officers of the Board who would accompany officers of the Department in periodic inspections of the decentralized export control units of our diplomatic missions and consular offices in the other American republics. The thought was that the Board could thus assure itself that the work which the Foreign Service is doing on behalf of the Board is being properly done.

The Board has accepted this offer and has agreed that the State-BEW missions which are now in the field for the purpose of instituting decentralized export control may conveniently serve to initiate this joint inspection.

It is intended that the inspectors of export control work will serve as a means of communicating pertinent developments of interest to the missions more effectively than has heretofore been possible. The policies and procedures of the agencies concerned with export control and supply are constantly changing. In the past year, for example, the War Production Board has followed first a system of priorities, then allocations, then priorities again, then the Production Requirements Plan, then the Controlled Materials Plan, and may soon apparently be operating under a combination of priorities, PRP and CMP.<sup>7</sup> Even if the general procedures of the war agencies should

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<sup>7</sup> Production Requirements Plan and Controlled Materials Plan.

eventually be stabilized, developments in the war and in the supply situation will of necessity be reflected in export programs.

The inspectors of export control work will also serve as a liaison between thinking in Washington and thinking in the field. The desirability of this liaison has been established by the benefits which the Department's officers engaged in export control have derived, and are deriving, from discussions with Foreign Service officers attending the Foreign Service Officers School of Economics.

The State-BEW officers selected for the inspection of the decentralized export control units have been instructed to report on the adequacy, suitability and teamwork of the personnel assigned to those units, to explain what is required and to suggest how the demands on the Foreign Service in this regard may be met efficiently.

Very truly yours,

For the Secretary of State:  
G. HOWLAND SHAW

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810.24/229a

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

WASHINGTON, April 26, 1943.

SIRS: The Department refers to individual instructions to the Missions enclosing estimates of supply for the second quarter of 1943 for Class B (Groups I and II) controlled materials products.<sup>8</sup> Because the issuance of import recommendations predicated on estimates of supply for fabricated products involves an entirely new procedure for the Missions and the country agencies, it is felt that some interpretative comment would be helpful.

The Controlled Materials Plan undertakes to pattern the entire industrial economy around the available supply of three basic materials, steel, copper, and aluminum, divided between claimant agencies on the basis of forward estimates of requirements for specific production programs. In practice, this division of raw materials alone is insufficient without a like division of the production of the so-called Class B products using these three basic materials, which products themselves are common to and required for the production programs of all of claimant agencies under the Controlled Materials Plan (Army, Navy, BEW, etc.). Facilities for the production of many of these common components are severely overburdened, and the War Production Board has found it necessary to control the production schedules of manufacturers of these products to assure that adequate quantities are provided to the various claimants when actually needed, and, conversely, that orders of some claimants placed far in advance

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<sup>8</sup> None printed.

of the actually needed delivery dates do not prevent the production of these same critical components for others.

A list of these critical common components is enclosed.<sup>9</sup> Because of the nature of the production problem, it would be desirable if the country agency would process import recommendation applications for these items before those for other B products. It would also be desirable if the total dollar value of each of these items covered by approved import recommendations could be forwarded to the Department as soon as the country agency and the Embassy have finished their work. This would permit the BEW to check more promptly with WPB<sup>10</sup> the relation of approved import recommendations from all countries and available supply, thus expediting export licensing by BEW and scheduling for production by WPB. Although the necessity is somewhat less urgent, the same procedure should be followed for Class B products by groups conforming to estimates of supply.

As the technique of processing import recommendations by the country agency and the Embassy becomes perfected, and it is possible for these recommendations to be issued well in advance of the probable production period, a collation of the amounts of Class B products by the Office of Exports from its copies of import recommendations will provide accurate figures for presentation to the War Production Board as requirements under the Controlled Materials Plan. At the inception of the operation of both Decentralization and the Controlled Materials Plan, however, this procedure is not possible since, under present time schedules, the import recommendations will not arrive sufficiently in advance of the production period to serve as requirements figures.

The BEW has, in the main, based its estimate of supply of "general requirements" for B products on past United States export statistics. In many instances, these figures will be too small because they fail to take into consideration imports by the other American republics from sources of supply no longer available and also changed conditions resulting from the war. On the other hand, past trade figures may include exports for purposes no longer deemed essential to the war economy of the other American republics. In some instances, these figures may be grossly inaccurate with reference to the real essential needs of the specific country. The Embassy is requested to point out any flagrant discrepancies that come to its attention as soon as possible.

It is suggested that the Missions consider, and so inform the country agencies, that these figures are merely a guide to aid in the considera-

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<sup>9</sup> The list, not printed, included automobile parts; building, machine, metal cutting, and precision measuring tools; radio and radar equipment; jewel bearings; and general industrial equipment.

<sup>10</sup> War Production Board.

tion of import recommendation application; that applications for these recommendations would be processed by the country agencies on the basis of real essential need in an effort to minimize the total dollar value of all requests. If the total dollar value of import recommendations for Class B products considered to be essential in each category is not too far above the estimate of supply, there is a reasonable possibility that the products can be manufactured. If these totals vary materially from the estimates of supply, either above or below, it is requested that the Department be so advised as soon as possible as outlined in the above paragraph on critical common components.

Although it must again be emphasized that the issuance of an import recommendation is not tantamount to licensing and production, it is believed that supply assistance under Decentralization and the Controlled Materials Plan will be far more effective than under the old priority system. This will be particularly true if the export demand for manufactured products competing with direct military needs is kept to a minimum through the operation of decentralized export control.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

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810.24/236d : Circular airgram

*The Secretary of State to Diplomatic Representatives in the  
American Republics Except Argentina*

WASHINGTON, April 29, 1943—8:50 p. m.

The Government of Canada has accepted the invitation of the United States to participate in the Decentralization Export Control Plan thereby setting another example of the excellent collaboration between the two countries. The American diplomatic and consular officers stationed in the other American republics are in a particularly appropriate position to implement this policy of cooperation through the functioning of this plan.

Air mail instructions are being forwarded which will set forth in detail the part which the missions will play in the operation of the plan as it concerns Canada's exports. Total estimates of supply on selected items to be supplied by both countries will be announced by the Department and target tonnages will continue to include the total tonnage of both Canadian and American supplies.

The Canadian Trade Commissioners and Commercial Attachés are being instructed by their Government regarding their collaboration with the American missions in reviewing import recommendations and handling other decentralization matters. In instances where no Canadian representative is present the American mission has been

requested by the Canadian Government to act on his behalf. Contact with the Canadian representative should be made promptly for the purpose of effecting a working arrangement. The effective date on which the Decentralization Plan will become operative with respect to the issuance of import recommendations for Canadian shipments is June 1, 1943.

The Canadian Government will notify the respective Governments through the usual diplomatic channels that Canada has agreed to participate in the Decentralization Plan. It has been requested by the Canadian Government that the American missions also notify the Governments to which they are accredited of Canada's participation in the Plan in order that there may be a full understanding of the part played by each country. The missions are instructed to so proceed. The respective country agencies should also be advised of Canada's participation in decentralization and of the contemplated procedure of collaboration.

Certain ratios indicating the proportionate exports from the two countries during a normal period will be provided to the missions as a guide in approving import recommendations at a future date. It is the underlying policy of both Governments that in the operation of the Decentralization Plan no advantage should be taken by nationals of either countries at the expense of the other, either in wartime trade or with respect to post-war trading opportunities.

HULL

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103.917/1828b : Circular telegram

*The Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>11</sup>

WASHINGTON, May 7, 1943—9 p. m.

From Lazo,<sup>12</sup> BEW. We have hopes that for next 60 days amount of shipping space available for your country will exceed the target tonnage. Backlog has also been materially reduced so that we expect shortly to be on current basis. Accordingly we urge immediate expediting of all possible import recommendations and easing of restrictions on so-called non-essential list so as to take advantage of shipping space next 60 days. We urge approval of as much as possible of non-allocated import requests regardless of target tonnage quota for immediate orders on American exporters. We will exercise care on shipping priority ratings to prevent as much as possible useless goods being shipped, but restrictions of non-essential lists should

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<sup>11</sup> The diplomatic representatives in Brazil, Bolivia, Chile, Colombia, Paraguay, Peru, Uruguay, and Venezuela.

<sup>12</sup> Hector Lazo, Assistant Director in Charge of Exports, Board of Economic Warfare.

be temporarily eased. You should make no public announcement of this, but you should consult country agency and in guarded manner let it be known that orders for American goods will be expedited in next 60 days, inviting importers to place orders now. [Lazo.]

HULL

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740.00112A European War 1939/30962a : Circular airgram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina*

WASHINGTON, May 17, 1943—6:30 p. m.

Reference Department's Circular Airgram of April 23, 1943, 6:30 p. m.<sup>13</sup> suggesting procedure under decentralization program for denying import recommendations to consignees whose names are included in the Confidential List of Unsatisfactory Consignees.<sup>14</sup>

The Board of Economic Warfare and Department of Commerce have been operating successfully for several months a procedure whereby the Board refers to the Commercial Intelligence Unit of the Department of Commerce the names of the American exporters and the foreign importers in all export license applications rejected because the foreign importers are on the Confidential List, and Commerce, as a service to reliable American firms, notifies them voluntarily, and for their strictly confidential information, that the export license applications were rejected because the consignees are not regarded as desirable contacts for American business. Since this procedure would tend to reduce considerably the number of import recommendations involving persons and firms on the Confidential List, it is proposed to adopt it in the case of the import recommendations the missions forward to Washington for rejection in accordance with paragraph three of the circular airgram under reference.

With respect to import recommendations that the missions deny in accordance with paragraphs one and two of the circular airgram under reference because the consignee is on the Confidential List, it is suggested that the missions forward an airgram to the Department notifying it of each rejection and reporting the name of Confidential List person or firm, the name of the American exporter, and the type and amount of goods involved. The American exporters will then be notified through the Commercial Intelligence Unit of Commerce under the arrangement between Board of Economic Warfare and Commerce. The procedure for the notification of American firms by the Commercial Intelligence Unit referred to in this airgram has been devised in such a way as to avoid the difficulties connected with the form of

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<sup>13</sup> Not printed.

<sup>14</sup> The list included the names of persons and firms closely identified with ownership and management of Proclaimed List firms and also names of persons and firms included in Treasury's List of Special Blocked Nationals.

notices referred to in the Department's circular airgram of July 28, 1942, 12:10 p. m.<sup>15</sup>

In connection with the decentralization program, several missions in the other American republics have requested instructions on treatment to be accorded import recommendations in which the local agent appears on the Confidential List and other parties to the transaction are satisfactory. The missions are authorized to approve such import recommendations, but each case of this type should be reported by airgram to the Department with a recommendation concerning the desirability of requesting Commerce to approach the American concern involved to inform it confidentially of the unsatisfactory status of its agent.

HULL

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810.24/247b : Circular airgram

*The Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>16</sup>

WASHINGTON, May 31, 1943—5:10 p. m.

The Board of Economic Warfare has requested that the following advice regarding decentralization procedure be transmitted to the Embassy:

"Reference is made to the portions of the material entitled 'Details of Plan A'<sup>17</sup> dealing with the non-importable or non-licensable lists, particularly item H on page 4 of 'Detail of Operation,' pages 2 of 'Statement for Special Missions on Cargo Backlog Problem,' and the entire page on 'Licensable Material.'

"Under Decentralization Plan A it was, of course, realized in Washington as it no doubt was in your country, that given the conditions prevailing at the time the plan was presented, emergency measures were necessary in order to assure the export licensing of essential materials for the respective countries of destination and to make the best possible use of the limited shipping space then available. Further, sizeable backlogs of merchandise were apparent for most countries.

"The non-importable lists were proposed as an interim procedure until the flow of Import Recommendations afforded a mechanism for indicating the opinion of the Country Agency as to essentiality; and the issuance of materials on such lists was designed to permit essential cargo from the backlog to be moved within the shipping availabilities. It is believed that both of these conditions have now been satisfied, particularly in view of the fact that the backlog has been substantially reduced as a result of liftings in March and April.

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<sup>15</sup> Not printed.

<sup>16</sup> The diplomatic representatives in Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, and Peru.

<sup>17</sup> An issuance of the Board of Economic Warfare; for an outline of Decentralization Plan A, see circular airgram, January 19, 8 p.m., p. 106.

"The Country Agency is now in a position to select the order in which materials will be imported, based upon the essentiality of the material. Since license applications for non-essential commodities will be approved by the Board of Economic Warfare when Plan is fully operative only if accompanied by Import Recommendations, as long as Plan A applies to all commodities, the cancellation of the non-importable lists will not result in licensing of non-essential materials.

"If the country to which you are accredited contemplates issuing an importable, non-importable or non-essential list at a later date please bring to their attention the changed conditions explained herein calling to their attention that the need for such a list is now past, and in the meantime, please take the necessary steps to eliminate from 'Decentralization Plan A' the last sentence of point number 2 which reads:

'The Country Agency will, as soon as practicable, announce a list of articles and materials which are importable.'

"Please notify us by airgram as soon as this is accomplished."

HULL

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810.24/252e: Circular airgram

*The Secretary of State to Certain Diplomatic Representatives in the American Republics*<sup>18</sup>

WASHINGTON, June 7, 1943—5:30 p. m.

The Board of Economic Warfare has requested the Department to transmit the following message:

"The Board of Economic Warfare intends to cease checking export license applications accompanied by Import Recommendations for purposes of consignee control as of July 1, next. This means that the Embassy must be ready to undertake the full responsibility of consignee control as of that date.

Please acknowledge receipt of this instruction."

HULL

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810.24/252c: Circular airgram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina, Brazil, and Mexico*

WASHINGTON, June 7, 1943—6:10 p. m.

The Board of Economic Warfare has requested the Department to transmit the following message:

"Reference is made to separate airgram on the subject of the cancellation of non-importable or non-licensable lists. A thorough survey of the shipping situation encourages the belief that shipments in

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<sup>18</sup> The diplomatic representatives in Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.



excess of the present target may be continued in the near future. As long as the shipping situation remains easy and the manufacture of essential materials does not progress in the ratio of increased available shipping tonnage it well may be that we will have available shipping space in excess of tonnage required for the available essential materials covered by Import Recommendations.

"We may consequently be faced with the possibility of having ships leaving without complete cargoes. Such an undesirable procedure would have a further disadvantage of possibly causing a diversion of ships. In order to permit the necessary flexibility to take advantage of all available shipping space you are requested to secure the Country Agency's agreement to the licensing of any material outside of allocated materials without Import Recommendations provided such materials are shipped only after all available materials covered by Import Recommendations have been shipped.

"You may assure the Country Agency that preference will be given, at all times, to the shipment of materials covered by Import Recommendations and immediately the shipping situation should again become critical no licenses and no shipping permits will be issued except for materials covered by Import Recommendations.

"Your immediate advice of the Country Agency's reaction to this proposal is requested."

*For the Ambassador from the Department*

The Department and the BEW have discussed the situation with respect to the above problem, in the light of the recent inauguration of the Decentralization Plan. It is not the intention that these proposals be forced upon the country to which you are accredited but it is our desire that the matter be thoroughly discussed with the country agency with a view to obtaining their agreement. If you deem it inadvisable to discuss this matter with the country agency you are requested to cable fully your reasons therefor.

It might be added that the BEW is apprehensive that the facilities of the country agencies are not at present sufficiently organized to achieve flexibility to take advantage of unexpected increases in shipping. The BEW believes that such flexibility can only be achieved by exercising its own licensing authority here.

The Department has sought assurance from WSA<sup>19</sup> that shipping is indeed easier but because of the unpredictable requirements of the Armed Forces, such assurance cannot be given and the WSA can do no more than reiterate its hope of meeting the monthly target tonnages for the balance of the year. The more favorable shipping outlook to certain destinations for June and possibly July is of course temporary and no assurance can be given that it will be continued or repeated in the future.

The Department understands that the situation is urgent since the BEW fears there may not be sufficient cargoes available to satisfy the expected increase shipping in June and more particularly July.

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<sup>19</sup> War Shipping Administration.

It is suggested further that the Embassy in cooperation with the country agency arrange with importers to place orders by telegram for an amount equal to three months shipping target tonnage. These materials should be of the type essential to the economy of the country to which you are accredited and that are readily available and that do not require WPB priority assistance for manufacture or processing. This additional tonnage should serve to help in the creation of a backlog calculated to take advantage of any sudden windfall in shipping.

The Embassy's comments and recommendations are requested as soon as possible.

HULL

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810.24/257d : Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina*

WASHINGTON, June 12, 1943—7 p. m.

For your confidential information, Current Export Bulletin No. 99 of June 7<sup>20</sup> was issued without consultation with the Department.

This bulletin states that exporters whose products are listed on the so-called non-essential lists may apply for export licenses and receive consideration from Board of Economic Warfare, whether accompanied by Import Recommendation or not, provided the exporter accompanies his application with a letter either establishing the essentiality of the product in the country of destination or proving that denial of such export license would work undue hardship upon the exporter. It is further provided that where importers have been denied Import Recommendations, whether or not the item is on the non-essential list, but can show that the product is essential, such proof should be forwarded by the exporter to the Office of Exports, and each case will be examined on its merits.

The Department is aware that this bulletin may result in adverse repercussions and is attempting to bring about a modification. Please advise immediately of any reaction of government authorities.

HULL

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810.24/263a

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina*

WASHINGTON, June 21, 1943.

The Secretary of State refers to the circular instruction, file no. 810.24/216D, of April 15, 1943,<sup>21</sup> concerning projects under decen-

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<sup>20</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>21</sup> Not printed.

tralization. Since there appears to be some misunderstanding with regard to the handling of such projects, it is desirable to repeat certain principles.

Some of the confusion has arisen as a result of difference of terminology. A "project" is defined as the material and equipment required to construct a new enterprise or to expand facilities of an existing enterprise, i.e., a capital expenditure. A "program", on the other hand, is comprised of articles and materials required for maintenance, repair, and operating supplies and production requirements of a particular enterprise.

The Board of Economic Warfare issues two types of licenses for projects and programs:

1. A WP license—a document used to effect export clearance for all items required to construct an enterprise covered by a United States Army or Navy contract. The materials for such a project are furnished by the Army or Navy from its allocations.

2. An SP license—a document used to effect export clearance for all items required for any other project or program. This license covers a year's requirements, broken down by quarters.

SP licenses are issued for projects and programs requiring certification as well as those not requiring certification. The criterion in determining whether a project should be submitted to the country agency for an Import Recommendation is the presence or absence of direct sponsorship by a United States Government agency.

If the project or program is directly sponsored by the Office of Imports of the Board of Economic Warfare, the Defense Supplies Corporation, the Rubber Development Corporation, the Mining Equipment Division of the War Production Board (enterprises holding mine and smelter serial numbers), the Petroleum Administration for War (requirements of oil companies), the Coordinator of Inter-American Affairs, or a similar United States Government agency, the project or program will be licensed without reference to the country agency. A separate provision is made for such projects and programs in the estimates of supply. Since the materials involved are not charged to the estimate of supply for the general requirements of the importing country, such projects and programs do not reduce the essential materials made available to the country agency for issuance of Import Recommendations. Such cases are exempted from submission to the country agency for one or more of the following reasons:

- (a) These cases generally relate to the exploration or exploitation of critical materials required by the United Nations and, therefore, use materials which would otherwise be allotted to the war agencies.

- (b) Since these cases are officially sponsored by United States Government agencies, the country agency might be placed in a politically embarrassing position if it had to screen and approve materials against the country's allocation.

(c) It is more expedient to submit bills of materials in Washington where the cases are initiated, financed, and engineered.

The bills of materials for such projects and programs will be transmitted to the Mission for its information and comments. The comments of the Mission, as to the essentiality of the entire project or program as well as the need for particular items of material or equipment, will be considered by the Board of Economic Warfare in screening subsequent SP license applications for the same enterprise.

If the project or program is not directly sponsored by a United States Government agency, an Import Recommendation is required (excepting those outstanding SP licenses for which special provision was made by the Department's circular instruction under reference). It is suggested that a single Import Recommendation covering a bill of materials for a project or program be used rather than a series of related Import Recommendations; there will then be a single document corresponding to the SP license to be issued in Washington. The country agency can then make its charges quarterly against estimates of supply as made available.

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810.24/284a

*The Chief of the Division of Exports and Requirements (Ravndal)  
to the Assistant Director in Charge of the Office of Exports, Board  
of Economic Warfare (Lazo)*

WASHINGTON, July 15, 1943.

MY DEAR MR. LAZO: Replies from fifteen of our diplomatic missions have now been received in response to the circular airgram of June 7, 1943,<sup>22</sup> in which the Board requested that the agreement of the country agencies be secured to the, "licensing of any material outside of allocated material without Import Recommendations provided such materials are shipped only after all available materials covered by Import Recommendations have been shipped." Copies of these communications are enclosed.<sup>23</sup>

These replies indicate that in only two instances, Honduras and Panama, have the country agency unqualifiedly approved the Board's proposal. In the thirteen other replies very definite objections have been raised to this proposal.

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<sup>22</sup> June 7, 6:10 p. m., p. 117.

<sup>23</sup> Ten of the fifteen replies not printed. For the others, see airgram No. A-218, June 16, from the Ambassador in El Salvador, p. 215; airgram No. A-280, June 19, 11 a. m., from the Ambassador in Haiti, p. 227; airgram No. A-259, June 11, 4:25 p. m., from the Chargé in Honduras, p. 232; airgram No. A-277, June 30, 8:30 a. m., from the Ambassador in Nicaragua, p. 263; and telegram No. 855, June 16, noon, from the Ambassador in Peru, p. 277.

In most of these cases the country agency has pointed out that the licensing of export license applications unaccompanied by Import Recommendations would undermine the control that has been established in the various countries pursuant to the adoption of the decentralization plan. They indicate that such action would discredit the control machinery that is now just beginning to work smoothly and that the general result would be one of confusion among the importers. They state that with this loss of complete control they would no longer be able to program shipping or prevent stockpiling for speculation. In short, the country agencies indicate that they must have complete control of imports in order to effect a fair and impartial distribution of materials, and that anything short of this is a direct refutation of the objectives of decentralization. Moreover, the missions indicate that licensing without Import Recommendations which normally would be screened in the field might well result in the delivery of goods to undesirable consignees.

To meet a possible easy shipping situation, most of the replies indicate that the country agencies believe that their present rate of certification is sufficient to provide for a backlog of several months tonnage. It is indicated that in most instances the country agencies have increased their rate of certification at the rate of three months' additional target tonnage. Moreover, importers have been urged to telegraph their orders along with the numbers of their Import Recommendations in order that exporters may immediately file license applications.

It now appears imperative that the country agencies receive assurances from the Board regarding its future action in view of the replies they have made to the Board's proposal.

Sincerely yours,

C. M. RAVNDAL

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810.24/330b : Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics Except Argentina, Cuba, and Mexico*

WASHINGTON, August 23, 1943—7 p. m.

The Department and the Office of Economic Warfare<sup>24</sup> have been discussing export controls in the light of the present situation. Since the inauguration of the Decentralization Plan there has been a marked change in certain factors which makes necessary a study of possible modifications in its operation. Whereas in January of this year, for example, available cargo far exceeded available shipping, currently the converse is generally the case. Shipping has improved and adequate cargo is not available.

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<sup>24</sup> Successor Agency of the Board of Economic Warfare.

In the light of these and other considerations the Department and the Office of Economic Warfare have been studying the technique of export control with a view of achieving simplification insofar as such controls affect goods which do not require priority assistance, i.e. materials in free supply.

You are requested urgently to report by telegram your comment regarding the following alternative procedures and, if in your considered judgment none is practicable, to make your recommendation.<sup>25</sup>

In considering these alternative proposals you are requested to keep the three primary objectives of decentralized export control in mind. These objectives are (1) to enable the foreign government to participate in the determination of what goods shall be provided by this country, (2) the order of priority of the goods which shall be shipped from this country, and (3) the prevention of benefit to cloaks and potential cloaks for Axis and pro-Axis firms.

#### *Alternative I*

The Import Recommendation form to be simplified and contain only name and address of the consignee, name and address of the prospective supplier, and description of the goods involved. Import Recommendations for goods in free supply would be screened only for consignee and would not be considered in relation to available shipping. The Import Recommendation bearing the Embassy recommendations would be forwarded to the Office of Exports through the diplomatic pouch. Those Import Recommendations which are approved by the Embassy would be placed in one packet and those which for political or other valid reasons the Embassy does not wish to reject in the field but desires rejected in Washington will be placed in another packet.

The goods will be placed on general license. Upon receipt of the Import Recommendations from the Embassy, OEW would forward the approved recommendations to the prospective suppliers. Those which the Embassy desires rejected will be so stamped and returned to the Embassy. The supplier will not be required to obtain an individual export license, but upon receipt of the Import Recommendation from the OEW will be required only to file an application for freight space.

#### *Alternative II*

The goods would be placed on general license. The Embassy would arrange with the local government to be notified of all applications for permission to import (or related documents) in order that the

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<sup>25</sup> The replies from the various missions indicated a general preference for Alternative III. The texts of a number of these replies appear in the individual country sections which deal with export controls.

Embassy could exercise consignee control. (If the country to which you are accredited does not require either an exchange permit or an import permit, your comment should include discussion of whether consignee control could be exercised in the field in any other way without requiring the prospective importer to file an application for an Import Recommendation.) No Import Recommendation would be forwarded to this country. The Embassy would only report on the consignee when it was desired that shipping space should be denied and arrangements would be made in Washington to effectuate this desire. Consequently, all shipping space permits would represent shipments to consignees considered satisfactory by the Embassy.

### *Alternative III*

U.S. exporters have advanced a third alternative, namely, that for materials in free supply they file with the appropriate agency of the United States Government a shipping space application, thereby submitting the proposed transaction to consignee control here. No Import Recommendation would be issued in the country of destination. Under this alternative, the goods would also be placed under general license and the shipping permit application would be the vehicle of control.

All three alternative plans contemplate the abolition of the target tonnage limitation insofar as it relates to goods in free supply. However, the designated agency of this government would take steps to insure that the most essential materials would be shipped in preference to less essential goods whether or not they were under allocation or quota.

Please consider fully all alternatives with OEW representatives but for the time being the matter should not be discussed with the country agency or the authorities of the country to which you are accredited.

The Department and OEW are desirous of removing controls which while necessary at the inception of the Decentralization Plan are no longer so considered and which at present, constitute a deterrent insofar as the flow of materials in free supply is concerned. The following comments are transmitted at the request of the OEW as they reflect upon the experiences of the past months and point up the practical defects in the existing procedure, and the desirability of some modification in the Decentralization Plan in order to take advantage of improvements in the availability of shipping and the supply of certain materials. OEW comments follow:

"Notwithstanding requests for the issuance of a greater number of Import Recommendations, materials licensed and resulting cargo backlog are still far below the level necessary to maintain full shipping potentials. It seems apparent that the Import Recommendations system precludes flexibility in making cargo swiftly available to meet un-

expected increases in available shipping. Coupled with this situation is the repeated complaint by U.S. exporters that the burdens incident to obtaining Import Recommendations have discouraged importers in Latin America from placing orders in this country and have thus caused U.S. exporters to lose their markets.

"It is recognized that while the Import Recommendation has served a useful purpose and is still necessary in connection with the commodities requiring supply assistance, there is less occasion to exercise the same strict controls when dealing with commodities that do not require such supply assistance. The requirement of Import Recommendations for commodities in free supply has greatly burdened the staffs in the countries of importation and in the United States, and has prevented them from concentrating their efforts in the generally more important materials in short supply."

BERLE

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810.24/229

*The Secretary of State to the Canadian Minister (McCarthy)*

WASHINGTON, October 5, 1943.

SIR: I have the honor to refer to the concluding paragraph of the Legation's note of April 24, 1943 <sup>26</sup> regarding the desirability of establishing a formal joint committee in Washington to handle the numerous mutual problems arising out of the United States plan for decentralized control of exports to the other American republics.

This matter has been fully discussed by representatives of the Department of State and the Canadian Legation during recent months, and the further conclusion has been reached that the scope of such a committee should include all war-time export matters of mutual concern to the two governments, without restriction as to areas or commodities.

I am accordingly enclosing for your consideration a draft of the suggested terms of reference for a United States-Canada Joint Exports Committee, which may be established immediately upon the receipt of the concurrence of the Canadian Government.<sup>27</sup>

Accept [etc.]

For the Secretary of State:

DEAN ACHESON

[Enclosure]

*Draft of Proposed Terms of Reference for a United States-Canada  
Joint Exports Committee*

1. The United States-Canada Joint Exports Committee has been established by agreement between the United States and Canadian

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<sup>26</sup> Not printed.

<sup>27</sup> In its note No. 529, October 9, 1943, the Canadian Legation expressed the concurrence of the Canadian Government in the proposal to establish a joint exports committee (810.24/368).



Governments as a war-time measure to ensure the maximum coordination of exports from the two countries of non-military goods needed by third countries. In its deliberations this Committee shall be guided by the underlying policy of both governments, that no advantage should be taken by the government or by nationals of either country at the expense of the government or nationals of the other, either in war-time trade or with respect to post-war trading opportunities. In this connection the post-war trading position of other countries shall be given due consideration. Furthermore the Committee will seek to preserve and protect the normal functioning of private traders to the fullest possible extent consistent with the most effective prosecution of the war.

2. The principles underlying this coordination are as follows:

(a) that when considering the minimum essential requirements of third countries of commodities in short supply they should be met from the most economical source in the interest of the United Nations' war effort, but where the overriding interests of the war effort do not otherwise dictate neither country shall reexport goods of the other country in short supply.

(b) that there shall be no overlapping in shipments resulting in excess supply to any particular area;

(c) that all relevant factors of foreign and commercial policy are taken into account in the formation of joint export programs;

(d) that where the overriding interests of the war effort do not otherwise dictate, all exports of the two countries shall be maintained in equitable proportion to peacetime exports in cases where both have previously been sources of supply;

(e) that the technical licensing and shipping control procedures of the two countries shall be kept in harmony so far as is practicable or necessary.

3. The Committee meets under the chairmanship of the Department of State and includes on the part of the United States permanent representatives from the Department of State and the Office of Economic Warfare; on the part of Canada it includes permanent representatives from the Canadian Legation in Washington. Representatives of other agencies of the two Governments having special knowledge of the problems in hand, or representatives of other supplying countries, may be invited to attend whenever the Committee deems necessary.

4. The Committee is concerned with exports of either raw materials or manufactured goods, whether or not in scarce supply, which both countries are in a position to supply to third markets.

5. Where it is necessary to establish an agreed joint export program for any commodity or area the Committee assembles from all available and mutually acceptable sources full data on the minimum essential requirements of third countries or areas dependent upon imports from

the United States and Canada, with a view to determining the net global demand on each of the two economies for each given commodity, due regard being paid to any alternative source of supply.

6. Agreed export programs will normally be formulated on a calendar year basis and will remain in effect until revoked, amended, or superseded by mutual agreement. Each program shall become effective as of the date of transmission of the program to the respective licensing or shipping authorities of the two Governments.

7. In addition to such export programs, the Committee may at the instance of any permanent member place on the agenda special problems relating to the supply of particular areas or to particular export licensing or shipping controls of either Government.

8. The Committee will establish and maintain close relationships with the combined boards and other combined organizations concerned with foreign civilian requirements. The precise nature of these relationships is left for future determination.

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810.24/377a

*The Secretary of State to Diplomatic Representatives in the American Republics and to Certain Consular Officers* <sup>28</sup>

WASHINGTON, October 15, 1943.

The Secretary of State refers to the Department's circular instruction of April 15, 1943 (File No. 810.24/216D), entitled "Projects Under Decentralization" <sup>29</sup> and to Export News Letter of August 13, 1943 <sup>30</sup> in which the current situation regarding projects was considered.

Under the decentralization program the Country Agency and the Embassy each have the responsibility of passing upon all local projects as such projects are initially implemented through the issuance of Import Recommendations which are subject to approval or disapproval on the basis of end-use of the materials covered. Therefore, as far as the United States Government is concerned, the Embassy is the first agency to evaluate a project in order to determine whether it is worthy of support. If a project is approved both by the Country Agency and by the Embassy, the required documentation is sent to Washington and is subsequently reviewed by the Department, by the Office of Economic Warfare, and, finally, by the War Production Board before a project is fully approved and the necessary materials are allowed production for export.

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<sup>28</sup> The consular officers at São Paulo, Barranquilla, Monterrey, and Maracaibo.

<sup>29</sup> Not printed.

<sup>30</sup> Not found in Department files.

Such a preliminary evaluation of projects by the Embassies in the other American republics appears essential as the interest in the establishment of new enterprises continues unabated and many of those under consideration are inherently unsound. Not infrequently those who initiate projects seek the advice of the Embassy during the initial planning stages. Thus, an opportunity is presented for preliminary review and for tactfully dissuading promoters if a project is unsound from an economic point of view. Yet another opportunity for review and an expression of opinion is afforded the Embassy when action is taken on Import Recommendations. If the Country Agency has approved one or more Import Recommendations covering a project and the Embassy doubts the wisdom of such action, the Country Agency may be influenced to reconsider its action. If, after consultation with officers of the Embassy, the Country Agency still wishes to approve the project, all documentation including Import Recommendations may be allowed to come forward but the latter may be given "limited approval". When this is done a detailed justification of the Embassy's position should accompany the Import Recommendations. Thereby the Department will be forewarned and will not support the project in the Office of Economic Warfare and the War Production Board unless unusual circumstances unknown to the Embassy dictate otherwise.

Interest in worthy projects in the other American republics should be encouraged, even though the materials and equipment needed to carry them forward may not be available at present. However, it is undesirable, in any manner to encourage the establishment or the expansion of industries for which a country is ill-adapted or projects which are too ambitious in view of a country's probable needs or its ability to finance without undue strain on its balance of payments.

The procedure to be followed by the missions, therefore, should be as follows: (1) to encourage the *planning* of projects; (2) to welcome the opportunity of discussing projects either with private concerns or with government entities; (3) to evaluate all projects in order to determine the relative urgency of those which are approved; (4) to support those which are economically sound and are considered highly urgent through the approval of Import Recommendations and through communications to the Department; (5) to support other meritorious projects *in principle* even though the degree of urgency which they possess is not considered sufficiently great to permit the use of strategic materials for them at present; (6) and, finally, to point out to the sponsors of economically sound but non-urgent projects which require strategic materials that the supply situation will probably not permit their implementation at this time, and, therefore, that these projects must be postponed until after the war or at least until greater supplies of the needed materials or equipment become available. However, it should again be stressed that this necessary

postponement of indeterminate length should not discourage the planning of projects, even to the preparation of detailed lists of needed materials and specifications for equipment. The projects for which requirements have been fully determined and for which financing has been arranged will be in a most favorable position should the supply situation improve unexpectedly. The Embassy should, furthermore, inform the Department on all projects which have been planned, whether considered urgent or otherwise. Through the accumulation of data some idea may be secured for purposes of post-war planning on the extent of the projected economic development in the other American republics.

Not infrequently it is suggested by the promoter, the Embassy, or, perhaps, the Country Agency that required material for a project be taken from the quarterly estimates of supply for general requirements. It is often possible to do so if a project is small and, more particularly, if the work of construction is to be spread over many quarters. More often than otherwise, however, the use of quarterly supply estimates to meet the requirements of large projects should be discouraged. The supply estimates do not include quantities for such projects, but rather the amounts needed for continuing activities in the general economy of a country. Such activities are highly necessary and should not be discontinued for the lack of necessary materials. When continuing activities are relegated to the background in the apportionment of supply estimates, the economy of a nation is likely to suffer. Furthermore, not infrequently the use of quarterly supply estimates for large projects is simply a forerunner to a request for additional quantities in subsequent quarters which cannot be granted in view of the supply situation in the United States.

In the evaluation of projects, officers of the Embassy should be guided by the basic policy of this Government that no encouragement should be given to the expansion of, or the creation of new, industries in the other American republics which are so unsuited to their economies that they can only be maintained by exorbitant customs barriers with consequent injury to consumers in the nation concerned and injury to more efficient producers in other nations. Obviously this policy is diametrically opposed to encouragement of uneconomic self-sufficiency, which still has many adherents abroad. Therefore, in the evaluation of industrial projects the first question is whether a project gains its support from a policy of self-sufficiency or from the temporary stringencies occasioned by the difficulties encountered in obtaining imports from highly industrialized areas of the world. If a project does have its roots in a policy of uneconomic self-sufficiency it is entirely adverse to our own accepted policy and should be tactfully discouraged by the Embassy but not necessarily disapproved. Nor should projects whose only justification is the scarcity of supply

of products customarily imported be encouraged where such industries at the termination of the war would have little chance of competing effectively against imports other than under newly created or heightened tariff protection.

There are many other criteria which may be used in the evaluation of projects among them the availability within a nation of the necessary raw materials, skilled labor, and power; the availability of capital at least to the extent of the costs in the national currency; the probability that a project will (a) decrease the need for foreign exchange in sufficient amount to permit repayment of foreign funds invested in the project (if any) and service charges, or (b) increase the supply of foreign exchange through the exportation of goods in sufficient amount to do likewise. Perhaps the most important single criteria is the relationship between the optimum size of the producing unit and the present or potential demand of the national market. Some products can be produced in small volume at very reasonable unit cost, while others are subject to greatly decreased unit cost with an increase in volume. Minimum cost per unit may not be attained until output is extremely large. Because of low purchasing power the demand in most of the other American republics, other than for subsistence items, is relatively small and not sufficiently great to permit production of many products at low cost. Unless there is a reasonable alignment between the optimum size of the producing unit and the national demand, production should not be undertaken, at least unless export demand is well assured. Therefore, projects in which the optimum size of the producing unit is large should be closely scrutinized by the Embassy before approval is given and, particularly so, if the promoters are depending upon exportation to neighboring republics in order to attain low costs and thus successfully compete against importations from the United States or European suppliers.

While the difficulty of applying these criteria to specific cases is clearly recognized, nevertheless our Embassies have been given the responsibility for an initial screening of projects and should, in each instance, make as thorough a study as pressure for prompt action and the availability of personnel permit. A thorough study of a project, even though such a study occasions delay, is considered definitely preferable to hasty action which in turn may necessitate numerous inquiries from the Department on specific questions. Furthermore, our Embassies must also be relied upon to interpret to other nations the underlying philosophy of our accepted commercial policy, in particular as that policy relates to industrialization of the other American republics. While the direct control of industrial expansion does not rest in the hands of the United States Government nor its representatives abroad, nevertheless it may be possible to avert the creation of uneconomic enterprises through utilization of the means provided by

the numerous contacts of the Embassies with government officials and leaders in the business community for influencing future decisions.

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103.917/4901 : Circular airgram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Argentina, Mexico, and Cuba*

WASHINGTON, November 13, 1943—12:10 p. m.

The appropriate officials of the Foreign Economic Administration<sup>31</sup> and the Department have had under consideration various proposals for simplification of export control. The following message from the FEA, and subsequent messages on the subject, are the result of numerous conferences between that Agency and the Department, and the proposals therein have the full concurrence of the Department. These messages should be discussed with the Special Representative of FEA (in those countries for which a Representative has been appointed).

"We refer to Current Export Bulletin No. 115 dated August 28, 1943, and later bulletins regarding simplifications in export control, which have been discussed recently. Current studies have been made in the Office of Exports of materials and products which, because of their characteristics are not easily adaptable to the decentralization procedure or for which the additional effort required by decentralization procedure is not justified by the benefits derived. This is in accordance with the spirit of the Rio Resolutions.<sup>32</sup>

"The commodity specialists of the Office have now completed a review of commodities now under the decentralization procedure with a view to determining which of them could be proposed as a preliminary group for which the Decentralization Plan no longer seems justified.

"Accordingly, the following commodity groups are proposed for removal from decentralization:

1. Farm machinery
2. Chemicals
3. Drugs and health supplies
4. Food
5. Communications equipment

"It is the conviction of the Office of Exports that the removal of these items from decentralization will expedite their shipment to the various Latin American Republics. It should be noted that this simplification differs from the first, in that the commodities are not to be placed on general license. Instead, individual licenses will be required; but the simpler procedure will result in greater shipments to

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<sup>31</sup> The Office of Economic Warfare was consolidated into the Foreign Economic Administration, September 25, 1943.

<sup>32</sup> Resolutions of the Third Meeting of the Ministers for Foreign Affairs of the American Republics; see Department of State *Bulletin*, February 7, 1942, pp. 117, 118.

the other American Republics, a fact which should be emphasized in discussions with the country agency.

"As the supply picture changes during the coming months, it will seem wise to remove other commodities from the Decentralization Plan. Reconversion of industry to the manufacture of peacetime products resulting in increased production of civilian goods will be a gradual process doubtless extending over many months, and will be a principal factor influencing the selection of the items to be removed.

"It should also be noted that it is both FEA and WPB policy to carry out as rapidly as possible the simplification of controls which necessarily have had to be placed on commercial transactions during the war.

"In view of the different factors which influenced the selection of the five commodity groups named in this airgram, you will receive shortly a separate airgram on each commodity group with specific proposals, (except farm machinery which already has been sent in circular instruction of October 23).

"While it is realized that the issuance of Import Recommendations is based on agreements contracted with this Government, we do not anticipate that the Country Agency will raise any objection to the proposed simplification of procedure in view of the benefits which will accrue to the country thereby. The foregoing should be explained to the Country Agency and the Office of Exports informed as expeditiously as possible of any comments the Country Agency may advance.

"The Office of Exports fully understands the desire of the importers in the foreign country and of the exporters in the United States to be assured that allocations of commodities will be fairly distributed among them on the basis of past performance.

"The Office has developed in considerable detail, during the past nine months of operations, licensing techniques which result in equitable distribution of allocations among exporters. These procedures have been worked out in meetings with exporters and are acceptable to them. The Office believes that, in keeping with its wish to follow the simplest methods of control, the interests of importers are adequately protected, and the trade pattern disturbed to the minimum extent, if allocations are distributed among established exporters on the basis of past performance. If these exporters are permitted to work out for themselves their own distribution to their established connections in foreign countries, results should be satisfactory.

"It is desired that this new procedure become effective in the country to which you are accredited January 1, 1944."

HULL

#### BOLIVIA

800.8820/922 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, January 9, 1943—9 p. m.

39. Owing to the liberal licensing policy of the Board of Economic Warfare with respect to exports to the other republics there are now

produced very substantial quantities of materials which are awaiting shipment. With regard to certain countries, including Bolivia, the backlog of goods now licensed and produced exceeds the available shipping space for many months.

The composition of this backlog for Bolivia as of December 31 and the tonnages involved are summarized as follows:

Iron and steel	1,551 tons
Tinplate	396 "
Other Paper	528 "
Caustic and soda ash	552 "
Petroleum products	1,814 "
Naval stores	5 "
Machinery	752 "
Other chemicals	358 "
Glass	420 "
Lumber	1,575 "
Cement and plaster	481 "
Foodstuffs	184 "
Miscellaneous	2,150 "
Wheat and flour	39 "
Rails and accessories	38 "
Cargo at West Coast—Breakdown not available	10,102 "
Total	20,945 tons

In addition there are 274 tons of newsprint and 15,050 tons of coal and coke licensed. These commodities will be shipped in accordance with existing arrangements.

You will appreciate that in addition to the known backlog a large volume of goods will come forward as result of outstanding licenses plus additional licenses contemplated hereinafter and that it will take many months to liquidate these combined cargoes at the rate of 4,500 tons (target tonnage) per month.

While new ship construction is currently very satisfactory this will not relieve commercial cargo routes inasmuch as the tonnage requirements of the military forces must receive preference.

In order to alleviate this cargo situation the Board of Economic Warfare is issuing a Current Controls Bulletin which reads as follows:

"Effective immediately and until March 1, 1943, the Office of Exports will follow a highly selective commodity licensing program. This program will permit the reappraisal of goods already licensed for export and assure the supply of urgently needed goods. This program will not, however, cause any interruption or delay in the continued flow of exports to the seven South American countries affected,



in as much as there are now more than enough articles and materials licensed and available for shipment which will, within the limits of available shipping, move forward during the period in which this program is in effect.

"Under the program the Office of Exports will approve export license applications for shipments to Argentina, Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela only where they fall into the following categories: (1) Materials or shipments which are entitled to AA or A shipping priority rating (See Comprehensive Export Control Schedule No. 10, Page 115<sup>33</sup>), (2) Materials which are subject to allocation allotment or quota already secured from the War Production Board and scheduled for licensing during a particular period and then only in cases of extreme urgency, or (3) Materials which are required to maintain the public health in the country of destination.

"Applications for export to the above mentioned countries not within any of the above categories should not be filed until further notice.

"Application for licenses not within the above categories which are now pending and which cannot now be approved because of the present shipping situation will be held by the Office of Exports for approximately 60 days and reviewed in the light of the availability of shipping facilities at that time. The applicants in such cases will be notified that their applications are being held in accordance with this program.

"These restrictions apply also to applications for shipping space for articles and materials under general license."

The Department is aware that this announcement of the Board of Economic Warfare may occasion considerable press comment. Therefore, the mission is requested to review this general cargo problem with the appropriate authorities, and inform them of the reasons for the Board of Economic Warfare's action.

Mr. Horton Henry of the Department and Dr. H. A. Wilkinson of the Board of Economic Warfare will arrive in La Paz on or about February 9 to present a modified plan of decentralized export control, concerning which a separate instruction is going forward shortly. They will bring with them such additional data as is available concerning the backlog as an aid to the mission in analyzing this problem with the Bolivian authorities. In this connection the January and February shipping programs have been prepared and thus there will be no interruption in the flow of exports.

The Board of Economic Warfare proposes to issue its bulletin on Tuesday, January 12 and it is suggested that you consequently discuss the matter at once with the appropriate authorities.

HULL

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<sup>33</sup> Issued in November 1942 by the Office of Exports, Board of Economic Warfare.

800.8820/937 : Airgram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, January 12, 1943—5 p. m.

[Received January 20—5 p. m.]

A-25. Department's 39, January 9, 9 p. m., Export Licensing Policy of Board of Economic Warfare. A full and frank exchange of views has been had with the licensing authorities of the Bolivian Government on the basis of the reference telegram. The Bolivian authorities have adopted a most understanding and cooperative attitude, and local press reaction has not been adverse. American press releases on the subject are usually translated verbatim in local press, and full publicity in the United States will probably contribute to fuller local comprehension of the situation.

Bolivian authorities are pleasantly surprised at the large amount of material which has been licensed for shipment to Bolivia and are willing to exercise patience until the shipping bottleneck can be relieved. They are ready to cooperate in refusing certificates of necessity to applications not falling within the three approved categories, until the congestion can be cleared up.

[Here follow several paragraphs of inquiries and requests for information as to supplies.]

BOAL

811.20 (D) Regulations/9881 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, February 25, 1943—3 p. m.

[Received 9:17 p. m.]

394. Referring to Henry's telephone conversation of February 17 with Ravndal <sup>34</sup> arrangements completed for establishment of decentralized export control in Bolivia effective April 1. Henry and Wilkinson <sup>35</sup> leaving for Santiago on the first available airplane.

BOAL

<sup>34</sup> Christian M. Ravndal, Chief of the Division of Exports and Requirements of the Department.

<sup>35</sup> Horton Henry of the Department and H. A. Wilkinson of the Board of Economic Warfare were assigned to present a modified plan of decentralized export control in certain of the American Republics.

824.24/751 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, May 3, 1943—4:30 p. m.

A-460. Your A-304, April 16, 1943.<sup>36</sup> The Office of Exports of the Board of Economic Warfare advises as follows:

"Current Export Bulletin No. 79,<sup>37</sup> Item 11, announced the revocation of all General Licenses, with certain minor exceptions, to countries under decentralization. In accordance with Bulletin No. 80, this becomes effective in Bolivia on June 1st. Therefore, the hypothetical case<sup>38</sup> mentioned in your airgram could not occur unless the goods fell within one of the minor exceptions mentioned above.

"Until June 1st it may be possible that there will be unimportant shipments of non-essentials weighing less than 2240 pounds, particularly if covered under General License."

Please inform Kazen<sup>39</sup> for the attention of Acton.<sup>40</sup>

HULL

824.24/778b : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, June 2, 1943—7 p. m.

A-516. The Board of Economic Warfare has requested that the following advice regarding decentralization procedure be transmitted to the Embassy:

"Reference is made to the portions of the material entitled, 'Details of Plan A'<sup>41</sup> dealing with the non-importable or non-licensable lists, particularly item H on page 4 of 'Details of Operation,' page 2 of 'Statement for Special Missions on Cargo Backlog Problem,' and the entire page on 'Licensable Material.'

"Under Decentralization Plan A it was, of course, realized in Washington, as it no doubt was in your country, that given the conditions prevailing at the time the Plan was presented emergency measures were necessary in order to assure the export licensing of essential materials for the respective countries of destination and to make the best possible use of the limited shipping space then available. Further sizeable backlogs of merchandise were apparent for most countries.

"The non-importable lists were created as an interim procedure until the flow of Import Recommendations afforded a mechanism for in-

<sup>36</sup> Not printed.

<sup>37</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>38</sup> The hypothetical case was a question whether an American merchant could obtain shipping space for a small quantity of non-essential cargo from New Orleans to Bolivia.

<sup>39</sup> Philip A. Kazen, Special Assistant to the Ambassador from the Board of Economic Warfare.

<sup>40</sup> Harold T. Acton, Board of Economic Warfare representative.

<sup>41</sup> An issuance of the Board of Economic Warfare; for an outline of Decentralization Plan A, see circular airgram, January 19, 8 p. m., p. 106.

dicating the opinion of the Country Agency<sup>42</sup> as to essentiality; and the issuance of such lists was designed to permit essential cargo from the backlog to be moved within the shipping availabilities. It is believed that both of these conditions have now been satisfied, particularly in view of the fact that the backlog has been substantially reduced as a result of liftings in March and April.

"The BEW is concerned because the concept of the importable, non-importable or non-essential lists is causing confusion here and abroad which outweighs any possible further usefulness at this date, and also because there is considerable apprehension that the lists will be extended beyond their original purpose.

"The Country Agency is now in a position to select the order in which materials will be imported, based upon the essentiality of the material. Since license applications for non-essential commodities will be approved by the Board of Economic Warfare when the Plan is fully operative only if accompanied by Import Recommendations, as long as Plan A applies to all commodities, the cancellation of the non-importable lists will not result in licensing of non-essential materials.

"Under the circumstances, it would be greatly appreciated if the Mission would place the above facts before the Country Agency and propose the elimination from 'Decentralization Plan A' the last sentence of point number 2, which reads:

"The Country Agency will, as soon as practicable, announce a list of articles and materials which are importable."

"Please notify us by airgram immediately when this is accomplished and arrangements should be made for proper announcements, both in your country and in Washington, of the cancellation of the importable, non-importable, or non-essential lists which have been issued by the Country Agency."

HULL

824.24/852 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, August 31, 1943—3 p. m.

[Received 7:31 p. m.]

1460. Reference Department's airgram August 23, 7 p. m.<sup>43</sup> regarding Decentralization Plan modifications. Present plan in Bolivia working satisfactorily from standpoint of Embassy, Country Agency, and Bolivian importers. However if modifications necessary to standardize plan throughout Latin America strongly recommend Alternative I which of the three alternatives embodies the three objectives stressed in airgram under reference for the following reasons:

1. Control remains with Country Agency and Embassy in Bolivia.
2. Prevents confusion and repercussions which would arise from a drastic change in export policy with subsequent change in procedure.

<sup>42</sup> The Bolivian office responsible for administering import controls.

<sup>43</sup> *Ante*, p. 122.

3. Eliminates difficulties in advising importers of items which are in free supply and differentiating between quota and non-quota materials.

4. Aids bona fide Bolivian importers who often require supply assistance for materials in free supply which are in some cases as essential to Bolivia's economy as those in short supply. Alternative I meets with wholehearted approval of Embassy and OEW<sup>44</sup> because it reflects true spirit of original Decentralization Plan in that control remains in the field which is inadventagous [*sic*] to judge requirements, consignees, end use, shipping preference and normal channels of trade.

If Import Recommendation form to be simplified strongly recommend that the Embassy be authorized to retain in the form certain useful additional items regarding past imports, classification of commodity and quantity recommended for shipment. Abolition of normal target tonnage quota would have no effect on Bolivian imports. Bolivian imports measurably increased since establishment of Decentralization Plan which has given strong probability of delivery in contrast to previous procedures. The Import Recommendation system has become and is becoming increasingly more flexible to meet unexpected increases in merchandise and in shipping facilities. Present Import Recommendation system enables Bolivian staff to keep abreast of requirements and control of importation. This feature would be retained by Alternative I. Alternatives II and III prove exceptionally burdensome both to the Country Agency and the Embassy due to lack of local knowledge and control of consignees and merchandise.

Kazen and Acton of OEW concur.

Boal

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824.24/853 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, September 2, 1943—10 a. m.

[Received 4:15 p. m.]

1471. Department's circular telegram August 31, 4 p. m.<sup>45</sup> proposing abolition of Decentralization Plan A and resort to Alternative III as outlined in Department's circular airgram of August 23, 7 p. m.<sup>46</sup> While the Embassy appreciates the desire of the Government agencies concerned with export control to satisfy the wishes of American exporters and to return to a business as usual policy insofar as may be feasible it cannot endorse any proposal to abandon a decentralized

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<sup>44</sup> Office of Economic Warfare, successor to the Board of Economic Warfare.

<sup>45</sup> Not printed.

<sup>46</sup> *Ante*, p. 122.

system which is working effectively in this country after 5 months' trial in favor of system which will be subject to controls even less adequate than those employed under the successful system which in effect prior to April 1. The reasons for the Embassy's sponsorship of either the current Decentralization Plan or Alternative I are enumerated in this Embassy's 1460, August 31, 3 p. m., the substance of the telegram espousing Alternative III has been presented to a special session of the Country Agency and to the Chief of the Priorities Section. They unanimously reject the proposal to invoke Alternative III and urge the retention of the present plan or a slightly modified version of it such as Alternative I. They start [*state*] that Bolivia is receiving the required commodities in the proper proportion and in adequate quantity as a result of the introduction of the Decentralized Plan. They believe that Bolivia's import trade with the United States has been rationalized for the first time under this plan and they will insist upon an emphatic protest by the Bolivian Government in the event that decentralized control should be abandoned in favor of Alternative III. The Country Agency has also pointed out that under Alternative III constant confusion will result from the difficulty of keeping current the constantly changing lists of goods in free supply and in critical supply.

Pre-April 1 experience has amply demonstrated that export control cannot be successfully operated from a point remote from Bolivia. Telegraphic consultation with the Embassy on shipping permit policy and practice would be costly and cumbersome. On the basis of past experience it is feared that the Embassy's recommendations in effect would be largely disregarded. The Embassy's recommendations on monthly shipping programs under centralized control were never carried out due to causes apparently beyond the control of the Department and OEW. Goods urgently required to maintain Bolivia's production of tin, tungsten, rubber and quinine remained unshipped; luxury goods which could readily have been dispensed with found shipping space.

Consignee control can better be operated from La Paz since the responsible officers personally know the full record of each consignee in this small country and are in a better position to check cloaking on behalf of Proclaimed List firms. All consignee control material has recently been shipped to La Paz by air at great expense and sacrifice of airplane space. It would seem indefensible to return all this material to Washington at equal cost when the system of localized control has incontestably succeeded. A change of export control practice after only 5 months' trial and that successful, would seem unjustifiable when we are already vulnerable to frequent charges of unnecessary about-faces in our economic control policies.

The Decentralized Plan has shown considerable flexibility in this country and it is not believed that available shipping space for needed goods for Bolivia has gone or will go unused owing to any lack of Import Recommendations. There is a limit to the amount of luxury consumer's merchandise which Bolivia is able to import and in the absence of close import or foreign exchange control in Bolivia, there is a real danger that importers will overpurchase unless some such system as the Decentralization Plan is employed. Already importers are encountering difficulties in financing goods ordered for Bolivia which have been landed at Arica. This trend can be checked under Plan A or Alternative I but not under Alternative III.

Clearly a uniform system of export control for all Latin American countries is desirable in the interest of consistency and convenience to exporters. However, if the Decentralized Plan or a simplification thereof as embodied in Alternative I cannot be retained for all Latin America, the Embassy and the Country Agency must insist that one or the other be applied to Bolivia.

Kazen and Acton of OEW concur.

BOAL

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824.24/852 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 9, 1943—1 p. m.

1127. Reference Embassy's 1460, August 31, 3 p. m., and 1471, September 2, 10 a. m., regarding simplification of export control procedure. The reasons advanced against any change in decentralization plan are well founded and the Embassy and country agency are to be congratulated on the cooperation achieved and the success of the plan. The Department and OEW have no desire to urge the acceptance of a substitute procedure that would create confusion or prejudice the benefits of decentralization and the Embassy is requested to give the country agency assurance on this point.

It is nonetheless desirable to take all practical steps to reestablish importer-exporter relationships with a minimum of Government intervention. It is believed here that existing documentation tends to stifle trade and encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and allow the materials which otherwise might be exported to be diverted to consumption in this country.

The Department understands that import and/or exchange controls are in effect in Bolivia and as a consequence importers are required in any event to obtain a permit from the appropriate Government

agency before placing an order for materials abroad. This would appear to afford adequate control over imports and render unnecessary the further additional controls inherent in decentralization.

One of the missions suggested what appears to be a very practical solution to the desire for simplification here and the desire for control in the country of destination. This solution would apply only in those countries that have import or exchange controls already in effect. It was suggested that the simple import recommendation form provided for under Alternative I or any other suitable form be required abroad thereby enabling the Embassy and country agency to preserve the necessary controls over imports, shipping space and consignees. The import recommendation would not, however, be forwarded to the United States and the procedures of Alternative III would be operative in this country. In effect, therefore, this suggestion provides for the preservation of controls in the field and permits the exporters in this country to offer their wares abroad to the same extent as they could prewar within the restrictions of exchange availability or the willingness of the appropriate Government agency to grant an import permit.

Would this suggestion be acceptable to the country agency and the Embassy? It appears to meet the various objections mentioned in the Embassy's telegrams and at the same time it eliminates the requirement that the supplier in this country shall have received an import recommendation before proceeding with his sale.

It is desired to effect the simplification of procedure October 1, 1943 for those countries that have accepted Alternative III and the Embassy is requested to telegraph outcome.

HULL

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824.24/869 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, September 18, 1943—2 p. m.

[Received 7:20 p. m.]

1554. Department's recent telegram advocating a modified Alternative Plan III of export control.<sup>47</sup> The Bolivian Country Agency remains adamant in its opposition to Alternative III and insists on the adoption of Alternative I for Bolivia. The vote in the Country Agency meeting of September 15th on this issue was unanimous.

The Country Agency takes the position that contrary to the Department's belief current Bolivian import and exchange controls are not adequate in the absence of a decentralized system. Merchandise could be ordered and brought to the customhouse without official permission.

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<sup>47</sup> Telegram No. 1127, *supra*.



Foreign exchange is generally purchasable at the official rate for any importation and in the cases where foreign exchange would not be available dollar currency could be bought in the free market at a premium of 5% without Government interference. The Bolivian exchange control system is primarily designed to prevent the flight of capital and not to insure the importation of merchandise in accordance with economic needs.

Furthermore it is felt that an Import Recommendation procedure if operated merely in Bolivia with no transmittal of Import Recommendations to the United States would function in a vacuum. It would have no relation to reality since imports from the United States could be effected without Import Recommendations. The paper work involved would be fruitless and the procedure would not be taken seriously by informed importers.

The Country Agency does not believe that under Alternative III either the Bolivian Government or the Embassy could maintain effective control over shipping space, consignees and importers since under a noncontrolled system they would not have the requisite factual data as to prospective shipments. On the other hand the Government agencies in Washington could not apply effective control since they would not have essential information as to Bolivian needs, commercial relationships and possible cloaking activities. Thus there would be no method of assuring under Alternative III that the import trade of Bolivia is being conducted in the best interests of Bolivia and the United Nations. Trade would be conducted chiefly on a basis of self interest of the firms involved which is not compatible with the prosecution of an all-out war effort.

It is believed that the difficult task of keeping American goods out of the hands of Proclaimed List firms would be rendered far more formidable under this weakened system of control.

The Embassy is in thorough agreement with the foregoing point of view and in addition desires to point out that it could not safely participate in a purely local system of import control divorced from our export control procedure since such participation would amount to Embassy interference in the domestic policy and practice of Bolivia in regard to imports. In effect the Embassy representatives would be sitting in on a local import and foreign exchange control board. Such action would not be consonant with our principles of noninterference in the internal affairs of other nations.

The Embassy also has grave misgivings on the score of consignee control. Experience has shown that the Embassy officers with their intimate knowledge of trade channels in this small country can operate consignee control better than persons in Washington entirely de-

pendent on card indices who have no first-hand knowledge of the local trade situation.

The Country Agency has pointed out that in the absence of decentralization or a modification thereof it would probably be necessary for the Bolivian Government to adopt a system of rigid exchange and import control. This would probably be done by invoking the undesirable decree of July 21, 1941 vesting complete foreign exchange and import control in the Banco Central. At present this decree is dormant. Were it invoked we would see an arbitrary system of exchange and import control administered by the Directors of the Banco Central who would not be directly accountable to anyone for their actions. Inequitable and excessive allocations of foreign exchange and import licenses might well result eventually involving a trend toward bilateralism, blocking barter and compensation agreements which have in the past proved to be great obstacles to Secretary Hull's foreign trade policies.

The Country Agency stresses that the present decentralized system is eminently workable. Neither American exporters nor Bolivian importers have been subjected to undue hardships or discriminatory treatment under the plan. The Country Agency is not prepared to acknowledge that the failure of the system in other countries should obligate Bolivia to abandon it.

The painful experience of Bolivia in 1942 when its import trade with the United States was reduced to a chaotic condition by the absence of informed planning resulting in the arrival in Bolivia of unneeded goods and the unavailability of essential goods naturally militates against any inclination which Bolivia might otherwise have to return to an uncontrolled system.

The Bolivian Country Agency identifies the present move in favor of Alternative Plan III with American exporters motivated chiefly by their own special interests. They are not prepared to give in to this move without registering an emphatic protest and pointing out the drawbacks of a system which has been proved unsuited to the peculiar needs of Bolivia as an individual country and as a member of the United Nations.

While the members of the Country Agency take the foregoing position decisively they are prepared to reconvene in accordance with Pool's <sup>48</sup> telephone suggestion as soon as an answer is received to this urgent telegram.

Kazen and Acton OEW concur.

BoAL

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<sup>48</sup> Presumably John C. Pool, Third Secretary of Embassy.

824.24/869 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 20, 1943—6 p. m.

1168. Your 1554, September 18, 2 p. m. It is suggested that you emphasize to the Country Agency that the proposed modification of the decentralization plan relates only to materials in free supply. There would be no change in procedure for commodities under estimates of supply and materials in short supply. Commodities for which the Embassy receives estimates of supply, and materials in so short supply that estimates are not furnished, would remain under the decentralization plan exactly as at present. The list of goods in free supply is not large at the moment and is comprised of items of lesser importance to Bolivian economy. It is contemplated that the list will become longer when and as the supply situation improves.

The purpose of the proposed modification is to remove American Government export restrictions where they are no longer necessary. However, it appears from your reports that the Country Agency feels that decentralization is being abolished in its entirety. Such is not the case at all. The Department accordingly feels that the Bolivians are attaching a much greater significance to the proposed change than it actually has.

Should Alternative III be accepted, the Bolivians could, through the monthly shipping programs, exercise control over the total amount of free goods to be imported. The United States Government would undertake to insure that essential goods would always be given shipping preference.

Eighteen governments have accepted Alternative III as an amendment to Plan A, (for the Embassy's confidential information, it was offered to all countries except Argentina), and Bolivia is the only country which has not agreed to it. For administrative reasons it would obviously be desirable for the procedure to be uniform. Please discuss the matter further with the Country Agency in the light of the foregoing, and report as soon as possible.

HULL

824.24/869 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 21, 1943.

1172. The Department's 1168, September 20, 6 p. m. The Department and OEW are reluctant to announce the amendment to Plan A without Bolivia's participation, but announcement cannot be delayed

beyond Thursday morning.<sup>49</sup> Please telephone by Wednesday afternoon at the latest.

HULL

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824.24/872 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 27, 1943—10 p. m.

1197. Your 1567, September 22, 7 p. m.<sup>50</sup> The Department is making no change in export control procedure as regards Bolivia. Decentralization Plan A will continue for the present in full effect in Bolivia.

HULL

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824.24/884a

*The Secretary of State to the Ambassador in Bolivia (Boal)*

No. 1057

WASHINGTON, October 7, 1943.

SIR: Reference is made to the recent exchange of communications regarding the proposed modification of the Decentralization Plan and the simplification of export control procedures. (The results of the proposal were announced in Current Export Bulletin No. 124 of September 25). As the Embassy is aware, Bolivia was not included in the list of countries affected by the modification, in view of the reluctance on the part of the interested Bolivian authorities to accept any change in the existing procedures, and the Department is not pressing the matter further for the time being.

It is apparent from the Embassy's reports that the attempt to remove restrictions on trade which are no longer considered necessary by this Government has not been sympathetically received in Bolivia, and the feeling exists that the Bolivian authorities are inclined to regard the Decentralization Plan as a permanent cure for the economic ills of the country as far as its import trade is concerned. The Department would not desire that this view be encouraged. Export controls are held to be a necessary evil born of the exigencies of war, and should be removed when and as conditions permit. The Department favors their simplification whenever possible, and hopes for their eventual abolition. Accordingly, no encouragement should be given to the view that American exports will indefinitely be subject to the restrictions currently in force.

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<sup>49</sup> September 23.

<sup>50</sup> Not printed; in this telegram the Ambassador reiterated the preference of the Bolivian Country Agency for Alternative I and its acceptance of Alternative III only if time were allowed to apply new import and exchange controls.

It appears, therefore, that the Embassy is confronted with the task of weaning the Bolivian authorities away from the conviction that the specific controls afforded by the Decentralization Plan are vital to the economic well-being of the country. The Department realizes, of course, that if export controls had not been instituted by this Government, the Bolivians might have felt it necessary to establish a system of their own, and it is possible that as and when the restrictions imposed by this Government are relaxed, the Bolivians may find it desirable from their point of view to exercise greater control over imports through Bolivian legislation. This Government cannot, of course, intervene actively in the regulation of the internal economy of Bolivia, but it would be reluctant to concur in the suggestion that Alternative III be deferred until January 1, 1944, in order that the necessary substitute control measures be established. To resolve the question in this manner might not produce the intended relief, and the documentation and general restraint on the flow of materials from this country to Bolivia might conceivably be more onerous (and more permanent) than under the existing procedures of the Decentralization Plan.

The Department has no reason to doubt the efficacy of the monthly shipping programs as a medium of control over the flow of non-essential goods. It might be pointed out, moreover, that this Government desires to facilitate such trade as benefits the Bolivian economy, and considers the simplification of procedure a constructive first step in this direction.

The Department will welcome the Embassy's comments for use in determining the future course of action.

Very truly yours,

For the Secretary of State:  
DEAN ACHESON

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103.917/5690 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 16, 1943—6 p. m.  
[Received 9:44 p. m.]

1966. Department's 1429, December 14;<sup>51</sup> circular telegram to FEA<sup>52</sup> representatives of December 10, 1943, 10 a. m.;<sup>51</sup> and Department's instruction No. 1057 of October 7, 1943, modification of Plan A of decentralized export control.

Yesterday a special session of Bolivian Country Agency unanimously accepted Alternative Plan III effective January 1, 1944, conditional on our acceptance of the following stipulations:

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<sup>51</sup> Not printed.

<sup>52</sup> Foreign Economic Administration, into which the Office of Economic Warfare was consolidated, September 25, 1943.

1. That Import Recommendations which will still be issued for materials subject to allocation will receive shipping preference.

2. That the Bolivian Priority Committee in collaboration with the Embassy be permitted a voice in the determination of shipments to Bolivia of goods in free supply by means of shipping program recommendations to be telegraphed to Washington monthly, these recommendations to be followed insofar as practicable. Country Agency has put forward these requests in order to assure preferential shipment of commodities considered essential to the economy of Bolivia.

Country Agency has withdrawn its previous objections to Plan III because of three principal considerations:

(1) Recognized desirability of uniform export control procedure for all the Latin American Republics.

(2) Recently instituted exchange controls in Bolivia which will restrict the granting of foreign exchange for a number of luxury items.

(3) Belief on the part of the Country Agency that substantial fulfillment of Bolivia's target tonnage can reasonably be anticipated.

Please give appropriate and immediate press publicity to Bolivia's acceptance provided Department and FEA agree to the stipulations.

Please reply by telegraph.

BOAL

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824.24/925 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 22, 1943—11 a. m.

[Received 6:25 p. m.]

1987. For Department and Foreign Economic Administration. With reference to overthrow of Bolivian Government<sup>53</sup> and establishment of Revolutionary Junta on December 20 and consequent lack of existence of recognized government, Embassy's Requirements and Licensing Section and FEA propose to follow following policy in absence of instructions to the contrary:

Import Recommendations will be processed on usual basis in an effort to maintain steady flow of export licenses and full utilization of shipping space; requirements reports will be prepared in usual manner and forwarded as soon as plane service resumes; Bolivian agreement to modification of Decentralization Plan effective January 1, 1944 (subject to our acceptance of two conditions) will be assumed to have full validity in view of the assurances of the Junta that all Bolivia's external agreements and commitments will be respected; routine requirements matters such as distribution among importers of commodities subject to allocation will be handled with existing Priorities Committee and its secretary so long as they remain in office.

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<sup>53</sup> For correspondence on this subject, see pp. 533 ff.

However, basic policy discussions with the Committee will be avoided so far as possible in absence of diplomatic recognition by us of the government under which the Committee now functions.

Reference Embassy's No. 1966, December 16, 1943, please expedite reply and release of press publicity if our Government accepts. Change in government here renders publicity imperative if we wish to assure Bolivian acceptance with no further attempted modifications.

Kazen joins in this message and in request that Embassy and FEA be appropriately instructed.

BOAL

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824.24/925 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 25, 1943—6 p. m.

1468. The following letter is being sent to Mr. Leo Crowley<sup>55</sup> setting forth the policy to be followed by the Foreign Economic Administration with regard to Bolivia:

"With reference to the request of the Foreign Economic Administration as to the policy of this Government with regard to Bolivia, I have to inform you as follows: For the immediate present the Department proposes to withhold action authorizing the recognition of the new government in Bolivia. The orientation of the new regime and its probable policies do not, in general, give the Department reason for optimism. The Department does not think it advisable at the present time to make any public announcement of the control measures herein recommended and the Foreign Economic Administration is particularly requested not to issue any release bulletin or administrative order for the public revealing the recommended action. The Department recommends, as regards economic relations, that the Foreign Economic Administration and other appropriate agencies undertake the following action:

1. Referring to exports:

- (a) Hold without action all export license applications for Bolivia until further notice.
- (b) Hold all requests for freight space for goods destined for Bolivia until further notice.
- (c) Suspend action on all freight space requests for merchandise to Bolivia.

2. With regard to imports:

- (a) Conduct routine activities in the field with producers and private contractors.
- (b) Undertake appropriate informal steps, if any, with a view to preventing rubber shipments to Argentina, which would be a violation of United States-Bolivian Agreements,<sup>56</sup> and with a view to preventing quinine shipments to Argentina.

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<sup>55</sup> Administrator of the Foreign Economic Administration.

<sup>56</sup> For text of agreement of July 15, and exchange of notes of the same date, see *Foreign Relations*, 1942, vol. v, pp. 574-580.

- (c) Permit the existing state of suspension to continue with reference to negotiations regarding tin.
- (d) For the present undertake no activities related to special procurement.

"There is also under consideration by the Department the question of requesting port representatives of the War Shipping Administration to take up, in a quiet manner, the possibility of asking ship operators to hold back existing cargo for Bolivia on which space has been booked and substituting therefor cargo destined for other South American ports on the West Coast. It may be impossible, without cancelling all outstanding export licenses, to suspend the loading of lumber on the Pacific Coast and other merchandise booked for sailing in the near future. The Department has under consideration whether either the latter or the former measures should be carried out and requests the Foreign Economic Administration to take no action in this regard pending further advices to you. I shall be pleased to keep you acquainted with regard to developments in Bolivia and the policy to be followed towards the new government. It is suggested that your staff take up with the Department, through established channels of liaison, the details of the policy set forth above."

With reference Embassy's no. 1966 of December 16 and no. 1987 of December 22, and in view of the above, the Department cannot authorize any press publicity here indicating a facilitation of freer export flow to Bolivia through simplification of Decentralization Plan. You will be advised further concerning this particular question.<sup>57</sup> Please inform Kazen.

HULL

#### BRAZIL

832.24/1401 : Telegram

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

WASHINGTON, March 24, 1943.

1072. Your airgram A-415, March 6; <sup>58</sup> and telegram 1347, March 18, 1943.<sup>59</sup> Board of Economic Warfare concurs in final draft of memorandum.<sup>59</sup> You may formalize this agreement by an exchange of notes with the Ministry of Foreign Affairs.

HULL

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<sup>57</sup> The Embassy was informed in telegram No. 11, January 2, 1944, that the Government was accepting a recommendation of the Emergency Consultative Committee for Political Defense for joint inter-American consideration of recognition of the new Bolivian Government, and that pending this action the Department had decided to lift the restrictions on handling export licenses for Bolivia and on the loading of ocean shipments to Bolivia (824.24/925).

<sup>58</sup> Not printed; it indicated that export controls from the United States to Brazil would be decentralized so that the Carteira de Exportação e Importação of the Bank of Brazil would make the recommendations on export preference requests upon proof that orders had been accepted by American firms (832.24/1384).

<sup>59</sup> Not printed.



832.24/1656

*Statement for the Press on the Decentralization Plan Issued by the  
Ambassador in Brazil (Caffery)* <sup>60</sup>

[RIO DE JANEIRO, May 12, 1943.]

An exchange of notes <sup>61</sup> between the Brazilian Foreign Office and the American Embassy, established today an improved system to facilitate and expedite imports from or via the United States of the essential commodities required for Brazil's basic economy.

The agreement aims at improving the effectiveness of the present decentralization plan, so-called because it transfers from Washington to Brazil various facilities of the Board of Economic Warfare to permit closer collaboration with Brazilian economic interests.

The agreement is part of the program of the United States Government to keep industrial production as well as shipments from the United States to Brazil and its other allies moving as smoothly as war conditions permit and to maintain the present high peak of the industrial war effort of the United Nations.

The Brazilian Government names the Carteira de Exportação e Importação of the Bank of Brazil as the sole Brazilian agency to approve applications for commercial imports from the United States regarded as necessary to meet Brazil's essential needs. It also names the Commercial Counselor of the Brazilian Embassy at Washington as representative of the Carteira in the United States to deal with authorities at Washington and New York.

Ambassador Caffery, commenting on the adoption of the revised plan said, "I am highly pleased with this new procedure established between our two governments in cooperation with the manufacturers and shippers of the United States and the Brazilian importers. It offers an excellent program for expediting the exportation of the essential commodities required for the maintenance of Brazil's war-time economy."

The notes established the mechanics designed to perfect the execution of the "decentralization plan",<sup>62</sup> agreed upon between the two governments recently, to determine Brazil's requirements of materials to be imported from or via the United States. The agreement resulted from a series of negotiations between Dr. Gaston Vidigal, Director of the Carteira de Exportação e Importação, Dr. Walder Sarmanho, Commercial Counselor of the Brazilian Embassy at Washington, and

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<sup>60</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 11216, May 13; received May 21.

<sup>61</sup> Not printed.

<sup>62</sup> Decentralization Plan A; for an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.

representatives of the American Embassy and the United States Government agencies concerned, who were assisted by special experts sent from the State Department, and the Board of Economic Warfare in Washington.

Under the program the Carteira will recommend the importation of materials from the United States as well as indicate those which should be given preference as most necessary. In the event that the supplier in the United States is unable to fill the order from Brazil for a needed commodity recommended by the Bank of Brazil, Commercial Counselor Sarmanho will seek another supplier with the cooperation of the Board of Economic Warfare of the United States. Copies of all preference requests approved by the Bank of Brazil will be transmitted by the importers to their suppliers in the United States who will attach such copies to their applications for export licenses.

Following the disposition of the preference requests, the Carteira will communicate regarding any necessary subsequent action with the Commercial Counselor in the Brazilian Embassy in Washington advising the American Embassy in Rio of the action taken. This will enable the United States Government to give maximum cooperation to Brazil and at the same time assure maximum possible production of needed supplies from the North American industry and the most efficient use possible of available shipping space.

The new provisions of the decentralization plan will become effective May 12, 1943.<sup>63</sup> The plan otherwise will continue as previously established.

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832.24/1740 : Telegram

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

RIO DE JANEIRO, June 10, 1943—1 p. m.

[Received 4:23 p. m.]

2815. The Rio de Janeiro press published yesterday a despatch from Washington that the Board of Economic Warfare has announced it will consider applications for export licenses covering merchandise not included in positive list published by Bank of Brazil, despatch No. 11339, May 21, 1943.<sup>64</sup> It appears that this action will be taken without consulting the Bank of Brazil or the Embassy. Dr. Vidigal informed Donnelly<sup>65</sup> and Winans<sup>66</sup> last night that issuance

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<sup>63</sup> The effective date of the Agreement was indicated in the Agreement as May 1, 1943, but it was not signed until May 7 and not delivered to the Embassy until May 10.

<sup>64</sup> Not printed.

<sup>65</sup> Walter J. Donnelly, Counselor of Embassy for Economic Affairs.

<sup>66</sup> Hubert C. Winans, Special Representative of the Office of Economic Warfare.

of such licenses for nonessential merchandise not covered by preference requests<sup>67</sup> constitutes a violation of the Decentralization Plan between the two countries. It is possible that the Foreign Office will consider the agreement without effect if the Board of Economic Warfare proceeds with the plan. This would establish a dangerous precedent and weaken our strategic materials agreements with Brazil, and imperil the effectiveness of the Brazilian export controls administered by Vidigal's office. Dr. Vidigal informed the Minister of Foreign Affairs<sup>68</sup> of his opinion and requested the Foreign Office to instruct Brazilian Consuls in the United States not to certify consular invoices on shipments of merchandise to Brazil that are not included in the Bank's positive list. At Donnelly's suggestion Vidigal telephoned the Foreign Office to postpone its instructions to the Consuls pending the receipt of information from Sarmanho. Vidigal pointed out that the list of essential merchandise is provided for in the Decentralization Plan and that he reluctantly published it only after repeated recommendations by representatives of the Department and the Board of Economic Warfare.

The Embassy is satisfied that unless a satisfactory formula can be worked out with Vidigal within the terms of decentralization agreement the Foreign Office will instruct Brazilian Consuls in the United States to limit visas to invoices covering articles on the positive list. Sarmanho told Vidigal on the telephone last night that the position taken by the Board of Economic Warfare at a recent meeting in Washington was contrary to the decentralization agreement and indicated that the Board was prepared to abandon the agreement if necessary. Sarmanho is sending Vidigal a letter and the latter states he will await receipt of it before acting.

Vidigal is very disappointed.

CAFFERY

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832.24/1740 : Telegram

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

WASHINGTON, June 17, 1943—5 p. m.

2244. Your 2815, June 10, 1 p. m. Some press speculation and trade letters and cables have resulted in erroneous information concerning Decentralization Plan for export control as operative in most of the other American republics. BEW<sup>69</sup> and the Department wish it definitely understood that published and unpublished rumors

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<sup>67</sup> See circular telegram of June 12, 7 p. m., p. 119.

<sup>68</sup> Oswaldo Aranha.

<sup>69</sup> Board of Economic Warfare.

to the contrary notwithstanding, there is, first, no intention to abandon decentralization; secondly, that any and all changes that may in the future be made will only be made after full consultation and concurrence on the part of the appropriate Government agencies in the other American republics and the United States; that no changes have been made through issuance of Bulletin 99<sup>70</sup> of the BEW which merely recognizes the right of American exporters to appeal to their Government directly in case of undue hardship. In the consideration of such cases, BEW will adhere strictly to the spirit and letter of the Decentralization Plan. The agreement to consult with the Carteira in all cases where the application is not accompanied by a preference request will be carried out. Unless and until altered agreements are entered into, the Decentralization Plan is in full effect as agreed upon and there will be no licenses issued except as provided for under the plan.

You are authorized to communicate the foregoing to the Government to which you are accredited adding that this Government would have no objection if it were published in the local press.

HULL

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832.24/2104a

*The Secretary of State to the Chargé in Brazil (Simmons)*

No. 4771

WASHINGTON, July 20, 1943.

The Secretary of State refers to the problem of supplying Brazil with certain small items which the various Brazilian Government purchasing commissions in Washington have tried to procure through the Office of Lend-Lease Administration but which transactions cannot be handled as Lend-Lease requisitions because of existing regulations.<sup>71</sup> These cover two types of materials—supplementary material or equipment for projects when valued less than \$300 and spot requirements when valued less than \$1,000. In addition, requests to the War Production Board for preference rating on forms PD-1A or PD-3A are occasionally returned to the Office of Lend-Lease Administration with a refusal to authorize the transaction because the material can be procured through normal commercial channels; in such cases the Office of Lend-Lease Administration returns the requisition to the Brazilian mission with that suggestion. However, when application

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<sup>70</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>71</sup> For correspondence on the negotiation of a Lend-Lease Agreement between the United States and Brazil and on procurement of strategic goods by the United States, see *Foreign Relations*, 1941, vol. vi, pp. 528 ff., and pp. 538 ff., and *ibid.*, 1942, vol. v, pp. 815 ff. and pp. 674 ff.

is made to the Board of Economic Warfare for supply assistance and export license, such application becomes subject to the decentralization procedure and the requirement of a Preference Request Recommendation. Even telegraphic clearance in such cases will involve delay which may be needless.

At a meeting held on July 5, 1943 this problem was discussed with representatives of the Board of Economic Warfare, Office of Lend-Lease Administration and the Brazilian Embassy. The following points which were covered and suggestions made are submitted for the information and approval of the Embassy and Carteira of the Bank of Brazil:

If the export licenses are for project materials, they will be included in the requirements program submitted to the Board of Economic Warfare by the Office of Lend-Lease Administration. However, if, as is generally the case, they are for spot or unprogrammed items, no provision will have been made for such items in the requirements program. It was pointed out that such spot items are ordered for urgent needs without sufficient advance notice to permit programming. On the other hand, the export licenses must be charged to some quota or allotment and hence it is desirable to make appropriate provision in setting up requirements. It was suggested that spot items could be charged to the Board of Economic Warfare contingency and thereby the civilian allocation would be unaffected.

The frequency with which particular items such as chemicals were ordered was discussed and assurances were given to the Board of Economic Warfare by the representatives of the Office of Lend-Lease Administration and Brazilian Embassy that such items were not recurrent.

It was the unanimous opinion that the following procedure would be feasible and should be presented to the Carteira in Brazil for consideration: When a particular item could not be handled for procurement by the Office of Lend-Lease Administration, it would so inform the Brazilian Purchasing Commissions. An application for export license accompanied by any necessary War Production Board applications would then be presented through the Office of Lend-Lease Administration. If the item were essential to the Brazilian military program, Lend-Lease would approve the application by a written memorandum or stamped approval and refer the item to the Board of Economic Warfare. The Board of Economic Warfare licensing officers would be instructed to grant such licenses without Preference Request Recommendations. If the item were of a type covered by estimate of supply, the license would be charged to contingency. In some cases, the contingency might not be large enough to cover the particular application; if so, either a supplemental quota or allotment would be obtained from the War Production Board or the Carteira would be requested by airgram or telegram to authorize a charge against the Brazilian civilian quota or allotment.

832.24/2199 : Telegram

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

RIO DE JANEIRO, September 3, 1943—1 p. m.

[Received 11 :20 p. m.]

4238. Department's circular telegram, August 31, 4 p. m., and Embassy's 4201, September 1 [2].<sup>72</sup> Alternative III<sup>73</sup> has been discussed with Dr. Vidigal who has proposal under consideration. His reaction was definitely unfavorable and he stated that Brazil would impose import controls if our export controls are removed.

I believe that he would give favorable consideration to Alternative I.

CAFFERY

832.24/2446

*Proposal by the Brazilian Ministry for Foreign Affairs for a Simplification of Export Controls*<sup>74</sup>

[Translation]

[RIO DE JANEIRO, October 8, 1943.]

In view of the increasing availability of shipping space, the purpose of this memorandum is to establish a procedure to facilitate the execution of the Decentralization Plan for the control of imports into Brazil from the United States of America, or via the United States, approved by an exchange of notes No. 1690 of April 20, 1943, from the American Embassy, and EC/169/832.1 (42) (22), of May 7, 1943, from the Foreign Office,<sup>72</sup> which Plan remains ratified in all of its terms not altered by the following provisions:

1. The importation of products essential to Brazil and subject to estimate of supply or quotas in the United States of America will continue to require (Preference Request) "Recommendations".

2. The importation of "non-essential" products subject to estimates of supply or quotas will also continue to require "Recommendations".

3. The importation of essential products not subject to estimates of supply or quotas will not require "Recommendations", but will be subject to the following conditions:

- a) Shipments will be made within the quotas established by the monthly shipping programs, and shipping space which becomes available will be used, as far as possible, in the proportions established by these quotas;

<sup>72</sup> Neither printed.

<sup>73</sup> See Department's circular telegram, August 23, 7 p. m., p. 122.

<sup>74</sup> Presented by the Brazilian Minister for Foreign Affairs (Aranha) to the Ambassador in Brazil under cover of note of October 8 (not printed) as text of proposed supplementary agreement; copies transmitted to the Department by the Ambassador in his despatch No. 13102, October 15; received October 23.

b) The carrying out of this procedure, which concerns particularly Brazilian economy, will be guided in the United States of America by the Commercial Counselor of the Brazilian Embassy in Washington, who will act as representative of the Carteira in such matters, in accordance with the provisions of item 7 of the memorandum <sup>76</sup> which accompanied the above mentioned notes exchanged between the American Embassy and the Foreign Office.

c) The Carteira will control, a posteriori, the execution of this plan, by ships' manifests which will be immediately and directly forwarded to it.

4. The importation of "non-essential" products not subject to estimates of supply or quotas will also not require "Recommendations".

5. "Non-essential" products, whether or not subject to estimates of supply or quotas, may only be shipped when there is no cargo of essential products to be transported, the latter to be given full priority.

6. The expectation of increasing shipping space, which justifies the accepted alterations, also makes it advisable to establish a procedure which will assure the complete utilization of space on ships voyaging from Brazil to the United States of America, observing for such shipments, however, the priorities established by "General Import Order M-63".<sup>77</sup>

7. The Ministry of Foreign Affairs, through the Brazilian Consulates in the United States of America and the Commercial Counselor of the Brazilian Embassy in Washington, will take steps looking toward the satisfactory execution of the provisions contained in items 1 to 5 of this understanding.

(Signed)

A. DE MAGALHAENS  
Chief, Economic and  
Commercial Division

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832.24/2628

*The American Ambassador in Brazil (Caffery) to the Brazilian Minister for Foreign Affairs (Aranha)* <sup>78</sup>

No. 1942

RIO DE JANEIRO, November 9, 1943.

EXCELLENCY: I have the honor to refer to the note of Your Excellency of October 8, 1943, number DEC/373/832.1(42)(22)<sup>76</sup> attaching a Memorandum <sup>79</sup> proposing the partial modification of the existing procedure now being followed by the Carteira de Exportação

<sup>76</sup> Not printed.

<sup>77</sup> War Production Board order of January 18, 1943; see 8 *Federal Register* 850.

<sup>78</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 13671, December 2; received December 10. This supplementary agreement by an exchange of notes was authorized in Department's telegram No. 4145, November 6, midnight (832.24/2501).

<sup>79</sup> *Supra*.

e Importação of the Bank of Brazil, with the collaboration of my Embassy, in handling Preference Requests for the importation of materials from or via the United States.

The Memorandum described above was referred to my Government which has offered certain suggestions in view of existing conditions. I, therefore, now have the honor to transmit for Your Excellency's kind consideration a new Memorandum on the subject, on which representatives of the Carteira, my Embassy and the Commercial Counselor of Your Excellency's Embassy in Washington are in agreement.

I submit this having in mind the provisions of Your Excellency's note of October 8, referred to previously.

[Enclosure]

*Memorandum of Agreement on Supplementary Decentralization Plan*

It is recognized that under the present changing wartime conditions the exportation of commodities from the United States covered by the Decentralization Plan must be assisted in so far as possible by flexible controls which themselves are contingent upon the availability of supply. With this in mind and recognizing the importance of utilizing to the fullest extent possible every ship sailing for Brazil, the following principles chosen on the basis of the prevailing supply conditions will govern the exportation of products from the United States to Brazil.

1. The importation of products subject to estimates of supply or allocations made to Brazil (short supply) will continue to require Preference Request Recommendations.

2. The importation of products which are considered to be in free supply will not require Preference Request Recommendations or Export Licenses.

3. The importation of products which while not considered in short supply, are subject to manufacturer's export quotas or similar restrictions of the War Production Board or other Agency of the United States Government, will not require Preference Request Recommendations. The representative in the United States of the Carteira de Exportação e Importação do Banco do Brazil, the Commercial Counselor of the Brazilian Embassy, will, however, be notified of the granting of every quota assigned to Brazil.

4. In case any materials in short supply may temporarily become available in such quantities as to make possible the satisfaction of export demands, the Foreign Economic Administration will have the authority, while this exceptional supply contion [*condition*] lasts, to



grant Export Licenses even if the corresponding applications are not covered by Preference Request Recommendations. It is nevertheless understood that applications accompanied by Recommendations or to which Recommendations have been issued are to have preference over all others. Distressed materials and used machinery and equipment not subject to allocations may be exported without an accompanying Recommendation provided the exportation is in the interest of the war effort and the economy of Brazil. Applications for Export Licenses or Statements of Cargo Available for materials of this category will receive preferential treatment if accompanied by Recommendations.

5. Preference Request Recommendations will not be required where the goods have a value of dollars twenty-five or less.

6. Shipment of all commodities to Brazil will be made, insofar as possible, within the quotas established by the monthly shipping programs and in accordance with the following procedure: (a) materials for special projects or under the Lend Lease program will continue to be shipped within the quotas established by the monthly shipping programs; (b) materials considered by the Carteira as essential to the Brazilian economy, whether requiring Preference Request Recommendations or not will have preference within available shipping and available cargoes, and (c) materials not considered by the Carteira as essential to the Brazilian economy will be shipped only when, either for lack of cargo or for technical reasons, the ships will not be able to take any more essential materials. The representative of the Carteira will, as heretofore, participate in the preparation of the monthly shipping programs.

7. While the impossibility of controlling individual shipments is recognized, the representative of the Carteira in the U. S., the Brazilian Commercial Counselor, in order to assist in the execution of paragraph 6 above, will furnish a list of all those commodities the shipment of which the Brazilian authorities consider essential to the maintenance of their basic economy.

8. In order that the representative of the Carteira in the United States, the Brazilian Commercial Counselor, may keep himself currently informed of the execution of the above plan, the War Shipping Administration will currently furnish the office of the Brazilian Commercial Counselor with a copy of each "eligible cargo list" as soon as it has been prepared for distribution.

9. In order to insure the complete employment of space on vessels voyaging between Brazil and the United States the appropriate authorities of the United States Government will give consideration to

any proposal received from the Brazilian Government for the shipment of products to the United States observing for such purposes however the provisions of General Import Order M-63.

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832.24/2628

*The Brazilian Minister for Foreign Affairs (Aranha) to the American Ambassador in Brazil (Caffery)*

[Translation]

DEC/440/832.1 (42) (22) [RIO DE JANEIRO,] November 24, 1943.

MR. AMBASSADOR: I have the honor to acknowledge receipt of note No. 1942 of November 9, 1942 [1943], with which Your Excellency submitted for the approval of the Ministry the final draft of a Memorandum the object of which is to modify, in part, the existing procedure, between your Embassy and the Carteira de Exportação e Importação of the Bank of Brazil, for the handling of "Preference Requests", referred to in the exchange of notes, between your Embassy and the Ministry of Foreign Affairs on April 20 and May 7, 1943,<sup>81</sup> respectively.

In reply, I wish to inform you that the Brazilian Government is in accord with the modifications referred to, it being understood that there will prevail all the procedures previously adopted not expressly modified by the Memorandum whose translation in Portuguese accompanies the present note.

I improve the opportunity to renew to Your Excellency the protests of my highest consideration.

OSWALDO ARANHA

#### CHILE

800.8820/922 : Telegram

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

WASHINGTON, January 9, 1942 [1943]—9 p. m.

27. Owing to the liberal licensing policy of the Board of Economic Warfare with respect to exports to the other republics there are now produced very substantial quantities of materials which are awaiting shipment. With regard to certain countries, including that to which you are accredited, the backlog of goods now licensed and produced exceeds the available shipping space for many months.

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<sup>81</sup> Not printed.

The composition of this backlog and the tonnages involved are summarized as follows:

Iron and Steel	6,519 tons
Other paper	392 "
Caustic and soda ash	1,174 "
Wood pulp	2,588 "
Petroleum products	1,084 "
Fire brick and clay	1,101 "
Naval stores	671 "
Machinery	1,513 "
Lithopone	42 "
Paints and paint products	212 "
Other chemicals	2,528 "
Glass	1,175 "
Lumber	81 "
Lead	134 "
Carbon black	5 "
Cement and plaster	852 "
Foodstuffs	66 "
Miscellaneous	4,559 "
Yarns and cloth	436 "
Explosives	46 "
Agricultural machinery	95 "
Projects	135 "
Cargo on West Coast—	
Breakdown not available	14,317 "
Total	39,725 tons

In addition there are 2,687 tons of newsprint and 2,380 tons of coal and coke licensed. These commodities will be shipped in accordance with existing arrangements.

You will appreciate that in addition to the known backlog a large volume of goods will come forward as result of outstanding licenses plus additional licenses contemplated hereinafter and that it will take many months to liquidate these combined cargoes at the rate of 10,000 tons (target tonnage) per month.

While new ship construction is currently very satisfactory this will not relieve commercial cargo routes inasmuch as the tonnage requirements of the military forces must receive preference.

[The remainder of this instruction, which concerns the selective commodity licensing program of the Board of Economic Warfare, is the same, *mutatis mutandis*, as the last nine paragraphs of telegram No. 39, January 9, 9 p. m., to the Ambassador in Bolivia, printed on page 132 (see portion beginning "In order to alleviate", page 133).]

HULL

800.8820/959

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

No. 5442

SANTIAGO, January 14, 1943.

[Received January 25.]

SIR: I have the honor to refer to the Department's triple-priority telegram dated January 9, 1943, informing the Embassy of the very substantial quantities of licensed materials now awaiting shipment at seaboard, and stating that in order to alleviate present cargo conditions by the movement of such goods, a very stringent licensing program is to be effectuated by the Office of Exports.

Pursuant to the Department's request that the Missions review the present cargo problem with the appropriate authorities of the local government, I am pleased to inform you that, in conference with the Director of the National Foreign Trade Council (Consejo Nacional de Comercio Exterior) the existing cargo situation was outlined, as well as the method to be pursued by the Office of Exports in the movement of these goods already licensed. It was very carefully stressed that the licensing program to be adopted by the Office of Exports would in no way prejudice the licensing and movement of urgently needed goods. The response by the Chilean authorities to this plan for liquidating the backlog of goods awaiting shipment was excellent. The officials of the Council were very sympathetic to the problem presented, and were in complete agreement that the course outlined for dealing with present conditions was a realistic and necessary one.

The Economic Division of the Embassy and myself look forward to the pending visit of Mr. Horton Henry of the Department and Dr. H. A. Wilkinson of the Board of Economic Warfare on or about February 15 to present a modified plan of decentralized export control. For some time there has been in the process of formulation a complete plan for such modified decentralization, designed to meet local conditions, which it was proposed to present for the consideration of the Department. In view of the pending visit of Mr. Henry and Dr. Wilkinson, I hasten to submit this plan in order that it may be reviewed and considered prior to the presentation of a specific plan by the Export Control authorities in Washington. I do so with the thought in mind that any plan of decentralization must be designed to meet local conditions, and must be formulated in the light of actual operating experience over an extended period of time.

At the present time, strict domestic control over exportations from the United States extends only to allocated commodities. As a result, it has been a frequent observation by Chilean Government officials

that cargo space is being utilized, to a large extent, in transporting cargo which, while considered commercially desirable, has no real significance to the economic well being of the country. The present cargo situation, as outlined in the Department's telegram, serves to reveal more clearly the validity of these observations. The natural consequence of such observations has been a complete willingness on the part of the Chilean Government to render every assistance to a plan designed to further domestic control over exports from the United States to Chile.

Discussions of the practical aspects of decentralized export control have resulted in a common agreement to the extension of the "Certificate of Recommendation" procedure whereby the National Foreign Trade Council would issue such a Certificate to every importer desiring to import essential material from the United States, with the exception of allocated commodities which would continue to be controlled, as in the past, by Certificates of Necessity. The issuance of such Certificates of Recommendation would, of course, be based on and limited to the periodic shipping tonnage estimates after taking into consideration the tonnage consumed in the movement of allocated goods and, if necessary, matériel consigned to those projects engaged in the production of war materials which have been singled out for special treatment by the authorities in Washington. An integral part of any plan for domestic control over exports is Embassy approval of all Certificates of Recommendation in much the same fashion as Certificates of Necessity, in the case of allocated commodities, are now approved. It is anticipated that this proposal will not be effectuated until about the time present port congestion will be relieved by the modified licensing policy to be adopted by the Office of Exports. Such a time lag will be necessary to enable importers in Chile and suppliers in the United States to adjust themselves to the new requirements.

In my Despatch No. 5322 dated December 30, 1942,<sup>82</sup> entitled "Monthly Freight Space Allocations", and in the previous despatches referred to therein, there was outlined, in some detail, the basis upon which the Council issued Certificates of Recommendation. By way of summary, it was indicated that the Council had formally agreed to limit the issuance of Certificates of Necessity and Certificates of Recommendation to the estimated amount of shipping space available per quarter. In addition, the Council has also been approached concerning the feasibility of using the issuance of Exchange Control Permits as an even stricter instrument of control than has previously been the case. Under this system dollar exchange to cover orders placed for any commodities proposed for importation would be

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<sup>82</sup> Not printed.

granted only in those cases authorized by appropriate Certificates. Such measures will constitute dual protection against the issuance of governmental endorsements of exports from the United States to Chile in excess of estimated shipping tonnages. Furthermore, by subjecting these documents to the approval of the Embassy, such export proposals would be in harmony with existing restrictions on strategic materials now effective in the United States.

I have no hesitancy, from a practical point of view, in offering this proposal for domestic control over United States exportations owing to the completely successful operation of the allocation program so far as concerns relations between the Embassy and the Chilean Government authorities. To the knowledge of the Embassy, no Certificate of Necessity has been issued in the past six months without its endorsement. While there has not been complete unanimity of feeling on every Certificate which has been presented for approval, from the standpoints of essentiality, consignee status, etc., it has been the rigid policy of the Council to accept the Embassy's recommendation as final, with the only recourse being an appeal back through the Embassy.

Briefly, the Embassy's plan for a modified form of decentralization contemplates that on and after a given date all proposed exportations from the United States to Chile shall be subject to the issuance, by the appropriate authorities of the Chilean Government, of a Certificate of Necessity in the case of allocated commodities or a Certificate of Recommendation in the case of all other commodities and that, as a correlative measure of control, no proposed exportations from the United States to Chile shall be authorized by the Export Control authorities in Washington without the prior presentation of either a corresponding Certificate of Necessity or Certificate of Recommendation as the case may be, except as otherwise hereinafter specified.

CLAUDE G. BOWERS

810.651/61

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

No. 2708

WASHINGTON, February 11, 1943.

The Secretary of State refers to the Embassy's despatch no. 5070 dated November 30, 1942<sup>83</sup> concerning the failure of the Chilean Government to adopt tin conservation measures and requesting the Department to authorize the Embassy to make representations to the Chilean Government that future shipments of tin to Chile may be discontinued if such conservation measures are not adopted.

<sup>83</sup> Not printed.

Reference is made to the Embassy's report no. 69 of August 14, 1942<sup>85</sup> setting forth Chile's 1943 essential tin requirements. On page 3 it is reported that Recuperadora Metalúrgica, S.A., has been experimenting with tin refining for over four years and may be able to increase its output depending upon the result of negotiations now pending with the Metals Reserve Company. The report estimates the essential tin import requirements from the United States for 1943 at 109.4 metric tons.

Reference is also made to the Embassy's despatch no. 4264 of August 24, 1942,<sup>85</sup> concerning the operations of the Chilean tin smelting and refining plant, Recuperadora Metalúrgica, S.A. It is indicated that shipments have been arranged for the importation of graphite electrodes from the United States to permit Recuperadora Metalúrgica, S.A., to increase its operations in connection with its tin refining of cassiterite which is being purchased monthly from Bolivia in accordance with an authorization from the Metals Reserve Company. It was estimated that operations of the tin smelting and refining plant would produce approximately twenty-five metric tons of tin ingot per month, or at the rate of about 300 metric tons per year. In as much as this is more ingot tin than is required by Chile for the year 1943, please inform the Department if the refining operations have been successful, and if there is an excess of production of tin ingot, to what country or countries it is being exported.

If these refining operations are found to be unsuccessful and if Chile is not self-sufficient in the production of tin ingot, the Embassy is authorized to make representations to the Chilean Government that future shipments of tin to Chile may be discontinued in the event that appropriate conservation measures are not adopted by the Chilean authorities.

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825.24/1017

*The General Manager of the Chilean National Foreign Trade Council (Adriasola) to the American Counselor of Embassy for Economic Affairs in Chile (Butrick)*<sup>86</sup>

[Translation]

G.

S.G. No. 54

SANTIAGO, March 10, 1943.

DEAR SIR:

*New Plan:* The Directive Council during its session on March 9, accepting a petition of the Vice-President of the Fomento Corporation

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<sup>85</sup> Not printed.

<sup>86</sup> Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 6338, April 29, 1943; received May 11.

agreed to address you informing you that the National Foreign Trade Council has no objection in according to Fomento Corporation a special treatment in the importation of machinery and installations designated for the industrial development of the country and which would consist in the following:

1) The Fomento Corporation will present to the National Foreign Trade Council an application for a general license covering each project;

2) For this general license, the Fomento Corporation will be able to negotiate directly in the United States, before the United States authorities, the priorities and licenses as well as effecting all the negotiations necessary to export to Chile the machinery and installations covered by the project.

3) If the shipping space for the transportation of this machinery should exceed the balance of available shipping space assigned to Chile, the Fomento Corporation will provide their transportation by means of extraordinary or additional space, it being understood that this extraordinary or additional space will not be considered as part of the quota assigned to Chile.

4) The balance of the quarterly estimates of supply can be covered by the Fomento Corporation under the same conditions.<sup>87</sup>

With the acceptance of this proposition the Directive Council wishes to leave on record the high consideration in which it holds the Fomento Corporation, as well as its desire to receive their suggestions with real interest.

I beg you to inform Messrs. H. Arnold Wilkinson and Horton Henry of this agreement, requesting them to deal with it as they consider most convenient in order that it may receive favorable consideration.

Very truly yours,

ADOLFO ADRIASOLA Q.

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825.24/1017

*The General Manager of the Chilean National Foreign Trade Council (Adriasola) to the American Counselor of Embassy for Economic Affairs in Chile (Butrick)*<sup>88</sup>

[Translation]

G.

S.G. No. 55

SANTIAGO, March 10, 1943.

DEAR SIR:

*Decentralization Plan "A":*<sup>89</sup> I take pleasure in calling your attention to the fact that the Directive Council, during its ordinary meeting

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<sup>87</sup> Point 4 is crossed out and questioned in file copy. For explanation, see third paragraph of instruction No. 3162, June 18, p. 170.

<sup>88</sup> Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 6338, April 29, 1943; received May 11.

<sup>89</sup> For an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.



yesterday, became acquainted with the Memorandum received from Messrs. Wilkinson, of the Board of Economic Warfare, and Horton Henry, of the Department of State, which describes generally the procedure or plan under consideration to decentralize from Washington some phases of the activities of the abovementioned Board of Economic Warfare.

With the explanations given by Messrs. Wilkinson and Henry, the declaration made by the Vice-President and the information supplied by the Industries and Supplies Commission, the Council was able to come to a complete understanding of the benefits to be derived from the new plan, which in turn reaffirms some of the procedures in practice, and, for this reason, it was accepted.

As this plan requires that, as a preliminary condition, the Chilean Government should centralize in the National Foreign Council all matters related to the examination of import applications from the United States and the granting of Import Recommendations, the Directive Council agreed to recommend the new plan and inform the Minister of Economy and Commerce, in order that taking this suggestion into account he may make the necessary arrangements.

For their part the Directors of the Council understand that the agreements concerning estimates of supply of raw materials for use in Chile are not changed and continue in full force and that no charge is made against them for metals or other materials used in the United States in the manufacture of articles exported to Chile.

Finally and as a result of our agreement the phrase "Black List" in clauses 3 and 10 is not considered to be inflexible, and has been replaced and changed to the form agreed, adding to this clause the following insert:

In such case, the new consignee will be obliged to return, in favor of the aforementioned, the sums paid or disbursed for the price, expenses, et cetera, of the merchandise.

Very truly yours,

ADOLFO ADRIASOLA Q.

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825.24/1017

*The American Counselor of Embassy for Economic Affairs in Chile (Butrick) to the General Manager of the Chilean National Foreign Trade Council (Adriasola)*<sup>90</sup>

SANTIAGO, March 11, 1943.

DEAR SIR: I have pleasure in acknowledging receipt of your letter no. 2806, dated March 10, 1943 (reference AAQ/AGF.-G. S.G. No. 55) and am glad to note that the decentralization plan for export

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<sup>90</sup> Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 6338, April 29, 1943; received May 11.

control on merchandise exported from or by way of the United States to Chile, which plan was recently presented to the appropriate authorities of the Chilean Government by Dr. H. A. Wilkinson of the Board of Economic Warfare and Mr. Henry Horton [*Horton Henry*] of the Department of State, has been approved by the said authorities.

Very truly yours,

RICHARD P. BUTRICK

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825.24/902 : Airgram

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

SANTIAGO, March 18, 1943.

[Received March 23—5 p. m.]

A-410. Reference is made to the recent visit of Horton Henry and Dr. Wilkinson regarding the decentralization of export control.

Memorandum OE-3-3FBA dated January 13, 1943, of the BEW<sup>91</sup> regarding the proposed mechanics for decentralization of consignee control states as follows:

"In countries where the Preference Request is to be used, such screening will make it unnecessary for an additional check to be made in Washington as to the satisfactory nature of any consignee or ultimate user named therein when the Preference Request is forwarded to BEW. However, if only a modified plan of decentralization of export control is in effect with the respective country (similar to the one suggested for Colombia) license applications in certain cases will have to be checked in Washington, despite the fact that the Certificate of Necessity or Certificate of Essentiality has been screened in the field."

Since it was agreed to institute full decentralization of export control in Chile as of April 1, 1943, it is assumed that the Department and BEW intend to decentralize consignee control also. This point, however, was not made clear during the Henry-Wilkinson visit. If such consignee control decentralization has been approved for Chile, please telegraph me the date on which the Embassy should inaugurate its new case file of intelligence material to cover the interim period of transfer of files from Washington to Santiago during which the Department will be unable to summarize on the Abstract-Licensing cards.

BOWERS

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825.24/954 : Telegram

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

WASHINGTON, April 6, 1943—7 p. m.

403. Your A-364 of March 11.<sup>92</sup> Please urge Chilean authorities to announce immediately to the trade the list of non-importable articles,

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<sup>91</sup> Board of Economic Warfare.

<sup>92</sup> Not printed.

in accordance with Henry's and Wilkinson's understanding that this would be done. In fairness to United States exporters it is desired to publish the list here at once, but announcement by the Chilean Government should take place previously or coincidently. Telegraph reply.

HULL

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825.24/954 : Telegram

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

SANTIAGO, April 8, 1943—2 p. m.

[Received 6:01 p. m.]

662. Department's No. 403, April 6, 7 p. m. Embassy continues to urge importance of this matter upon Chilean authorities several times daily. It is expected that importable list will be available to the public within 3 days.

BOWERS

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800.8820/1148 : Telegram

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

SANTIAGO, April 13, 1943—1 p. m.

[Received 2:12 p. m.]

686. Reference Embassy's despatch no. 5979, March 16, 1943.<sup>94</sup> Export control decentralization plan effective April 1 requires maintenance of statistics to insure close coordination in tonnage available and Import Recommendations issued. Embassy is unable, however, to establish a target tonnage figure without specific information concerning substantial difference between tonnage known to be arriving in Chile and tonnage announced by Washington as available per month.

Please cable reply.

BOWERS

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800.8820/1107 : Airgram

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

WASHINGTON, April 15, 1943—5:10 p. m.

A-717. With reference to the Embassy's despatch no. 5979 of March 16, 1943<sup>94</sup> the target tonnage of 10,000 tons for Chile is not a maximum figure, but tonnage below which the War Shipping Administration will attempt not to fall. The actual movement has generally been in excess of the target.

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<sup>94</sup> Not printed.

The Embassy is correct in assuming that the War Shipping Administration established the target tonnage after a calculation of all tonnage available, foreign as well as national. The target tonnage for Chile does not include requirements of coal which have been, and will be, made without regard to the target.

The Department and War Shipping Administration are unable to reconcile the statistics of Chilean imports, as submitted by the Embassy, with the War Shipping Administration statistics of exports for similar months. Unfortunately the War Shipping Administration statistics show a combined figure of exports to Chile and Bolivia; this serves to make the discrepancy in figures even less understandable. The comparison is as follows:

<i>Month</i>	<i>Embassy's Report on Imports Into Chile from U.S.</i>	<i>WSA Statistics of U.S. Exports to Chile and Bolivia Total Dry Cargo</i>
<i>1942</i>	<i>Metric Tons</i>	<i>Long Tons</i>
July	29, 842	21, 168
August	22, 645	13, 852
September	15, 293	13, 709
October	17, 951	25, 645
November	16, 508	8, 532
December	31, 867	19, 334
<i>1943</i>		
January	Not available	10, 275
February	" "	15, 185
March	" "	19, 100

Any further information that the Embassy can provide in explanation of the above discrepancies will be appreciated; specifically whether the Embassy's figures include re-exports and in transit shipments. The War Shipping Administration especially requests the names, if possible, of the vessels which arrived in Chile carrying goods from the United States during the months shown above. The Embassy's calculation of the south-bound tonnage available must not be considered as indicating potential availabilities for Chile in as much as the West Coast ships, including the Chilean Line, carry cargo also for Colombia, Ecuador, Peru and Bolivia as well as Chile.

In connection with the issuance of Import Recommendations within a fixed forward estimate of target tonnage, the Department's instruction no. 2860 of March 22, 1943 <sup>95</sup> states that Recommendations may be issued to cover a volume equal to 125 percent of the quarterly target tonnage tentatively fixed for civilian requirements. Such an issuance of new orders, plus the backlog (see instruction no. 2860 of March 22, 1943) should provide adequate cargo for any shipments in excess of the target made as and when possible by War Shipping Administra-

<sup>95</sup> Not printed.

tion, and should preclude the possibility of a cargo shortage. If, at the end of the second quarter, the conditions and prospects warrant, the Embassy will be instructed to inform the Chilean Government to issue a larger percentage of overage against the target tonnage.

For the *strictly confidential* information of the Embassy, and press reports notwithstanding, the forward prospects for commercial tonnage movement are *not* favorable and the Embassy should lose no opportunity quietly to urge the Chilean authorities to continue to perfect economic controls, distribution, and the internal allocation of commodities under the decentralization plan, so that if necessary the Chilean economy can be sustained on the basis of a target tonnage of 10,000 tons per month.

HULL

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800.8820/1148 : Telegram

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

WASHINGTON, April 17, 1943—7 p. m.

430. Your 686, April 13. Chile's target tonnage was established by the Department's instruction no 2860 of March 22<sup>98</sup> at 10,000 tons.

Reply to your despatch no. 5979 is contained in Department's A-717 of April 15.

HULL

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825.24/1018 : Airgram

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

WASHINGTON, May 22, 1943—7:30 p. m.

A-836. Your [A-]601, May 4.<sup>98</sup> Decentralization Plan A is not designed to apply to shipments from one South American country to another. General Intransit licenses through the Canal Zone remain in effect for such shipments.

Consular invoices and special M-63<sup>99</sup> certificates are not required for such shipments. M-63 applies only to materials destined for the continental United States.

HULL

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825.24/1017

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

No. 3162

WASHINGTON, June 18, 1943.

The Secretary of State refers to the Embassy's despatch no. 6338 of April 29, 1943<sup>98</sup> regarding the Decentralization Plan, and in par-

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<sup>98</sup> Not printed.

<sup>99</sup> General Imports Order M-63 issued by the War Production Board; see 8 *Federal Register* 850.

ticular to enclosure no. 1 transmitting a letter dated March 10 to the Embassy from the National Foreign Trade Council<sup>1</sup> stating that it had no objections to according special treatment to the Chilean Development Corporation in connection with the importation of machinery and installations for the industrial development of Chile. The Embassy in reply to this letter indicated that the matter had been referred to the Department for consideration.

As the Embassy is aware, the Department has previously indicated that it had no desire to hinder the operations of the Chilean Development Corporation, and it would be glad to consider any practical means within the decentralization procedure which would facilitate the handling of Fomento's applications for export licenses.

The Department has discussed the matter with Mr. Roberto Vergara of the Chilean Development Corporation and has arrived at the following understanding with him, which understanding, it will be noted, represents a clarification of points 1, 2 and 3 of the letter of March 10, and the deletion of point number 4, Mr. Vergara having voluntarily withdrawn point number 4 from the discussion:

(1) For its ordinary applications, Fomento will submit import recommendations in accordance with the basic principle of the Decentralization Plan.

(2) For projects involving considerable technical study (such as the proposed steel mill, for instance) Fomento will, at the time of presenting its application, furnish a brief preliminary import recommendation describing the project in general terms. This document will serve to indicate to the Department that the Consejo and the Embassy approve of the project in principle, and will at the same time constitute the authorization to use the indicated amount of target tonnage for the purpose, if the material is not to be transported on Fomento's own vessels. (As the Embassy is aware, Fomento has in the past shipped a considerable volume of cargo on its own ships, such cargo not being deducted from the established target figure.)

The Department and the War Agencies will then study the application in detail, process it with particular reference to its technical aspects, and make any necessary adjustments. In the event it should be found that any materials involved would have to be deducted from the estimates of supply for Chile (raw materials which go into the manufacture of machinery are usually not deducted from the estimates), the amount of such materials will then be ascertained and Fomento so informed. Fomento will then obtain a final import recommendation authorizing these materials to be deducted from the Chilean estimates.

It is believed that this procedure will meet the request of Fomento that the technical matters relating to its applications continue to be

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<sup>1</sup> *Ante*, p. 165.

handled in Washington, and at the same time the basic principle of decentralization will remain in effect.

For the Embassy's information it may be added that Mr. Vergara states Fomento, in the future, will seldom engage in such commercial activity as would involve materials properly deductible from the estimates of supply.

The Embassy is requested to inform the Consejo of the understanding at which the Department and Fomento have arrived in this connection. Should the Embassy have any views to express on the matter, the Department would be pleased to receive them.

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825.24/1395

*Memorandum by a Representative of the Office of Economic Warfare  
in the Embassy in Chile (Price)*<sup>2</sup>

SANTIAGO, August 28, 1943.

. . . This program of education which has been entailed in the establishment of the Decentralization Plan on a firm working basis, has served to inform exporters and importers that they are to be treated on an equal basis and that only by a strict observance of the requirements of the Decentralization Plan procedures can they be sure of an observance of the well-established policy of the United States Government of full protection to established business interests both in the United States and other American Republics. Departures from the established procedures are bound to lead to corresponding corrective measures later on if the supply and demand situation changes. Such was the situation in the United States at the time when never a week passed but what dozens of changes were made in general licenses and unlimited licenses until finally the export trade was completely bewildered and never knew at a given moment whether they should or should not apply for an individual export license or whether unlimited or some other type of license, the procedures under which varied in each case. It was the chaotic condition brought about by this series of changes which raised the clamor of the American exporter to its highest peak and dictated the necessity of a radical change in the entire field of export control. There followed a period of several weeks of the most intensive study of possible revisions in the manner in which export control had been conducted theretofore. These studies were participated in by representatives of the various agencies of the Government longest experienced in the export control

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<sup>2</sup> Leonard H. Price, Chief, Requirements Section in the Embassy. This memorandum was transmitted to the Department by the Ambassador in Chile in his despatch No. 7482, September 7; received September 13.

field as well as by a representative cross-section of American business interests. In addition, the Missions in the field were consulted and had an opportunity to give the full benefit of their observations from the point of view of their product under export control. As a final result of this intensive program to develop a stable workable system, Decentralization Plan A was adopted as a means of controlling exports in a manner conducive to the best interests of all concerned.

Decentralization Plan A has not been in full operation for more than three months during which time all agencies have been devoting their best efforts toward correcting its imperfections. This process has hardly reached the point where we can say it has been completed. All these efforts, however, have been devoted to perfecting procedures as they exist in the Decentralization Plan in order that that Plan in its entirety may be given a fair trial. These efforts would be thwarted to a large extent if radical changes such as the one under consideration<sup>3</sup> were permitted before an opportunity is had for the Plan to demonstrate its workability.

In view of the foregoing, and in view of the fact that the Decentralization Plan, as operating in Chile, has already demonstrated a sufficient flexibility to permit us to take full advantage of changes in the supply and shipping picture as we are informed of such changes by the authorities in Washington, I can not help but feel that it would be premature at this time to attempt to bring about a major change such as that mentioned in your memorandum.<sup>4</sup>

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825.24/1351 : Telegram

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

SANTIAGO, September 1, 1943—6 p. m.

[Received 9:36 p. m.]

1542. Department's circular telegram of August 31, 4 p. m.<sup>5</sup> Embassy has discussed the matter with Under Secretary of Economy and Commerce and Country Agency.<sup>6</sup> They are in favor of all simplification possible by American authorities as soon as possible. They express hope that export price controls in United States will continue and that needed strategic materials such as iron, steel, et cetera, will continue to enjoy preferred production and shipping. The Chilean

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<sup>3</sup> This refers—as does the Ambassador's covering despatch—to the Department's circular airgram of August 23, 1943, 7 p. m., in which such changes were proposed. For text of this airgram, see p. 122.

<sup>4</sup> i.e., memorandum by R. L. Bearden, Assistant for Exports in the Embassy. The major change suggested was that "commodities not under allocation and which are relatively in free supply be declared open and not subject to Import Recommendations".

<sup>5</sup> Not printed.

<sup>6</sup> The Chilean office responsible for administering import controls.



Government will continue its control of imports through exchange control and issuance of import permits now in force.

While the Embassy has spent considerable effort in developing with the Country Agency Plan A to the point where it is working well, the Embassy welcomes simplification of our export trade to the maximum consistent with and conducive to our war effort. Frequent changes of documentation, procedures and supply position tend to upset trade and the market and favor speculation. Special representative OEW<sup>7</sup> concurs. Canadian Trade Commissioner received instructions yesterday to consult Chilean authorities along similar lines and has reported to his Government favorable reaction of Chilean authorities.

We are continuing Plan A until further instructed. If new procedure is put into effect and personnel now employed no longer needed here they will be glad to serve elsewhere.

BOWERS

#### COLOMBIA

821.24/444 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, March 28, 1943—3:15 p. m.

[Received 10:28 p. m.]

554. Reference copy of time schedule enclosed with instruction no. 1123 of March 22<sup>8</sup> on Decentralization Plan. Deadline of May 15 for Import Recommendations covering various materials thought impracticable with May 1 initiation of Plan "A".<sup>9</sup> Should deadline not be June 15?

LANE

821.24/440 : Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, March 29, 1943.

399. Your 516 of March 22.<sup>10</sup> The Board of Economic Warfare is now certifying, and will continue during the 60-day period to certify for shipment, only those materials listed in despatch no. 1582<sup>11</sup> as importable. The Embassy should, however, bear in mind that materi-

<sup>7</sup> Leonard H. Price of the Office of Economic Warfare, successor agency to the Board of Economic Warfare.

<sup>8</sup> Not printed.

<sup>9</sup> Decentralization Plan A; for an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>10</sup> Not printed.

<sup>11</sup> Not printed; this list was a selection of articles according to Schedule B. Schedule B was a statistical classification of domestic and foreign commodities exported from the United States, drawn up by the Bureau of the Census, Department of Commerce.

als covered by general license and weighing less than 2240 pounds do not require certification by the Board of Economic Warfare and some such shipments, even though considered non-essential, will undoubtedly continue to arrive until the Decentralization Plan is fully effective.

HULL

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821.24/444 : Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, April 5, 1943.

435. Your 554, March 28. Deadline May 15 cannot be modified, but as Decentralization Plan only becomes effective May 1, suggest Superintendencia de Importaciones issue certificates of necessity in the interim against estimate of supply handling them as heretofore, but if possible send an additional copy of each certificate bearing comments, should you not fully concur with the Superintendencia's recommendation.

Certificates of necessity will be honored until July 1, but urge the earliest possible use of import recommendations.

HULL

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821.24/538 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, June 1, 1943—9 p. m.

[Received June 2—3:15 a. m.]

946. United Press reports appearing in Colombian press May 31 quotes Hector Lazo of the Board of Economic Warfare<sup>12</sup> as stating that the Decentralization Plan will be applied in the future only on articles subject to control by War Production Board. Please telegraph urgently whether this statement is true as the effect on the local certifying agency of this unconfirmed report is further to delay the issuance of Import Recommendations.

LANE

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821.24/538 : Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, June 6, 1943—10 a. m.

725. From Hector Lazo. Your 946, June 1. The Board of Economic Warfare has no intention of abandoning the decentralization

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<sup>12</sup> Assistant Director in charge of the Office of Exports.

program. BEW has received recommendations from exporters for certain modifications. No radical changes will be made under any circumstances without full consultation with State Department, the missions abroad and, wherever necessary, the agencies of the countries involved. [Hector Lazo.]

HULL

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821.24/569 : Telegram

*The Chargé in Colombia (Warren) to the Secretary of State*

Bogotá, June 22, 1943—7 p. m.

[Received 11:26 p. m.]

1079. Department's telegram 764, June 18.<sup>13</sup> In response to proposals submitted through Colombian Embassy in Washington and American Embassy in Bogotá as result of phone conversation between the Board of Economic Warfare, Washington, and Bogotá, the National Superintendency of Importations has agreed to the extension until September 1 of general licenses and other provisions for licensing applications not covered by Import Recommendations in accordance with Current Control Bulletin No. 80.<sup>14</sup> The Superintendency requests that certificates of necessity issued up to June 30 be honored in Washington until September 1.

Acceptance of the above proposal was made by the Superintendency after consultation with the President and Cabinet members and is considered as a temporary measure until the Decentralization Plan may become fully operative. The Colombian Government emphasizes that it has approved the Decentralization Plan and desires to maintain and carry out this plan in its entirety.

In view of the alleviation which this extension of licensing without import recommendations will have on provision of cargo for shipment to Colombia, it is requested that the Department clarify to the Embassy immediately whether the accumulated Import Recommendations now totaling approximately 8,000 may not be handled in an orderly fashion at the rate of 150 or 200 a day which is believed to be the maximum that the Superintendency and Embassy organizations in conjunction are now equipped to despatch. "Immediate" distribution of pending important recommendations as requested in Department's telegram 764 of June 18 would require rubber stamping without screening.

WARREN

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<sup>13</sup> Not printed; but see circular airgrams of June 7, 5:30 p. m., and 6:10 p. m., p. 117.

<sup>14</sup> Issued by the Office of Exports of the Board of Economic Warfare, March 5, 1943.

821.24/657 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, September 6, 1943—7 p. m.  
[Received September 7—1:40 a. m.]

1570. My 1555 September 2, 8 p. m., and 1561 September 4, 11 a. m.<sup>15</sup> In view of importance of determining accurately the position of the Colombian Government with regard to alternative to the Decentralization Plan,<sup>16</sup> and especially because of lack of enthusiasm evidenced by Superintendent of Importations,<sup>17</sup> Connell<sup>18</sup> and I called on President López today so that Connell might be in position to advise the Department regarding President's views although the President did not state that Muñoz is in favor of the alternative, he made it clear that Muñoz is not opposed to it.

The President said that he is in favor of any system which will simplify present procedure and that the only condition Colombian Government makes is that it desires to continue not only now but in the future the control of importations into the country. He said that if importations are to be unlimited, thereby bringing invested capital out of the securities market in order to purchase foreign exchange, there will be a disastrous sudden fall in commodity prices which would bring serious financial crisis on the country. He said that while the Government wishes to encourage importations and gradually bring about a decrease in prices, it wishes to be in a position to exercise control so as to prevent too sudden a rise or fall. He said that since the news had been made public regarding the easing of importation restrictions stock and bond prices had fallen considerably. The Government wishes to prevent further sudden drops. The President said that the Government plans to simplify its future control as much as possible and while not certain today how the control would operate he expressed the opinion that it would consist of an import permit to be issued by the Superintendency of Importations for all imports before import licenses could be issued by the Office of Exchange and Export Control. The President said that he would send for Connell and me tomorrow after he has further discussed the situation with Muñoz. He likewise said that in his opinion it would be unnecessary for Connell to consult with Garcia Alvarez<sup>19</sup> prior to Connell's departure. Connell will therefore leave Barranquilla for Miami on September 9 as previously planned.

LANE

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<sup>15</sup> Neither printed.

<sup>16</sup> See circular airgram, August 23, 7 p. m., p. 122.

<sup>17</sup> Ramón Muñoz.

<sup>18</sup> Richard M. Connell, Senior Economic Analyst of the Embassy.

<sup>19</sup> César Garcia Alvarez, Minister of National Economy.

800.8820/1346: Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, September 8, 1943—1 p. m.

[Received 8 p. m.]

1582. My 1570 September 6, 6 [7] p. m. President López received Connell and myself this morning immediately prior to Connell's departure for Washington.

The President said that he has conferred with Muñoz and that there is no objection on the part of the Colombian Government to the third alternative to the Decentralization Plan. He said however that the Government proposed, with a view to bringing about deflation in prices, bank deposits, gold reserves and notes in circulation, to require importers to continue to obtain importation permits for articles in free supply through the Office of Exchange Control, thus enabling the Government virtually to maintain control of importations into the country. Finally recommendations to the extent required in the United States, he said, would in future be given the value of import permits.

The President said that there is no intention on the part of the Colombian Government to restrict exports from the United States or the amount of shipping from the United States through this means. The Government, in fact, is entirely satisfied with the present average amount of shipping approximating 20,000 tons per month.

Connell and I are of the opinion that the Colombian Government's proposed action will not interfere with the functioning of our proposed system (the third alternative). He will of course report in detail the President's remarks which were extended.

Amplifying airgram will follow.

LANE

821.24/724a: Telegram

*The Secretary of State to the Ambassador in Colombia (Lane)*

WASHINGTON, September 9, 1943—6 p. m.

1135. Reference Embassy's 1570, September 6, 7 p. m. It appears evident that Colombia intends to continue control of importations into the country and that such control might consist of an import permit to be issued by the Superintendency of Importations before import licenses could be issued by the Office of Exchange and Export Control.

It would seem in these circumstances that there should be no objection to Alternative III since the importer would be obliged to obtain an import permit before placing an order or accepting an offer of

merchandise from abroad. However, if the competent authorities are reluctant to accept Alternative III the following suggestion made by one of our foreign missions might facilitate the negotiations. This suggestion would only be practical in countries like Colombia with import or exchange control.

The simplified import recommendation or any other suitable form will continue to be required abroad thereby enabling the Embassy and Country Agency<sup>20</sup> to exercise control over imports, shipping space, and consignees. The import recommendation form would not, however, be forwarded to the United States and procedures of Alternative III would be operative in this country. In effect, this would provide for the preservation of control in the field and permit the exporters or suppliers in this country to offer their wares abroad to the same extent as they could prewar within the willingness of the foreign government to grant exchange or issue an import permit.

It is not believed that the additional flow of materials under the simplified procedure will prove sufficient to cause violent fluctuations in commodity prices. It seems desirable to take all practical steps to reestablish direct importer-exporter relationships with a minimum of Government intervention. It is believed here that existing documentation under decentralization tends to stifle trade and to encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and to allow the materials which otherwise might be exported to be diverted to consumption in this country. Looking, therefore, to post-war competition, it seems necessary to enable the United States exporters and suppliers to regain the goodwill of their agents and customers in the other American republics.

It is desired to effect the simplification of procedure October 1, 1943 for those countries that have accepted Alternative III and the Embassy is requested to telegraph the outcome of its negotiations to secure agreement to Alternative III.

HULL

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800.8820/1352: Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, September 10, 1943—1 p. m.

[Received 4:41 p. m.]

1598. In answer to the last paragraph of the Department's 1135, September 9, 6 p. m., refer Department to my 1582, September 8, 1 p. m., which apparently crossed Department's telegram under

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<sup>20</sup> In Colombia, the Superintendencia de Importaciones.

acknowledgment. As stated in my 1582, President López stated to Connell and me on September 8 that there is no objection on the part of the Colombian Government to Alternative III.

LANE

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821.24/680 : Airgram

*The Ambassador in Colombia (Lane) to the Secretary of State*

BOGOTÁ, September 13, 1943—6:30 p. m.

[Received September 23—2 p. m.]

A-756. My telegram No. 1582, September 8, 1 p. m. President López informed Connell and me on the morning of September 8 that he had conferred with Ramon Muñoz, Superintendent of Importations, on September 7. As a result, it had been decided that the Colombian Government will require importers to continue to obtain importation permits (*permisos para importaciones*) for articles which are on the free list through the Office of Exchange Control. The President said that the Colombian Government has no objection to the third alternative of the Decentralization Plan as presented to the President by me on September 2 (see my 1555, September 2<sup>21</sup>).

The President then went into an extended discussion of the Colombian Government's policy to bring about deflation. He pointed out that in 1939, the year the war began, the gold holdings of the Banco de la Republica, bank deposits and bank notes in circulation amounted respectively to 42, 46, and 60 million *dollars*, and that these figures for 1943 have risen to 164, 96, and 108 million *dollars* respectively. He added that the gold reserves at the present moment amount to over 169 million *dollars*. He added that the stock market prices have decreased very sharply and that there is tendency on the part of the public to believe that they will drop even further. The Government's aim, he added, is not only to bring about a deflation in prices, bank deposits, gold reserves and bank notes in circulation but also to increase imports, which would automatically bring about deflation. Through the procedure proposed in paragraph 1, currency in circulation, bank deposits and gold reserves would be required to purchase foreign exchange for importations. The President added that one of the difficulties facing the Government at the present time is its fiscal position due largely to the decrease in import duties. A stimulation of imports would therefore have a most salutary effect on the Government's financial position.

LANE

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<sup>21</sup> Not printed.

821.24/792 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*

Bogotá, December 6, 1943—11 p. m.  
[Received December 7—3:17 a. m.]

2245. Reference my telegram No. 1990 of November 4, 9 p. m.<sup>22</sup> At a conference held today between the Minister of Finance (Dr. Carlos Lleras Restrepo), the Superintendent of Importations (Dr. Ramon Muñoz) and Connell, the Minister said he felt that Colombian business dependent upon imports from the United States have been from time to time almost desperate as a result of the multiplicity between controls and delays encountered in passing upon applications. He said that now that Colombia had declared a state of belligerency with Germany<sup>23</sup> any relief or simplifications that could be accomplished in such controls might well be attributed to the belligerency declaration and would assist in establishing favorable public opinion behind it.

The Minister stated that he was anxious immediately to comb the possibilities of export-import control simplifications and said that he believed the first step should be abrogation of Decree No. 2001 of October 8 which would authorize independent Colombian import permits effective January 1.

The Minister has requested memoranda from the Superintendent of Importations and Connell on the present operation of the Decentralization Plan with a view of promptly continuing discussions as to future possible simplifications measures.

In discussing the possibilities of limiting Colombian import control wherever possible to issuance of customary exchange permits the Minister expressed as his opinion that "with Colombia at war" a much closer working arrangement can and should be established between the Colombian and the United States Governments on consignee control. He said he saw no reason why this closer arrangement could not develop into the exchange commission's receiving from the Embassy names of all undesirable consignees which would be circulated through the Exchange Control offices with instructions that import permits not be issued to such consignees, nor why this arrangement could not be openly acknowledged or announced by the Colombian Government.

The Minister stated that as soon as definite steps could be decided upon regarding import control he was anxious to study actively with the Embassy the disposition of alien properties in Colombia.

<sup>22</sup> Not printed.

<sup>23</sup> For correspondence on this subject, see vol. VI, pp. 1 ff.



I mentioned the foregoing to Acting President Echandia<sup>24</sup> this afternoon. He offered no comment.

Please inform FEA.<sup>25</sup>

LANE

### COSTA RICA

811.20 (D) Regulations/9893 : Airgram

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

SAN JOSÉ, February 25, 1943—10 a. m.

[Received February 27—2 p. m.]

A-446. For George Parkhurst, BEW,<sup>26</sup> and C. M. Ravndal of the Department<sup>27</sup> from J. A. R. Dalley and H. W. Moseley.<sup>28</sup> It should be relatively easy for Costa Rica to put the completed Decentralization Plan<sup>29</sup> into effect, as most imported materials have previously required a Certificate of Necessity or Certificate of Essentiality. The principles of the plan have been enthusiastically received by the Country Agency<sup>30</sup> and Carlos Escalante, Minister of Finance, under whose supervision the Country Agency operates.

The following operational problems have arisen :

A. The requirements of the Pan American Highway are using up much of the allotted shipping space. No estimates of the amount of these requirements can be obtained, and therefore the allocation of space for this project cannot be estimated here. The imports for this project are considerable. Unless a special allotment of shipping space for Costa Rica can be given for the needs of the highway, exclusive of regular Costa Rican requirements, it will not be possible for decentralization to work satisfactorily here, as Import Recommendations must be issued within an estimated shipping tonnage.

B. Definite instructions are needed here on how to handle Canadian and Empire shipments under the Decentralization Plan. Canadian shipments are considerable, and the question arises whether the importer should send the approved form to the Canadian importer, and how the Canadian importer should then proceed to obtain license and shipping space, etc.<sup>31</sup>

C. Costa Rica has several approved projects, and several requests for project licenses are now pending before the Board. The same

<sup>24</sup> During the absence of President López in the United States, Dario Echandia administered the office.

<sup>25</sup> Foreign Economic Administration; the Office of Economic Warfare, successor to the Board of Economic Warfare, was consolidated into the Foreign Economic Administration, September 25, 1943.

<sup>26</sup> Board of Economic Warfare.

<sup>27</sup> Christian M. Ravndal, Chief of the Division of Exports and Requirements.

<sup>28</sup> J. A. R. Dalley, Board of Economic Warfare representative in San José, and Harold W. Moseley of the American Hemisphere Exports Office of the Department of State.

<sup>29</sup> Decentralization Plan A as outlined in the Department's circular airgram of January 19, 8 p. m., p. 106.

<sup>30</sup> The Costa Rican office responsible for administering import controls.

<sup>31</sup> For inclusion of Canada in the Decentralization Plan, see circular airgram, April 29, 8:50 p. m., p. 113.

questions regarding the handling of projects arise here as was indicated in our Airgram A-53 of February 11th, from Tegucigalpa, Honduras.<sup>32</sup> A reply to the questions raised in this airgram should also be sent to the Legation in Costa Rica.

D. The Legation has requested that five copies of Schedule B<sup>33</sup> be sent to it as soon as possible.

[Dalley and Moseley]

SCOTTEN

811.20 (D) Regulations/9885 : Telegram

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

SAN JOSÉ, February 25, 1943—3 p. m.

[Received 8:45 p. m.]

153. For C. M. Ravndal, Department, and George Parkhurst, Board of Economic Warfare, from Moseley and Dalley. Refer to Legation's airgram 445, February 25, 9:45 a. m.<sup>32</sup> Costa Rica will adopt Decentralization Plan A beginning April 1. Only export license applications accompanied by either Certificates of Necessity or Certificates of Essentiality should be considered by the Board of Economic Warfare in the period from April 1 to April 30.

The Mission and Country Agency will submit promptly a non-licensable list of materials to be put immediately into effect for the interim, until Plan A is completely operative as of May 1. In addition they may file a specific list of items licensed or pending that are urgently required and Board of Economic Warfare is requested to give special shipping preference over all others outstanding.

Timing schedules, estimates of supply, and recapitulation of outstanding tonnage in identifiable form should be sent as soon as possible.

With one more stenographer the personnel will be sufficient in the Mission. The Country Agency will be given additional staff to adequately perform the responsibility of decentralization. [Moseley and Dalley.]

SCOTTEN

811.20 (D) Regulations/9958

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

No. 768

WASHINGTON, April 5, 1943.

The Secretary of State refers to the Legation's telegrams no. 153, of February 25, 1943, and no. 202, of March 9, 1943,<sup>34</sup> with reference

<sup>32</sup> Not printed.

<sup>33</sup> A statistical classification of domestic and foreign commodities exported from the United States; drawn up by the Bureau of the Census, Department of Commerce.

<sup>34</sup> Latter not printed.

to the adoption of Decentralization Plan "A" by Costa Rica beginning April 1. In as much as the Board of Economic Warfare is coordinating procedure under the decentralization plan, these two telegrams were referred to that agency which has prepared the following reply:

"It was not considered expedient to carry out fully all suggestions set forth in the Legation's telegram no. 153 as the adoption of such procedures may well upset the cargo programming to Costa Rica or cause many hardship cases to importers in that country or to exporters in the United States.

"It is suggested that you inform the Oficina de Defensa Económica that the BEW procedure during the 'interim' period of Decentralization, April 1 to June 1, 1943, will be as follows:

1. Except in unusual cases, no individual export license applications will be approved unless accompanied by either: (a) Import Recommendations, or by (b) Certificates of Necessity, for allocated materials, or by (c) Certificates of Essentiality for non-allocated materials.

2. The Oficina de Defensa Económica will be informed, via the Mission, of all individual export licenses issued but not accompanied by one of these documents. We do not anticipate many such cases.

3. Commodities now under general license will continue to be exported under general license until June 1st, as provided by Current Export Bulletin No. 80,<sup>37</sup> and will be certified for freight space without the necessity of any of the documents mentioned in paragraph (1) above.

4. On and after June 1st, 1943 when Plan 'A' goes into full operation, all materials will be under individual license and all applications for export license must be accompanied by Import Recommendations. On that date all general licenses for shipment to Costa Rica will be cancelled, including GIT (except Canada) and the special general license provisions for medicinals, with the exception of General License GUS, Shipments Valued at \$25 or Less, Personal Baggage, General License for Ship's Stores, return of empty containers, photographic films, plates and paper, technical data, newspapers and publications, as set forth in Comprehensive Export Schedule No. 11.<sup>37</sup>

5. The BEW will give consistent consideration to any special requests made by Costa Rica, such as indicated in the second paragraph of your telegram No. 153.

"We trust that these arrangements will be satisfactory to Mr. Fernandez."<sup>38</sup>

"Timing schedules, estimates of supply, and recapitulation of outstanding tonnages were recently forwarded. It is expected that the stenographer requested will leave for San José about April 15. She is Miss Elinor Waltman who has been engaged in consignee control

<sup>37</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>38</sup> Luis Fernández, Costa Rican Minister in Washington.

work in the Board of Economic Warfare. It is believed that her acquaintance with this work will more than compensate for the fact that she will not be in San José by April 1 as requested by the Legation."

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811.20 (D) Regulations/9893

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

No. 775

WASHINGTON, April 7, 1943.

The Secretary of State refers to the Legation's airgram no. A-446 of February 25 concerning the operation of Decentralization Plan "A" in Costa Rica. In as much as the Board of Economic Warfare is coordinating matters of procedure under Plan "A", the airgram under reference was referred to that agency which has furnished the following reply:

"It is gratifying to learn that the Costa Rican authorities anticipate few difficulties in putting the decentralization plan into operation as most materials imported from the United States have previously required a Certificate of Necessity or a Certificate of Essentiality. Kindly extend to Minister of Finance Carlos Escalante this Government's sincere appreciation for his splendid cooperation.

"With reference to the four operational problems mentioned in the airgram under reference, the Legation is informed as follows:

A. On investigation it is found that much of the equipment and material required by the Pan American highway has moved by Army transport under GUS license, while the rest has gone under individual or general license, like cement, in regular commercial ships. Unfortunately, Form BEW-138, application for freight space certification, does not show end-use, so that it is impossible to determine which shipments are destined for the Pan American highway. However, under Decentralization, the Import Recommendation form will show this. It will then be possible to determine the quantities of material destined for the Highway. It is suggested that the Oficina de Defensa Económica keep a close check of such shipments during the first few months of the Plan's operation so that eventually a reasonable tonnage of shipping can be allocated for this project exclusive of regular Costa Rican requirements.

B. Definite instructions regarding Canadian and Empire shipments moving by way of the United States are being prepared and will be forwarded shortly. Meanwhile please refer to Current Export Bulletin No. 80, subject III.

C. Local projects, originating in Costa Rica, will require Import Recommendations. Projects for Costa Rica, originating in the United States and sponsored by this Government, will not require Import Recommendations. You will be informed of all such projects as are approved here in Washington. Requirements for all projects, however, will be included in the monthly target tonnages. A copy of the reply to Airgram A-53, of February 11,

from the Legation in Tegucigalpa, on program licenses for the United Fruit Co., Standard Fruit Company, and Rosario Mining Company is enclosed<sup>39</sup> for your guidance in handling similar cases in Costa Rica.

D. Five copies of Schedule 'B' are being forwarded, as requested."

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818.24/389

*The Ambassador in Costa Rica (Des Portes) to the Secretary of State*<sup>40</sup>

SAN JOSÉ, June 12, 1943.

[Received June 19.]

SIR: As the Department knows from previous communications, the rapidly rising level of prices has constituted one of the most difficult problems in Costa Rica, profiteering having been particularly marked in the case of certain classes of goods imported from the United States which are in very short supply. In this connection I have the honor to report the following recent developments.

During the visit of Mr. Hector Lazo, Chief of the Office of Exports of the Board of Economic Warfare, in March, the question of prices was discussed at some length, and Mr. Lazo stated that since the prices of all goods sold abroad are controlled before export licenses were granted, it is the policy of the Board that further export licenses should be denied to foreign firms which have been definitely proved guilty of unjustifiable price speculation. Acting on this policy, the Embassy some time ago pointed out to the Oficina de Defensa Económica that the most effective means of preventing profiteering would be to deny Import Recommendations to firms guilty of this practice, and suggested that the Oficina ask the Junta de Abastos, which is the Costa Rican Price Control Board, to notify it of all cases where its rulings have not been complied with.

Since a reasonable time had elapsed without action having been taken by the Oficina on this suggestion, the matter was brought to the attention of the Minister of Finance,<sup>41</sup> who has shown considerable interest in the price problem, and he expressed himself as being entirely in agreement. Some time thereafter, the Minister informed an officer of the Embassy that he was studying new legislation which would place a definite limit on the profit which could be included in the price of imported goods, and on May 30th it was announced in

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<sup>39</sup> Instruction No. 1192, March 31, not printed.

<sup>40</sup> The Legation in Costa Rica was raised to the status of Embassy on May 20, 1943, when Ambassador Fay Allen Des Portes, succeeding Minister Robert M. Scotten, presented his credentials to the Costa Rican Government.

<sup>41</sup> Luis Demetrio Tinoco Castro succeeded Carlos Escalante as Minister of Finance in April 1943.

the press that a law was being drafted which would fix the percentage of profit at a maximum of 30 percent and provide severe penalties in case of violation, notably the loss, by the guilty merchant, of his right to make further importations. The local firms who will be affected by this law immediately asked that they be given an opportunity to submit suggestions based on their practical experience for consideration, and the draft law has not yet been submitted to Congress. On June 10th the Chamber of Commerce of Costa Rica presented to the Minister of Finance a specific plan for stabilizing the prices of imported goods, of which it supplied a copy to the Embassy.<sup>42</sup> A full report on this plan, and on the reaction of the Minister to it, will be made as soon as it has been discussed with the latter.

Meanwhile, the Oficina de Defensa Económica has furnished the Embassy with a copy of a letter which it wrote to the Junta de Abastos on May 28th which reads as follows:

"For reasons of internal administration, and in accordance with our conversation with the President of the Republic, we hereby ask that, from now on, you communicate to us, as quickly as possible, the names of importers who do not comply with the rulings of the Junta.

"Since the principal function of this office is to authorize importations from other countries, the internal measures which we have taken, in agreement with the American and Canadian Governments, inspire us to request from you the aforesaid information which is of extreme importance at this time when we must all cooperate to the national and international wellbeing.

"It will be appreciated if you will let us have your decision at the earliest possible moment."

The copy of this letter received by the Embassy shows that a copy was also sent to President Calderón Guardia.

Before the Embassy transmitted its Despatch No. 53 of May 31, 1943,<sup>42</sup> in which it recommended the addition of certain important local firms to the Confidential List<sup>43</sup> because of price profiteering, the desirability of such action was discussed with and agreed to by the head of the Oficina de Defensa Económica. On the strength of information supplied by the Oficina, there appeared in *El Diario de Costa Rica* on June 2nd an item stating that the Government of the United States was applying, for the first time in Costa Rica, the penalty of inclusion in its "grey list", and that four leading importing firms will not be permitted to receive further goods because they have charged excessive prices.

The publication of this statement attracted widespread attention, in fact it touched off a campaign in the press against profiteers and for

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<sup>42</sup> Not printed.

<sup>43</sup> The Confidential List included the names of persons and firms closely identified with the ownership or management of Proclaimed List firms and also the names of persons and firms included in the Treasury's List of Special Blocked Nationals.

lower prices which is still continuing. In addition to criticism of the Junta de Abastos, which is directly responsible for controlling prices, there was an immediate demand for the names of the guilty parties. The Embassy was, of course, approached for information as to the alleged "grey list", and explained that there is only one official list, namely the Proclaimed List. However, it was pointed out that in the issuance of export licenses our Government takes into account all of the information which it receives from its various sources regarding importers abroad, and since the satisfaction of the essential needs of the other American republics represents a definite sacrifice on our part, and the prices of all goods exported from the United States are strictly controlled, the sale of such goods at unreasonably high prices is considered as justification for the denial of further licenses.

[Here follow quotations from the Costa Rican press concerning the applicability of the United States "grey list" to the problem of speculation and profiteering, together with a comment by the Ambassador on the nature of such profiteering.]

It is the intention of the Embassy to continue to recommend for inclusion in the Confidential List all firms which have been definitely proven guilty of flagrant price speculation, in order that the Board of Economic Warfare may shut off further exports to them. As the Department knows, those so far recommended for this penalty belong to the inner circle, and they are known to have boasted that they have nothing to fear since they have large orders pending which cannot be held up and, in any event, that they can obtain what they need indirectly, presumably through cloaks, even if shipment cannot be made in their own name. The Embassy will, of course, keep a close watch on the activities of such firms and will expect the fullest cooperation from the Board of Economic Warfare. In particular, it earnestly recommends that no export licenses be granted either for pending or for new orders destined to firms in that category, and, if possible, that outstanding licenses be revoked.

Respectfully yours,

FAY ALLEN DES PORTES

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818.24/471 : Telegram

*The Chargé in Costa Rica (Trueblood) to the Secretary of State*

SAN JOSÉ, August 28, 1943—4 p. m.

[Received 7:52 p. m.]

612. Department's circular airgram August 23, 7 p. m.<sup>45</sup> After careful consideration all interested officers including the OEW<sup>46</sup>

<sup>45</sup> *Ante*, p. 122.

<sup>46</sup> Office of Economic Warfare, which assumed on July 15, 1943, the functions and powers of the Board of Economic Warfare.

representative unanimously agree that in view of the special local conditions indicated below it is not desirable to relax the control now exercised under Decentralization Plan by placing materials in free supply under general license.

(1) Costa Rica is in a particularly unfavorable situation so far as shipping facilities are concerned.

(2) A huge backlog of unshipped orders in comparison with the shipping allotment still exists and has not been materially reduced by the larger arrivals during the past 3 months.

(3) Although import recommendations have been issued for a tonnage greatly in excess of the shipping allotment, a far greater demand exists.

(4) In view of this situation it was necessary to suspend the issuance of import recommendations for nonquota articles from July 15 to August 31, which has caused a large accumulation of orders.

A detailed report will follow in a few days, and pending its receipt it is recommended that no decision be made.<sup>47</sup>

TRUEBLOOD

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818.24/482: Telegram

*The Secretary of State to the Chargé in Costa Rica (Trueblood)*

WASHINGTON, September 9, 1943—6 p. m.

575. Reference Embassy's A-909, September 4, 8 a. m.<sup>48</sup> Department appreciates Embassy's and Country Agency's reluctance to see decentralized controls relaxed while present and prospective shipping availabilities remain deficient. However, Department believes that shipping prospects can better be judged by recent performance than by the maintenance of the 2400 ton monthly allotment figure. Furthermore, if control of articles in free supply is relaxed, every effort will be made to follow Costa Rica's expressed preferences as to use of available shipping space.

It seems desirable to take all practical steps to reestablish direct importer-exporter relationships with a minimum of Government intervention. It is believed here that existing documentation under decentralization tends to stifle trade and to encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and to allow the materials which otherwise might be exported to be diverted to consumption in this country. Looking, therefore, to post-war competition, it seems necessary to enable the United States exporters and suppliers to regain

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<sup>47</sup> The Chargé elaborated on the four points in his airgram No. A-909 of September 4, 1943, not printed.

<sup>48</sup> Not printed.



the goodwill of their agents and customers in the other American republics.

It is believed that articles in free supply will be those not covered by estimate of supply and not requiring assistance from WPB<sup>49</sup> for procurement or production.

It is desired to effect the simplification of procedure October 1, 1943, for those countries which have accepted Alternative III,<sup>50</sup> and the Embassy is requested to consult Country Agency and telegraph whether Costa Rica will agree to be included in this group.

HULL

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818.24/501 : Telegram

*The Chargé in Costa Rica (Trueblood) to the Secretary of State*

SAN JOSÉ, September 13, 1943—7 p. m.

[Received September 14—12:52 a. m.]

645. Department's 575, September 9, 6 p. m. The head of the Oficina de Defensa Económica after consultation with the President informs the Embassy that the Costa Rican Government does not wish to accept the proposed modification of the Decentralization Plan at this time considering that it would be harmful to the interests of both countries.

The Oficina is convinced that if materials in free supply were placed under general license it would not be possible to exercise control through shipping permits which would prevent nonessentials from crowding out necessary goods. It points out that if the improvement in the shipping situation is such that despite the large backlog of unshipped orders additional cargo is desired for Costa Rica, this cargo can easily be provided through greater liberality in the issuance of import recommendations.

The Oficina recommends and the Embassy concurs that no change in the existing controls be made at present. Before the end of the year the situation will again be reviewed in the light of the conditions that prevail at that time.

TRUEBLOOD

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818.24/501 : Telegram

*The Secretary of State to the Chargé in Costa Rica (Trueblood)*

WASHINGTON, September 18, 1943—11 a. m.

598. Reference Embassy's 645 September 13, 7 p. m. According to latest available figures, unbooked cargo backlog on August 28 amounted to roughly 25,000 tons. Of this amount 22,000 tons was cement and

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<sup>49</sup> War Production Board.

<sup>50</sup> See circular airgram, August 23, 7 p. m., p. 122.

only 3,000 tons other cargoes. Shipments during period May through July averaged slightly over 7,000 tons per month.

While cement backlog was substantial, other cargoes were deficient, and it is believed that these figures should bring about a change in attitude with respect to the simplification of procedure Alternative III. For Embassy's information, 18 of the other American republics have accepted Alternative III, and the OEW expects to announce the new procedure and countries participating September 21. Please discuss again and telegraph result.

HULL

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818.24/504 : Telegram

*The Chargé in Costa Rica (Trueblood) to the Secretary of State*

SAN JOSÉ, September 20, 1943—5 p. m.

[Received 8:45 p. m.]

656. In view of Department's 598, September 17 [18], 10 p. m. [11 a. m.] Minister of Finance and Chief of Country Agency, have accepted in principle the simplification of procedure Alternative III and the OEW announcement may include Costa Rica among the countries participating.

Specific requests from the Country Agency concerning orders covered by Import Recommendations and the preference to be granted goods considered essential will follow.

TRUEBLOOD

## CUBA

837.24/1117 : Airgram

*The Ambassador in Cuba (Braden) to the Secretary of State*

HABANA, March 9, 1943—9:05 a. m.

[Received March 11—3 p. m.]

A-450. For Ravndal<sup>51</sup> from Adam:<sup>52</sup> Some difficulty was encountered in presenting Plan (A)<sup>53</sup> in Cuba because of the easy maritime shipping situation which makes its adoption here less urgent than in most other Latin American countries. The Embassy, however, recognized its advantages from other points of view so that a plan was finally agreed to in principle based on minimum changes from present procedure in view of Cuba's favored shipping position.

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<sup>51</sup> Christian M. Ravndal, Chief of the Division of Exports and Requirements.

<sup>52</sup> Hector C. Adam, Jr., of the Department of State accompanied William Greene of the Board of Economic Warfare on a tour of Havana, Port-au-Prince, Ciudad Trujillo, Port of Spain, Fort de France, and San Juan, with the purpose of explaining the new export control plan (Decentralization Plan A) to the Missions.

<sup>53</sup> Decentralization Plan A, described in Department's circular airgram, January 19, p. 106.

The Embassy plans to have early consultations with the responsible heads of the Country Agency <sup>54</sup> and to assist them in any way practicable to set up an enlarged organization. Every effort will be made to inaugurate an interim procedure effective May 1, 1943, designed to inaugurate the plan as soon as possible with the available personnel. Interim procedure will consist of setting up a list of articles (all those under allocation plus a limited number of additional ones in free supply yet to be agreed upon) for which export license applications should be refused by BEW <sup>55</sup> unless accompanied by Import Recommendations (or Certificates of Necessity for period May 1-31). When Country Agency and increased Embassy staff are functioning smoothly, list will be increased so as eventually to include all commodities.

Considerable difficulty was forecast, however, in augmenting staff of Country Agency because of added expense to Cuban Government. [Adam.]

BRADEN

837.24/1249

*The Ambassador in Cuba (Braden) to the Secretary of State*

No. 2487

HABANA, March 16, 1943.

[Received March 20.]

SIR: I have the honor to refer to my confidential airmail despatch No. 2296 of February 24 <sup>56</sup> concerning relations with the BEW, and to state that as a result of the ill-advised submission of Decentralization Plan "A" to the Cuban Embassy in Washington, reportedly by Mr. Hector Lazo of the BEW, it may now prove impossible to obtain acceptance of Plan "A" by the Cuban Government.

At the outset I wish to refer to the provisions of the Executive Order of May 20, 1942 <sup>57</sup> (clarification and interpretation of Executive Order No. 9128 of April 13, 1942, <sup>58</sup> in respect of certain functions of the Department of State and the Board of Economic Warfare), which, *inter alia*, states as follows:

"The Board will continue to recognize that it is the function of the Department of State to conduct or authorize the conduct of all negotiations with foreign governments in Washington and abroad."

In my despatch No. 2405, dated March 10, 1943, <sup>59</sup> I reported that the adoption of Decentralization Plan "A" would be undertaken in Cuba

<sup>54</sup> The Cuban office responsible for administering import controls.

<sup>55</sup> Board of Economic Warfare.

<sup>56</sup> Not printed.

<sup>57</sup> This was not an executive order but rather a statement entitled "Clarification and Interpretation of Executive Order No. 9128 of April 13, 1942 . . .". For text of this Clarification, see 7 *Federal Register* 3843.

<sup>58</sup> For text of Executive Order No. 9128, see 7 *Federal Register* 2809.

<sup>59</sup> Despatch not printed.

on an interim basis on May 1, or as soon thereafter as it would be possible for the Agencia<sup>60</sup> properly to organize for handling the additional work involved. To this end, a series of informal conferences was held between members of my staff and Dr. Sarabasa and Dr. Sarabasa, Jr., respectively the Agent and Assistant Agent of the Agencia, working toward a complete clarification and understanding of the Decentralization Plan. I had personally conferred with the Prime Minister,<sup>61</sup> and he had agreed to approach the Secretary of Finance<sup>62</sup> on the subject of additional funds for the Agencia. Everywhere the Embassy had been met with a fine spirit of cooperation, and my feeling and that of my staff was that the adoption of this plan could be put through on a satisfactory basis.

It therefore came as a shocking surprise to me when, on March 11, members of my staff, when meeting to discuss further details with the Drs. Sarabasa, were informed that Mr. Hector Lazo, Assistant Director in charge of the Office of Exports, of the Board of Economic Warfare in Washington, had presented to the Cuban Ambassador in Washington a copy of the outline of Decentralization Plan "A", copies of which have in turn been forwarded by the Cuban Embassy to its Government in Habana. Dr. Sarabasa informed the Embassy that in Mr. Lazo's transmitting letter to Ambassador Concheso, he had requested that the matter be kept confidential as it had not yet been officially presented to the Cuban Government.

This action in itself appears contrary to the Executive Order of May 20, 1942, and it was particularly inept and unfortunate in that certain matters were covered by the outline which should have been handled in the strictest confidence, such as the provision for the rejection by the Embassy of import recommendations made in the name of persons appearing on the Confidential List of Unsatisfactory Consignees,<sup>63</sup> and that under which the BEW reserved the right to disapprove in Washington import recommendations which had already received the approval not only of the Agencia but of the Embassy.

When Messrs. Adam of the Department and Greene of the BEW were in Habana it was specifically agreed at Mr. Greene's original suggestion that all disapprovals arising from the Confidential List should be kept in strictest confidence (i.e., not communicated to the Agencia), and that the BEW's copies would be forwarded to Washington under cover of a strictly confidential despatch recommending that export licenses be not issued.

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<sup>60</sup> Agencia de Importación y Exportación.

<sup>61</sup> Ramón Zaydín.

<sup>62</sup> José Miguel Irissari.

<sup>63</sup> For an indication of the inclusiveness of the Confidential List, see footnote 44, p. 188.

The Agencia likewise took strong exception to the fact that their determination of the end uses to which their imports may be put within Cuba would be subject to approval or denial by the BEW.

The following excerpt, from a memorandum given me by the officer who received the brunt of Dr. Sarabasa, Jr.'s comments on the subject, will throw further light upon the effect produced on this agency of the Cuban Government by making this confidential text available at this time. I may add that this conversation was conducted with Dr. Sarabasa, Jr., who stated that his father was so shocked at the implications of the BEW memorandum that he became ill and could not attend the office.

"In words expressing wounded pride and anger, Dr. Sarabasa, Jr., described his father's and his reactions on reading the various points contained in the attached memorandum, especially the references made to screening by the Mission and by the BEW for end-use and for persons on the Mission's and BEW confidential list, and to the right which the BEW reserves for itself to reject Import Recommendations approved by the Agencia and by the Mission. Dr. Sarabasa, Jr., and his father are indignant that an attempt should be made by an agency of our Government to impose upon the Agencia a Decentralization Plan containing conditions such as described in the BEW memorandum, which are totally unacceptable to Cuba. He firmly stated that the Agencia insists upon its right to determine what are essential and non-essential end-uses in Cuba for materials imported from the United States and will not admit of the prerogative of any agency of our Government to reject, for reasons of end-use, an Import Recommendation that has been approved by the Agencia."

I wish to point out that this incident may have far-reaching effects when it becomes known to the higher officials and departments of the Cuban Government. Not only may it give the impression that the United States Government is conducting star-chamber proceedings in connection with matters vitally affecting Cuban economy, and as the Cuban Government may regard it, affecting its sovereign right of determination, but it has also undoubtedly set back, if not torpedoed, the delicate negotiations which I was conducting concerning the operation of Plan "A" and the appropriation by the Cuban Government of funds therefor. Finally, it has raised serious doubts in the minds of the two Cuban officials heading the Agencia of the frankness and good faith of the Embassy's dealings.

In particular I wish to invite the Department's attention to the unfavorable effect of furnishing in writing confirmation of the existence of the Confidential List of Unsatisfactory Consignees. The Proclaimed List is a public document for which our Government stands officially responsible and the inclusion of names on which we are prepared to defend. While the Cuban Government may have had reason

to surmise that in addition to the Proclaimed List, we maintain another—secret and unpublished—list, no previous confirmation of the existence of such a list has to my knowledge been given and, moreover, the utility of the Confidential List is obviously very much impaired unless it can in fact be maintained as secret. This is obviously now out of the question, to say nothing of the possibility that the Governments of the other American Republics may have likewise been furnished by BEW with copies of Plan “A”.

The Embassy will of course put forth its utmost efforts to repair the damage which has been done by the unwise, ill-timed, and reckless submittal of the confidential text of Plan “A” by the BEW to the Cuban Embassy in Washington. Whether it will be possible in the circumstances to obtain the cooperation of the Cuban Government, remains to be seen. Obviously our task here has been made infinitely more difficult by the foregoing development and by the resentment already aroused by this action, which once again demonstrates the unwisdom of permitting any agency except the Department of State and its own diplomatic missions to handle matters of this nature.

Respectfully yours,

SPRUILLE BRADEN

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837.24/1213 : Airgram

*The Secretary of State to the Ambassador in Cuba (Braden)*

WASHINGTON, April 16, 1943—7:05 p. m.

A-1160. Embassy's telegram 222, of April 9, 1943.<sup>64</sup> The Board of Economic Warfare hopes that the decentralization plan for Cuba will become fully operative on all commodities by July 1. The Embassy is requested to inform the Department as soon as possible what the prospects are.

In the meantime, until July 1, the Board of Economic Warfare will accept the outstanding certificates of necessity issued by the Cuban Import-Export Agency for allocated commodities and will also accept applications for export license for free-supply commodities, other than those listed in Embassy's telegram no. 222,<sup>65</sup> unaccompanied by import recommendations.

HULL

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<sup>64</sup> Not printed.

<sup>65</sup> Commodities listed in telegram No. 222 with their corresponding Schedule B numbers, were soda ash; caustic soda; carded cotton yarn; radio transmitting equipment; unexposed motion picture film; electric incandescent, vapor, and non-filament lamps; naval stores gums and resins; paraffin; lumber; and newsprint. Schedule B was a statistical classification of domestic and foreign commodities exported from the United States, drawn up by the Bureau of the Census, Department of Commerce.

837.24/1239c : Airgram

*The Secretary of State to the Ambassador in Cuba (Braden)*

WASHINGTON, April 16, 1943—7 p. m.

A-1159. Reference Department's airgram A-1160, April 16, 1943.<sup>66</sup>

The Department would appreciate an expression of opinion by the Embassy whether it feels the Decentralization Plan should apply to all commodities or whether the application of the Plan should be restricted to allocated materials and a limited number of other commodities.

It is believed that the position of Cuba with respect to the Plan is somewhat similar to that of Mexico where the Plan will apply only to an announced list of commodities. In other words, the shipping situation with respect to the importation of goods into Cuba presents no great problem. Therefore, as in the case of Mexico, it may not be necessary to make use of that phase of the Plan which provides for the certifying of all materials in order to limit imports to a target tonnage.

HULL

837.24/1256

*The Ambassador in Cuba (Braden) to the Secretary of State*

No. 2817

HABANA, April 20, 1943.

[Received April 23.]

SIR: I have the honor to refer to the Department's circular airgram of March 13, 1943<sup>67</sup> and other correspondence in connection with the institution in Cuba of Decentralization Plan "A", and respectfully to inquire whether the Department is in a position to instruct the Embassy with reference to the disposition of the quantities of allocated materials and commodities remaining as a result of the cancellation of import recommendations because of end use, inclusion of the importers in the confidential list, as well as for other reasons.

The Agencia de Importación y Exportación as well as the Embassy, are desirous of helping Cuba obtain the largest proportion possible for essential use, of the estimates of supply of each commodity, and the Embassy is desirous of being informed as to the procedure that may have been established for informing the Embassy concerning such balances of the estimates of supply that may become available through the rejection of import recommendations, and the disposition that can be

<sup>66</sup> *Supra.*<sup>67</sup> Not printed.

made of these balances so that they may be allocated to other firms or entities in Cuba.

Respectfully yours,

For the Ambassador:  
CHARLES H. DUCOTÉ  
*Commercial Attaché*

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837.24/1268 : Airgram

*The Secretary of State to the Ambassador in Cuba (Braden)*

WASHINGTON, May 1, 1943—6:45 p. m.

A-1235. Embassy's A-775, of April 24, 1943,<sup>68</sup> and telephone conversation of the same date between W. E. Greene, of the Board of Economic Warfare, and Chester Davis, Special Representative of the Board, and George C. Howard, of the Embassy.

The Board of Economic Warfare considers the procedure described below to be the basis of the Decentralization Plan in Cuba.

1. Import recommendations should be issued for all commodities (except Class B products) for which estimates of supply have been or are to be furnished in future quarters, plus the commodities listed in Embassy's telegram no. 222 of April 9.<sup>69</sup>

2. It is understood that Class B products are not to be covered by import recommendations at this time although they may be at a later date.

3. Any product covered by an import recommendation requires an export license. Any other product requiring an individual export license will continue to require such license. Paragraph 11, section A, of Current Export Bulletin No. 79,<sup>70</sup> which cancels general licenses for countries included in the Decentralization Plan, will not apply to Cuba.

4. This modified decentralization plan will become effective on June 1, 1943, and public announcement to that effect will be made by the Board of Economic Warfare as soon as possible through the usual channels.

The Department concurs in this plan and requests immediate confirmation by telegram from the Embassy.

HULL

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837.24/1438 : Telegram

*The Ambassador in Cuba (Braden) to the Secretary of State*

HABANA, June 3, 1943—6 p. m.

[Received June 4—7:04 a. m.]

379. In further reference Department's airgram A-1337 of May 17, 1943, and telegram 608 of May 21, 1943,<sup>71</sup> the Embassy has just received

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<sup>68</sup> Airgram not printed.

<sup>69</sup> Not printed.

<sup>70</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>71</sup> Neither printed.



note from Cuban Government expressing approval of Decentralization Plan with following reservations.

"1. The Republic of Cuba reserves the right to handle, through its Embassy in Washington and through the Department of State of the Government of the United States, any matter of an official character concerning articles or materials to be imported into this country, as well as any other matter which, although not official should, in the opinion of the Government, be handled through this channel.

It is explicitly set forth that the reservation of this right does not imply the impossibility of the agency charged with the issuance of the appropriate documents, namely, the Import and Export Agency, maintaining informal communication with the Embassy of the United States of America in this capital.

2. The Republic of Cuba likewise reserves the right to determine the essentiality and the end use to which the articles or materials within the plan are to be applied, and it also reserves the right to indicate the amounts which, in its opinion, the consignee and consumers thereof need, without offering any objections whatsoever to the proceedings designed to analyze the import recommendations in the light of the blacklists, confidential lists, et cetera.

3. The Republic of Cuba reserves the right that the agency which handles these matters, namely, the Import and Export Agency, should be the one directly to issue the documents, without prejudice to the right which the Mission or any other agency or office of the Government of the United States of America may have to express in principle any opinion with regard to the need or desirability of the importation.

4. The Republic of Cuba reserves the right to establish that the essential needs of the Government be classified under letter "A" of the essentiality category and under the letter "A" of the shipping category, so stating in the official documents.

5. The Republic of Cuba reserves the right to accept or not, according to the circumstances the charging against quotas assigned to it and to the available shipping space, the needs of the projects originating in the Board of Economic Warfare of the Government of the U.S. of America, or those which are requested by the petroleum companies which are producing for the war program of the United Nations or the mining companies which hold serial numbers of the War Production Board of the Government of the U.S. of America.

6. Inasmuch as Decentralization Plan "A" should have begun to function in respect of Cuba on June 1, 1943, the Cuban Government believes it necessary for the normal development of its imports and its national economy, that the Certificates of Necessity, Certificates of Endorsement, Certificates of Essentiality and Priority Recommendations issued by the Cuban Agency of Imports and Exports prior to June 1, 1943, be valid and effective and accepted by the offices of the Government of the U.S. of America until July 15, 1943.

7. The Government of Cuba expresses the vehement desire that by exchanges of impression with the officers of that Embassy, the general agent of Imports and Exports or the assistant agent and an official of the Bureau of Commerce of this Ministry (Ministry of State) a prompt agreement be reached for the application of the rules

of a purely administrative nature included within the reservations 2 and 3 formulated by the Government of Cuba in this note."

The Embassy has thoroughly discussed the Government's note and reservations informally with the agent and assistant agent of the Import and Export Agency and the Embassy considers that these reservations do not constitute an insurmountable barrier against the satisfactory operation of the Decentralization Plan in its basic essentials. With reference to the suggestion of the Cuban Government that Certificates of Necessity issued prior to June 1 be accepted as valid until July 15, 1943, the Embassy understands that this is already acceptable.

Inasmuch as the Embassy understands that the Cuban Government will issue the appropriate decree as soon as the Embassy expresses our Government's conformity with the Cuban Government's conditional acceptance of the plan the Embassy will appreciate receiving by telegraph the Department's instructions so that no further delay may be encountered.

BRADEN

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837.24/1438 : Airgram

*The Secretary of State to the Ambassador in Cuba (Braden)*

WASHINGTON, June 19, 1943—6 p. m.

A-1573. Reference Embassy's telegrams 379 of June 3, 395 of June 9, and 423 of June 17.<sup>72</sup> The reservations of the Cuban Government on its approval of decentralization plan are generally acceptable to the Department and the Board of Economic Warfare. The following comments on these reservations and the operation of the plan were made by Mr. Lazo, Assistant Director of the Office of Exports,<sup>73</sup> in a letter to Ambassador Braden:

"It is understood that Cuba has the right to control imports into Cuba; it is further understood, of course, that the Cuban Government has the right to handle through its Embassy in Washington and through the Department of State any matter which in the opinion of the Cuban Government should be handled through such a channel; it is further understood that Cuba will indicate in the first instance the essentiality of materials imported into Cuba and the distribution of supplies allocated to Cuba; however, in this connection, BEW wishes to point out that if such distribution results in the freezing out of American exporters and damage to long established channels and trade connections, BEW has the responsibility of doing what it can to protect such American trade channels.

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<sup>72</sup> Nos. 395 and 423 not printed.

<sup>73</sup> Hector Lazo, Assistant Director in charge of Exports, Board of Economic Warfare.

"BEW recognizes that under the Decentralization Plan, as proposed, the Cuban Government agency issuing import recommendations will do so in the first instance, but that all recommendations are subject to additional recommendations on the part of the U.S. Embassy in Cuba and further to examination by BEW in Washington where the final determination rests.

"BEW likewise recognizes Cuba's right to establish essential needs of the Cuban Government and to indicate whatever priority Cuba wishes to give these needs; but BEW also wishes to point out, in this connection, that such indication is not necessarily binding upon BEW and WSA.<sup>74</sup> We will, of course, do everything in our power to implement such recommendations and to cooperate fully with Cuba in the smooth operation of the plan, but we cannot give guarantee that Cuba's product or shipping priority categories will be necessarily the same as ours.

"On Section 5, BEW wishes to be on record on the fact that essential development and production programs designed to produce strategic materials for the war needs of the United Nations will of necessity receive priority ratings from us. Every attempt will be made to protect Cuba's essential domestic economy allocations and not to have American development programs interfere with the maintenance of this minimum economy.

"The BEW is willing to extend the time of validity of Certificates of Necessity. We strongly recommend that as of July 1, the Cuban authorities cease using a Certificate of Necessity form and adopt the Import Recommendation form, which we understand is already prepared. The BEW will accept until September 1 Certificates of Necessity issued prior to July 1. After September 1, it is understood that only Import Recommendations will be acceptable. Those commodities not now requiring a Certificate of Necessity, but which the Cuban Government has indicated will require Import Recommendations will be licensed by the BEW with or without an Import Recommendation during the interim period of July 1 to August 31. As of September 1, these commodities will require an Import Recommendation. We trust that we may be able to proceed immediately with the establishment of the Decentralization Plan in Cuba, in accordance with the foregoing."

The Embassy should advise the Cuban Government that the reservations set forth by the Government to its acceptance of the Decentralization Plan are acceptable subject only to the above qualifications of the Board of Economic Warfare. Unless any serious objection is encountered, announcement should be made that the plan will become operative July 1 as described above.

Please confirm immediately.

HULL

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<sup>74</sup> War Shipping Administration.

837.24/1256.

*The Secretary of State to the Chargé in Cuba (Briggs)*

No. 1970

WASHINGTON, July 21, 1943.

The Secretary of State refers to the Embassy's despatch 2817, of April 20, 1943 inquiring with regard to the disposition of the quantities of allocated materials remaining as a result of the rejection of applications for export license accompanied by import recommendations.

If the experience of Cuba under the Decentralization Plan is like that of other countries, there will be few rejections of applications for export license which are accompanied by import recommendations.

In cases where there are rejections, however, the Embassy will receive comparatively quick notice because the quadruplicate copies of all import recommendations for which applications for export license have been approved or rejected will be sent the Embassy as soon as possible after action has been taken by the Board of Economic Warfare.

If the rejection is because of end use, a new import recommendation can be issued for proper end use. If the rejection is because of lack of supply, a new import recommendation should not, of course, be issued in the particular quarter concerned.

It is not likely that there will be many rejections caused by the fact that the consignee is on the proclaimed list or the confidential list since it is expected that the Embassy will screen carefully in this regard. However, if the Board of Economic Warfare should reject for this reason, a new import recommendation can be issued to some other consignee.

## DOMINICAN REPUBLIC

839.24/373 : Airgram

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

CIUDAD TRUJILLO, March 24, 1943—8 a. m.

[Received March 25—4 p. m.]

A-175. For Ravndal and Parkhurst<sup>75</sup> from Adam and Greene.<sup>76</sup>  
The Dominican Comité de Control sobre Importaciones y Expor-

<sup>75</sup> Christian M. Ravndal, Chief, Division of Exports and Requirements, Department of State, and George Parkhurst of the Board of Economic Warfare.

<sup>76</sup> Hector C. Adam, Jr., of the Department of State and William Greene, representative of the Board of Economic Warfare, assigned to certain countries of the Caribbean and Central American areas to assist in planning export controls

taciones will install the Decentralization Plan A <sup>77</sup> on April 15, 1943, without the interim procedure.

The Dominican authorities request that an inventory be made as to the licenses outstanding as of the date of installation, by commodity and consignee. Estimates of supply have already been received. Please transmit the revised target tonnage and the time schedules to be followed. [Adam and Greene.]

WARREN

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839.24/456 : Telegram

*The Ambassador in the Dominican Republic (Warren) <sup>78</sup> to the Secretary of State*

CIUDAD TRUJILLO, June 14, 1943—6 p. m.

[Received 8:10 p. m.]

199. Department's circular telegram June 12, 7 p. m.<sup>79</sup> When Secretary General of Export-Import Control Committee <sup>80</sup> learned of Current Export Bulletin number 99 of June 7 <sup>81</sup> he immediately stated that in his opinion Decentralization Plan is thereby nullified in so far as it applies in Dominican Republic. He pointed out that Committee has no interest in working a hardship upon either exporters in the U.S. or importers here, but attempts to issue Import Recommendation in accordance with the needs of the country. The responsibility of the Committee is assured by the fact that four of its five members are the four highest ranking Cabinet Ministers. He stated that henceforth any irresponsible importer who desires to import luxury or nonessential goods for speculation and is refused an Import Recommendation, would immediately attempt to circumvent the Committee by appealing to Board of Economic Warfare. If the new change continues the Committee would have no reason for continuing in existence, since in final analysis the obtaining of an export license from the U.S. would depend not on the Committee but on the explanation which the applicant would present to the Board of Economic Warfare. He requested that the Embassy urge modification of this ruling.

WARREN

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<sup>77</sup> For a description of this plan, see circular airgram, January 19, 8 p. m., p. 106.

<sup>78</sup> The Legation in the Dominican Republic was raised to the status of Embassy in April 1943, when Avra M. Warren presented his credentials as Ambassador.

<sup>79</sup> *Ante*, p. 119.

<sup>80</sup> Frank Parra, Secretary General of the Comité de Control Sobre Importaciones y Exportaciones.

<sup>81</sup> Issued by the Office of Exports of the Board of Economic Warfare.

839.24/554 : Telegram

*The Ambassador in the Dominican Republic (Warren) to the  
Secretary of State*

CIUDAD TRUJILLO, August 27, 1943—1 p. m.

[Received 3 :24 p. m.]

263. Department's airgram August 23, 1943, 7 p. m.<sup>82</sup> Embassy believes Alternative III best adapted to situation presented in Dominican Republic. Contemplated most essential target tonnage limitation for goods in free supply as well as insurance of shipping priority for most essential materials would meet probable objection of Committee that Alternative III removes its control over priority of shipment of nonessentials.

Small importers will also be relieved of added burden and expense which has discouraged the placing of numerous small orders for unallocated materials. Furthermore lessening burden on Committee will permit more adequate distribution of essential materials.

WARREN

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839.24/566 : Telegram

*The Ambassador in the Dominican Republic (Warren) to the  
Secretary of State*

CIUDAD TRUJILLO, September 1, 1943—6 p. m.

[Received 7 :37 p. m.]

268. Department's circular airgram August 23, 1943, 7 p. m.<sup>82</sup> Embassy's telegram No. 263, August 27, 1 p. m. Dominican Import-Export Control Committee in accord with Alternative III.

All recommendations in the hands of Committee on this date covering articles in free supply will be processed in the normal way. No new recommendations will be issued for unallocated materials.

WARREN

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103.917/5085 : Airgram

*The Ambassador in the Dominican Republic (Warren) to the  
Secretary of State*

CIUDAD TRUJILLO, November 25, 1943—8 a. m.

[Received November 26—5 p. m.]

A-611. For Foreign Economic Administration.<sup>83</sup> As requested by Department's circular airgram of November 13, 1943<sup>84</sup> the Embassy

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<sup>82</sup> *Ante*, p. 122.

<sup>83</sup> The Office of Economic Warfare, formerly the Board of Economic Warfare, was consolidated into the Foreign Economic Administration, September 25, 1943.

<sup>84</sup> *Ante*, p. 131.

reports that the additional simplifications of export controls referred to in the above airgram have been communicated to the Dominican Import-Export Control Committee and that the Committee has expressed its acceptance of and complete agreement with such proposals.

In accordance with the Department's instructions, the revised procedure will become effective in the Dominican Republic on January 1, 1944.

WARREN

### ECUADOR

822.24/459 : Telegram

*The Chargé in Ecuador (Nester) to the Secretary of State*

QUITO, February 6, 1943—2 p. m.

[Received 10:02 p. m.]

105. For Parkhurst, Board of Economic Warfare, from Wilkinson.<sup>87</sup> Embassy advises Decentralization Plan<sup>88</sup> will be instituted in Ecuador March 1. The Country Agency here will be prepared to start issuing Import Recommendations in accordance with plan of procedure on that date.

Please advise Embassy of the following:

- (1) Time schedule to be followed.
- (2) Target shipping tonnage to be used.
- (3) A recapitulation of the commodity estimates to be used as targets.
- (4) A clear statement of the portion of the shipping estimate and each commodity estimate to be set aside for projects.

Materials lists for all projects approved should be sent as soon as possible. [Wilkinson.]

NESTER

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811.20 (D) Regulations/9907 : Telegram

*The Acting Secretary of State to the Chargé in Ecuador (Nester)*

WASHINGTON, March 9, 1943—6 p. m.

175. Your no. 188, March 2, 2 [3] p. m.<sup>89</sup> In drawing up decentralization procedure, care was taken to avoid regulations which would create impression that our missions are invading the sovereignty of the other American republics, and for this reason, the Embassy's action was not to be indicated on copies of import recommendations that got

<sup>87</sup> George V. Parkhurst and H. A. Wilkinson, officials of the Board of Economic Warfare.

<sup>88</sup> Decentralization Plan A; for an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>89</sup> Not printed.

into hands of third parties. If Embassy feels no repercussions likely to develop in Ecuador and in view of public announcement referred to,<sup>90</sup> the Department and the Board of Economic Warfare have no objection to placing action stamp on fourth copy.

Reference your 197, March 4, 7 p. m.<sup>91</sup>

The Board of Economic Warfare expects to have ready on March 11 full information necessary to start operation of Plan A.

WELLES

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740.00112A European War, 1939/30570

*The Chargé in Ecuador (Nester) to the Secretary of State*

No. 4506

QUITO, May 10, 1943.

[Received May 14.]

SIR: I have the honor to refer to the Department's Circular Airgram of April 23, 6:30 p. m.,<sup>91</sup> regarding the procedure to be followed in screening Import Recommendations involving firms included in the "Confidential List of Unsatisfactory Consignees."<sup>92</sup>

In discussing Import Recommendations with the local Office of Priorities which involve those listed on the Confidential List, every effort has been made not to reveal the existence of any Confidential List. The procedure outlined in the Airgram has been followed insofar as possible and when necessary it has been pointed out that a given firm or individual is under investigation in Washington and that pending the conclusion of the investigations we have been requested to deny the Import Recommendations. Up to the present, these denials have been accepted by the Director General of Priorities with relatively few questions.

Despite the efforts made to avoid admitting the existence of a Confidential List, there is little doubt in the mind of Ecuadoran officials as to the existence of such a list. When the Decentralization Plan was inaugurated, the local Office of Priorities received from the Ecuadoran Commercial Attaché in Washington<sup>93</sup> a copy of "Decentralization Plan 'A'", which outlined the operation and purpose of the plan. At the bottom of page 1 of this Circular, item 3 states that copies of

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<sup>90</sup> The Ecuadoran Government had approved and made known to the public a procedure whereby all Import Recommendations were to be the joint responsibility of the Ecuadoran Office of Priorities and the American Embassy.

<sup>91</sup> Not printed.

<sup>92</sup> To keep the Confidential List secret it was the Department's wish that Import Recommendations be rejected on grounds other than the appearance of the importers' names on the List wherever possible. For inclusiveness of the Confidential List, see footnote 44, p. 188.

<sup>93</sup> Estéban F. Carbo.



Import Recommendations will be referred to the Mission to be screened:

"a Against Proclaimed and Confidential Lists; and,"

It is possible that other Governments likewise received the Circular and are similarly aware of a list other than the Proclaimed List.

Respectfully yours,

For the Chargé d'Affaires a.i.:

HOWARD H. TEWKSBURY  
*Commercial Attaché*

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822.24/500

*The Secretary of State to the Chargé in Ecuador (Nester)*

No. 31

WASHINGTON, May 27, 1943.

The Secretary of State refers to the Embassy's despatch no. 4314 of March 26, 1943 and to the Department's circular instruction of April 15, 1943,<sup>96</sup> entitled "Projects Under Decentralization".

It is fully appreciated that the relation of projects to the entire decentralization procedure has been a cause of concern to the officials of the Ecuadoran Government. The problem of having the bills of materials for all projects screened by the Embassy and the Country Agency was given serious consideration by the various interested agencies of this Government. It was finally decided that, in the case of projects directly related to the war effort and sponsored by an agency of the United States, such as the Office of Imports or the Petroleum Administrator for War, it would be impractical to have the bills of materials reviewed in the field. The necessity for such projects must be determined in Washington in the light of broader information and policy than can be available to the Embassy or the local government. Moreover, since these projects are initiated in Washington, costly delay would be involved in reference to the field. In the past, applicants for all SP<sup>97</sup> licenses have been directed to present a copy of their application to the Embassy for its information. In the future, this copy will instead be transmitted by the Board of Economic Warfare to the Embassy. The license will, however, be issued without awaiting the Embassy's comments. The comments of the Embassy and the local Office of Priorities and Distribution of Imports can be forwarded to Washington as recommendations for the consideration of the interested agencies in issuance of licenses for subsequent quarters.

On non-war projects which are initiated after the effective date of the decentralization program, an Import Recommendation will be

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<sup>96</sup> Neither printed.

<sup>97</sup> Special Project.

required as stated in the Department's instruction under reference. The Embassy and the local Office of Priorities and Distribution of Imports will therefore have full opportunity to screen such projects and determine essentiality.

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822.24/581

*The Ambassador in Ecuador (Scotten) to the Secretary of State*

No. 31

QUITO, June 15, 1943.

[Received June 22.]

SIR: I have the honor to refer to a letter dated April 28, 1943,<sup>98</sup> addressed to Mr. Sam Miller, Special Representative of the Board of Economic Warfare in Quito, from Mr. Paul Cornell, Chief of Office of Exports in the Board of Economic Warfare in Washington, on the subject, "Ecuadoran List of 'Non-Importable' Products under Decentralization Plan A", File No. OE-3-1-RID. Mr. Miller has referred Mr. Cornell's letter to the Embassy for reply.

The so-called "non-importable" list<sup>99</sup> was prepared by the Embassy in accordance with the suggestions of Messrs. Wilkinson and Henry<sup>1</sup> when they were in Ecuador. The Ecuadoran Government accepted this list, and an order was issued by the Director General of the Office of Priorities prohibiting such importations except in cases of extreme emergency. Mr. Cornell states in his letter that it would be better for all concerned if requests for Import Recommendations are considered on their merits as of the day filed, rather than screened against a list of non-importable items.

The matter has been discussed in detail with the Director General of Priorities, and the latter office has agreed to accept Import Recommendations for all types of products, eliminating the so-called "non-importable list". This information was forwarded to the Department in the Embassy's airgram No. A-319 of June 12, 10:00 a.m.,<sup>98</sup> which quoted from a letter of the Director General of Priorities, as follows:

"In view of the fact that the study of each 'Import Recommendation', in itself, constitutes a control of the articles which are desirable to bring to the country, this Office has found it advisable to abolish the list of products on which the Office of Priorities will not grant, for the present, Import Recommendations, from the United States or from any other country via the United States, after the 22nd of March of the present year.

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<sup>98</sup> Not printed.

<sup>99</sup> As to the character of this list, see circular airgram of May 31, 5:10 p. m., circular airgram of June 7, 6:10 p. m., and circular telegram of June 12, 7 p. m., pp. 116, 117, and 119, respectively.

<sup>1</sup> H. A. Wilkinson of the Board of Economic Warfare and Horton Henry of the Department were representatives on a joint mission to the American Republics to assist in inaugurating the Decentralization Plan.

"In view of the foregoing, this Office has ordered the Local Commissions to receive Import Recommendations for the articles of the said list."

Respectfully yours,

For the Ambassador:  
HOWARD H. TEWKSBURY  
*Commercial Attaché*

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740.00112A European War, 1939/34254

*The Ambassador in Ecuador (Scotten) to the Secretary of State*

No. 250

QUITTO, July 19, 1943.  
[Received July 28.]

SIR: I have the honor to refer to the confidential circular instruction of March 15, 1943 (file 740.00112A European War, 1939/27156a)<sup>3</sup> and to various memoranda prepared in the Board of Economic Warfare concerning consignee control in the Export Decentralization Plan "A".

Several specific questions of policy in regard to consignee control have arisen in recent weeks concerning which the Embassy would appreciate the instructions or comments of the Department:

1. *Confidential List.*

The American Consulate General in Guayaquil has made the following suggestion: In the Consulate General's opinion, there does not appear to be any obvious need for further recommendations to the Department for Confidential List action. Consignees, who in the past would have merited a recommendation for the Confidential List, now can be automatically denied all their Import Recommendations by the Commercial Intelligence section of the mission. It is, therefore, suggested that all such cases now be assigned an "A" rating locally, and that such a rating will mean an unquestioned denial at the Embassy of each and every Import Recommendation submitted by the subjects as importers or ultimate consignees.

The Embassy is aware of the merits of this suggestion. It would obviate the present delay and correspondence concerning Confidential List recommendations, and at the same time achieve the most important purpose of the Confidential List—that of preventing American goods from reaching undesirable firms. However, the Embassy is loath to agree to the suggestion without the Department's consent, in view of the last paragraph of the circular instruction on March 15, 1943.<sup>4</sup>

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<sup>3</sup> Not printed.

<sup>4</sup> In the last paragraph of this instruction the Department indicated that as decentralized export control was extended the need for the Confidential List would be reduced, but because of its ancillary uses it was to be continued indefinitely.

## 2. *Undertakings in relation to consignee control.*

Under the rating plan for consignee control evolved by the Embassy and Consulate General, a rating of "CA" has been assigned to cases which were under strong suspicion for various reasons, mostly relating to cloaking. In some of these cases investigation has gone forward to the point where the Consulate General and the Embassy are convinced that there is insufficient evidence to warrant Proclaimed or Confidential List action and that the persons or firms involved can be prevented from further violations of economic controls by securing a standard undertaking. (Reference is made to the circular instruction of April 11, 1942, entitled "Use of Undertakings in Proclaimed List Matters", to instruction No. 1657, January 27, 1943, and to the Department's confidential circular airgram of April 21, 1943.<sup>5</sup>) It is planned to make more extensive use of undertakings in such cases in the future.

After such undertakings are secured, naturally a careful watch of the firms' activities will be maintained. But the Embassy and the Consulate General feel that once an undertaking is given in good faith, the firm should be regarded as on probation but should suffer no further restrictions on its imports except those dictated by priority considerations or, of course, further indications of cloaking. In the latter case they would be immediately recommended for the Proclaimed List.

## 3. *General policy of discrimination in suspicious cases.*

The problem involved in the above discussion of undertakings is in reality part of a larger question. Since the establishment of the Export Decentralization Plan in Ecuador, the commercial intelligence units of the Embassy and of the Consulate General have evolved a rather complete system of political ratings. Reference is made to the Embassy's despatch No. 4412 of April 15, 1943,<sup>6</sup> for an explanation of the rating plan. In practice the procedure has been as follows:

If a firm is rated "CA", the commercial intelligence unit gives limited approval to the Import Recommendation which indicates to the priority officers of the Embassy that the order should be reduced to the firm's minimum essential requirements or denied entirely in accordance with general considerations of the supply situation in the country, or that, if several importers are competing for the same product, the "CA" firm should not be given preference. Limited approval has not indicated, however, that the Import Recommendation must be denied or that it is intended to drive the firm out of business for lack of imports. The basic idea has been to limit supplies to immediate requirements and thus prevent the building up of stocks. Thus, if listing is later necessary, the effect will be almost immediately felt.

<sup>5</sup> None printed.

<sup>6</sup> Not printed.

Naturally, every effort is made to reduce the number of "CA" cases, either by recommending them for the Proclaimed List or by securing an undertaking in appropriate cases. However, it is evident that in a few cases it will be difficult to take either action immediately.

The Embassy would be interested in the Department's comments on the desirability of continuing to discriminate against "CA" firms in the fashion described above.

Respectfully yours,

For the Ambassador :  
HOWARD H. TEWKSBURY  
*Commercial Attaché*

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740.00112A European War, 1939/34254 : Airgram

*The Secretary of State to the Ambassador in Ecuador (Scotten)*

WASHINGTON, August 14, 1943—5 p. m.

A-610. Reference your despatch 250, July 19, 1943. Although Department recognizes the merit in the suggestion of the Consulate General at Guayaquil that there appears no further need for recommendations to the Department for Confidential List action, the Department is unable to consent to this suggestion at this time. As stated in the Department's circular instruction of March 15<sup>7</sup> entitled "Confidential List of Unsatisfactory Consignees, Supplement no. 1", the ancillary uses to which the Confidential List is put warrant its continuance for an indefinite period. The list is distributed to various agencies in Washington and serves as a signal of undesirability in such operations as the investigation of financial transactions by the Treasury Department and control of communications by the Office of Censorship and may be taken by them as the basis for further investigation. The Ministry of Economic Warfare in London uses the Confidential List for the purpose of checking navicert applications covering shipments from the American republics. The list is also used in Washington to inform American firms upon inquiry or upon rejection of import recommendations concerning the desirability of such firms or individuals as business connections. As noted in the Department's circular airgram of April 23, 6:30 p. m.<sup>7</sup> this practice to some extent reduces the number of import recommendations involving Confidential List names and should eliminate to this extent embarrassment with the local country agencies.

It is believed that the procedure described in the Department's circular airgram of July 24, 1943<sup>7</sup> authorizing the missions to reject

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<sup>7</sup> Not printed.

or approve import recommendations prior to the actual listing or delisting of a consignee in the Confidential List eliminates the possibility of delay you refer to.

The policy described under point 3 of the despatch under reference is satisfactory. In this connection, however, it is important that the Department be informed whenever a consignee's status becomes satisfactory.

HULL

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822.24/665 : Telegram

*The Ambassador in Ecuador (Scotten) to the Secretary of State*

QUITO, August 31, 1943—10 a. m.

[Received 5:17 p. m.]

763. Reference Department's circular airgram of August 23, 7 p. m.<sup>8</sup> regarding proposed modification of decentralization procedure affecting goods not requiring priority assistance.

Alternative I is the only one which could be adopted in Ecuador owing to existing legislation outlined in the Embassy's airgram A-336 of June 17, 10:30 a.m.<sup>9</sup>

The Office of Priorities will insist on participation in screening from requirements standpoint of Import Recommendations for products in free supply and therefore procedure cannot be limited to consignee control (political). The Office of Priorities will unquestionably insist on some control over all types of products with reference to the country's general economic requirements present and future. These controls were formerly exercised by exchange quotas but exchange is now granted on imports from the United States on basis of approved Import Recommendations. Likewise it is felt that the shipping priority should be determined jointly as in the past by the local agency and the Embassy with a rating indicated on the Import Recommendation, as a safeguard in the event of future changes in the shipping situation.

It is believed that a revised and materially shortened Import Recommendation form could be adopted which would be suitable for use in the case of articles in free supply and for those subject to allocation. The use of two forms is not desirable.

A detailed report is being forwarded by air mail.

SCOTTEN

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<sup>8</sup> *Ante*, p. 122.

<sup>9</sup> Not printed; it reported opposition to the use of general licenses to cover export of United States products (822.24/579).

822.24/669 : Telegram

*The Ambassador in Ecuador (Scotten) to the Secretary of State*

QUITO, September 2, 1943—1 p. m.  
[Received September 3—3:45 a. m.]

770. Reference Department's circular telegram of August 31, 4 p. m.,<sup>11</sup> and Embassy's telegram 763, August 31, 10 a. m. Ecuadoran authorities are in accord with the general principle of simplification but the Director General of Priorities states that under Ecuadoran law the import permit issued by the Exchange Control which has consistently been required by Ecuadoran Consuls before certifying shipping documents will still be required.

Since an import permit is granted only upon submission of an Import Recommendation jointly approved by Embassy and Office of Priorities this guarantees continuation of effective consignee control by Embassy and makes this work unnecessary in Washington.

The granting of import permits affords the Ecuadoran Government the degree of control over imports and exchange which it considers absolutely essential to Ecuadoran economy under present conditions. This control through import permits replaces the former control established in July 1940 which the Government exercised through preparation for monthly exchange quotas which have now been discontinued.

For goods in free supply it will not be necessary to forward copies of Import Recommendations to the United States. However, shipping space applications made in the United States will of necessity be based on Ecuadoran import permits. This will greatly simplify the exporters' work and will materially expedite clearance of applications in Ecuador.

The continued Ecuadoran use of Import Recommendations, with the much simplified procedure, will be of inestimable value to the Embassy since the information supplied is absolutely essential for future requirements studies and postwar planning.

In announcing Ecuador's acceptance of the plan exporters should be informed that this does not imply the abolition of Ecuadoran import permit.

SCOTTEN

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<sup>11</sup> Not printed.

## EL SALVADOR

740.00112A European War 1939/24380

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

No. 40

SAN SALVADOR, January 23, 1943.

[Received January 29.]

SIR: I have the honor to report that recently there have been several local violations of the Salvadoran regulations concerning rationing and price control. The Salvadoran Committee of Economic Coordination has issued such regulations and also acts as the enforcing agent. The penal clauses in such regulations do not provide for fines or imprisonment but provide only for a denial of permission to obtain such rationed commodities or to sell the same.

The Salvadoran Committee of Economic Coordination has requested an advisory opinion as to whether, as a matter of policy, the Board of Economic Warfare would entertain recommendations requesting the denial of U.S. export licenses to violators of the Salvadoran rationing and price control regulations if such a course is recommended by the Committee and by this Legation.

In other words, an advisory opinion is respectfully requested as to whether the Board of Economic Warfare would be willing to deny export licenses as a punishment for infractions of the Salvadoran control laws.

The Salvadoran Committee of Economic Coordination points out that it can always refuse to issue certificates of necessity to those guilty of infractions of local regulations but that violators of the Salvadoran regulations could still obtain American export licenses without recommendations for materials not under allocation.

Respectfully yours,

For the Minister:

DANIEL V. RYAN

*Special Assistant*

811.20 (D) Regulations/9811

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

No. 95

SAN SALVADOR, February 12, 1943.

[Received February 16.]

SIR: I have the honor to report that Mr. Harold W. Moseley, of the Department, and Mr. J. A. R. Dalley, of the Board of Economic Warfare, recently spent five days in El Salvador explaining the proposed decentralization procedure outlined by the Office of Exports of the Department and the Board of Economic Warfare. During their stay



in El Salvador they were in constant collaboration with Mr. W. W. Renwick, President of the Salvadoran Committee of Economic Coordination, and several of its directors, as well as with officers of this Legation.

Mr. Renwick is very enthusiastic about the entire plan of decentralization as it embodies many ideas, long advocated by him, such as virtual control over imports within the shipping estimates and drastic curtailment of imports not essential to El Salvador's economy. For some time Mr. Renwick has favored a plan of decentralization, such as outlined by the Department.<sup>12</sup> Mr. Renwick proposed a budget to the Salvadoran Government for the enlargement of his office so as to provide for an increased personnel of twelve in order to fully carry out the plan of decentralization. The Legation has just received word from Mr. Renwick that the Government has approved his budget. However, it has cut the salaries for some of his proposed new personnel. The Decentralization Plan will take effect in El Salvador on March 1, 1943; therefore, as of April 1, 1943, no further certificates of necessity should be honored for El Salvador.

The Legation at all times has received the highest degree of cooperation from Mr. Renwick and his Committee and its staff engaged in this work and is enthused over the prospect of putting the Decentralization Plan into effect.

[Here follows a report on local administrative procedure to be used in implementing decentralization in El Salvador.]

Respectfully yours,

WALTER THURSTON

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740.00112A European War 1939/24380 : Airgram

*The Acting Secretary of State to the Minister in El Salvador  
(Thurston)*

WASHINGTON, March 1, 1943—5:40 p. m.

A-175. Reference your despatch no. 40 of January 23, 1943. The Department and the Board of Economic Warfare will take restrictive measures against violators of Salvadoran rationing and price control regulations when such action is recommended by the Salvadoran Committee with your concurrence. In each instance you should forward with the name of the violator a short description of the violation. Also please indicate whether licenses should be rejected indefinitely or for a specific period of time. You should notify the Department in the event that one of these individuals is again considered a satisfactory consignee by you.

WELLES

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<sup>12</sup> See circular airgram of January 19, 8 p. m., p. 106.

816.24/589 : Telegram

*The Ambassador in El Salvador (Thurston)*<sup>13</sup> to the Secretary of State

SAN SALVADOR, June 15, 1943—4 p. m.

[Received 10:29 p. m.]

167. Department's circular telegram of June 12, 7 p. m.<sup>14</sup> El Salvador has never prepared essential and nonessential commodity lists.

Mr. Renwick, President of the Salvadoran Committee of Economic Coordination, is opposed to principle embodied in third paragraph of Current Export Bulletin No. 99.<sup>15</sup> He feels strongly that Decentralization Plan with determination of El Salvador's essential needs by Committee, subject always to review and ultimate decision by this Embassy and BEW, is best safeguard of local economy and holds that licensing without consideration or knowledge of Committee would destroy over-all planned flow of materials and prevent further intelligent economic planning. It is felt that El Salvador, in close cooperation with this Embassy, should be allowed to continue to make its own determination of what is essential to its economy.

Mr. Renwick states that if export licenses are granted on any appreciable scale on the basis of exporters representations of essentiality of material alone and without privilege of prior review by this Embassy or the Committee the confidence of local importers will be destroyed and the basic objectives of Decentralization Plan might ultimately be defeated. He would then recommend to the Salvadoran Government the dissolution of his Committee.

THURSTON

816.24/593 : Airgram

*The Ambassador in El Salvador (Thurston) to the Secretary of State*

SAN SALVADOR, June 16, 1943.

[Received June 19—4 p. m.]

A-218. Department's confidential circular airgram dated June 7, 1943, 6:10 p. m.<sup>16</sup> El Salvador is opposed to proposal BEW licensing of materials outside allocated materials without Import Recommendations even provided such materials are shipped only after all available materials covered by Import Recommendations have been shipped. The certifying agency states that its books show 19,000 tons of backlog

<sup>13</sup> The Legation in El Salvador was raised to the status of Embassy on April 16, 1943, when Walter G. Thurston presented his credentials as Ambassador.

<sup>14</sup> *Ante*, p. 119.

<sup>15</sup> Issued by the Office of Controls of the Board of Economic Warfare; it announced changes in the export control system that appeared to reduce the authority of the Country Agencies.

<sup>16</sup> *Ante*, p. 117.

orders, and suggests that any surplus shipping tonnage available to El Salvador be utilized by the War Shipping Administration in forwarding backlog badly needed.

[Here follows a list of pending orders for wheat, flour, paper, cement, and asphalt which comprises the backlog requested by the certifying agency.]

Mr. Renwick, President of the certifying agency, further states that the plan under consideration would totally wreck his records of prospective shipping for the balance of the year and feels that his organization is sufficiently organized to achieve entire flexibility to take advantage of unexpected increases in shipment.

The suggestion that the Embassy cooperate with the Country Agency in arranging with importers to place orders by telegram for an amount equal to three months' shipping target tonnage will be immediately complied with.

THURSTON

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816.24/673 : Telegram

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

SAN SALVADOR, August 28, 1943—4 p. m.

[Received 10:04 p. m.]

185. Department's airgram August 23, 7 p. m.<sup>17</sup> regarding export controls of materials in free supply. Definitely recommended that Alternative I be adopted for El Salvador as decidedly most advantageous and practicable for situation here.

Salvadoran Committee of Economic Coordination has just and effective system for determining and scheduling the needs of the country and maintaining equitable distribution of imports. There is no doubt that Government and Committee will wish to maintain this system of participating in the determination of what goods shall be provided and it is believed that this administration, which has been proved in practice, should be encouraged. Its relinquishment is entirely unlikely to provide any improvement and is most likely to be prejudicial to the prestige and cooperation enjoyed by the Committee from all branches of trade, industry, and agriculture. The use of simplified Import Recommendations for materials in free supply will preserve this control, will provide opportunity for Committee to express its recommendations regarding order of priority of shipment and will maintain all political and commercial screening in the hands of this Embassy where local situation is best known.

Importers copy of Import Recommendation is used locally as import permit. Alternative II would make this system impracticable

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<sup>17</sup> *Ante*, p. 122.

necessitating adoption of a dual procedure for both Committee and Embassy as well as making economic control more difficult.

Alternative III is certain to be entirely unacceptable to local agency and this Embassy would concur.

Any alternative to present practice will necessitate a very close definition of "materials in free supply" as many items not under estimate of supply are not in free supply, judging from unsuccessful attempts made to import them here.

GADE

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816.24/690 : Airgram

*The Ambassador in El Salvador (Thurston) to the Secretary of State*

SAN SALVADOR, September 6, 1943.

[Received September 9—9 a. m.]

A-344. Reference Department's circular telegram of August 31, 1943 and this Embassy's telegraphic reply of September 2,<sup>18</sup> regarding simplification of export control procedure.

As stated, Salvadoran Committee of Economic Coordination strongly favors Alternative I but reluctantly agrees to Alternative III rather than request special treatment differing from that which may be decided upon for other countries.

In conference with Mr. Renwick, President of the Committee, the following points were raised :

1. The Committee feels that its present system for determining and scheduling the needs of the country and maintaining equitable distribution of imports is reasonably efficient and effective and is reluctant to relinquish this control, particularly in view of experience with flour, wheat and one or two other commodities on which control was previously partially relinquished and shipments were scheduled in the United States. The Committee feels that its present controls are working smoothly and that possible new purely local controls will result in duplication of work and another period of reorganization.

2. While tonnage of materials in free supply is considerable, from 65 to 75 per cent of Import Recommendations cover controlled materials and consequently elimination of Import Recommendations for materials in free supply will not greatly reduce their volume.

3. Distinction between free and controlled materials will greatly increase work because of continual and necessary consultations with merchants to determine whether recommendations will be necessary or not. To aid merchants, WPB<sup>19</sup> Products Assignment List will have to be completely translated into Spanish.

4. At present the importer's copy of Import Recommendation is used locally as import permit. Alternative III will make this system impracticable and, if import permit system is continued, this will necessitate the adoption of a dual procedure in this and in many other phases of the work. If an import permit system is abandoned for materials

<sup>18</sup> Neither printed, but see circular airgram, August 23, 7 p. m., p. 122

<sup>19</sup> War Production Board.

under free supply a tremendous problem will result in educating customs officials to distinguish between materials in free supply and those under control. It has proved almost impossible to educate local importers and merchants to make accurate determinations with regard to the complications of CMP<sup>20</sup> classification but in the last analysis the Committee has been able to pass on all such determinations. Under Plan III the Committee feels that some means of continuing its function in determining classification will be essential as it does not believe that this can be left to the judgment of merchants and customs officials.

5. The Committee believes that the successful operation of Alternative III revolves around the determination of materials in free supply and that no material on which there is even a remote possibility of scarcity before the end of the war should ever be regarded as in free supply. At present estimates of supply are allocated locally by the Committee on the basis of previous consumption, stocks on hand and pending orders. If some materials now in free supply are later placed under estimate of supply, and if in the meantime orders have been shipped without the Committee's control, completely new surveys will be required to effect equitable distribution of the new estimate. It is difficult to believe that the war can be prosecuted and won without the appearance of new material shortages. Abandonment of controls for even a short period in such cases will result in repeated emergency work.

6. Experience has shown that many materials supposedly in free supply have been almost impossible to obtain except in small quantities or in irregular shipments which tend to upset the local economy. Wheat, lumber, plywood, asphalt, cement, and superphosphate fertilizer are some cases in point in El Salvador's experience. The Committee believes that all such materials should be kept under estimate of supply until true freedom of supply and ample shipping facilities are certain to exist in practice.

7. General price control in El Salvador has become an urgent necessity because of profiteering and speculation. A decree instituting such control has been drawn up and is to be promulgated shortly. This system entails the use of information compiled currently from basic data contained in Import Recommendations and the abandonment of part of these Recommendations will seriously prejudice efficient administration of price control.

Import Recommendations have been very valuable to this Embassy in preparing requirements reports when materials formerly under free supply have been placed under control. Under Alternative III the accumulation of these data will cease.

Some of the Committee's comments were anticipated in this Embassy's telegram No. 213 [185] of August 28, 1943, and it is believed that all of the above points are worthy of serious consideration. Although this Embassy believes that Alternative I is, in the long run the most advisable, if Alternative III is adopted the Department can depend, as in the past, on the wholehearted cooperation of the Committee of Economic Coordination.

THURSTON

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<sup>20</sup> Controlled Materials Plan.

816.24/676

*The Secretary of State to the Ambassador in El Salvador (Thurston)*

No. 320

WASHINGTON, September 10, 1943.

The Secretary of State refers to the Embassy's telegrams no. 185 of August 28, 4:00, and no. 215 of September 2, 5:00 p. m.<sup>21</sup>

The Department and Office of Economic Warfare<sup>22</sup> appreciate Mr. Renwick's fine spirit of cooperation in expressing willingness to accept Alternative III rather than request special treatment. The success of the decentralization plan reflects creditably on both the Embassy and the Committee of Economic Coordination and this Government would not wish to urge the acceptance of the simplified procedure Alternative III if in the considered judgment of the Embassy and the Committee such acceptance would be prejudicial as outlined in the Embassy's telegram no. 185.

The Department and the Office of Economic Warfare are reluctant to continue controls which while considered necessary when instituted have proven, generally speaking, a deterrent to trade and which prevent a full utilization of shipping possibilities and material availability in this country. It is felt here that with some promise of improvement in both materials and shipping and with post-war competitive trade considerations becoming increasingly important, all practical steps should be taken to remove Government interference and permit direct importer-exporter relationships to develop. So long as current controls are retained on materials in free supply, the United States exporter or supplier is at a competitive disadvantage.

There is some evidence that importers in the other American republics are seeking other actual or potential sources of supply and, likewise, the United States exporters and suppliers have seemed less active in the preservation of their foreign markets and material which might otherwise have been exported is being diverted to local consumption in this country.

While the situation described in the preceding paragraphs may not apply in all respects to El Salvador, it is the belief here that so far as practical trade restrictions should be removed and for its part this Government desires to lift present export licenses on exports of materials in free supply to El Salvador. The Embassy is requested to discuss this matter with the Committee and give assurance that this Government does not wish to urge acceptance of Alternative III preferring that the choice be made by the Committee.

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<sup>21</sup> Latter not printed.

<sup>22</sup> Successor agency of the Board of Economic Warfare.

It is desired to effectuate the simplification of procedure October 1, 1943 in those countries that have accepted Alternative III and the Embassy is requested to telegraph the result.<sup>23</sup>

### GUATEMALA

814.24/401 : Telegram

*The Chargé in Guatemala (Drew) to the Secretary of State*

GUATEMALA, February 4, 1943—5 p. m.

[Received 9:40 p. m.]

57. For Parkhurst Board of Economic Warfare<sup>24</sup> and Ravndal of the Department<sup>25</sup> from Dall [*Dalley*] and Moseley.<sup>26</sup> Mission and Country Agency<sup>27</sup> will be ready to put Decentralization Plan "A"<sup>28</sup> into effect for all materials on April 1. Beginning March 1 preference requests will be issued in lieu of Certificates of Necessity on allocated materials for second quarter. It is suggested that outstanding Certificates of Necessity be honored until April 30. Thenceforth all applications for export license should be accompanied by preference requests.

Send timing and recapitulation of all materials under quota and CMP<sup>29</sup> with full instructions and estimate of supply.

No great difficulty is anticipated in Guatemala in the operation of this plan. [Dalley and Moseley.]

DREW

814.24/452

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

No. 3834

GUATEMALA, April 22, 1943.

[Received April 27.]

SIR: I have the honor to refer to the Legation's despatch No. 3759 of April 5, 1943,<sup>30</sup> in which the Department was advised that no list of non-importable commodities would be prepared for publication in Guatemala.

The Sección de Coordinación Economica Financiera en Guatemala, in consultation with the Legation, has evolved the following plan for

<sup>23</sup> No further statement from the Embassy is found in Department files, and it is assumed that Ambassador Thurston accepted Alternative III in the spirit conveyed by the last paragraph of airgram No. A-344, *supra*.

<sup>24</sup> George V. Parkhurst, Deputy Chief, Country Program Branch.

<sup>25</sup> Christian M. Ravndal, Chief of the Division of Exports and Requirements.

<sup>26</sup> J. A. R. Dalley and Harold W. Moseley, the former representing the Board of Economic Warfare and the latter, the American Hemisphere Exports Office, were assigned to assist in inaugurating a decentralized export control plan.

<sup>27</sup> The Guatemalan office responsible for administering import controls.

<sup>28</sup> For an outline of the plan, see circular airgram, January 19, 8 p. m., p. 106.

<sup>29</sup> Controlled Materials Plan; for an explanation of this plan, see circular instruction of April 26, p. 111.

<sup>30</sup> Not printed.

dealing with applications for Import Recommendations covering commodities in short supply in the United States and not deemed essential in Guatemala. Publication will not be made of an official Guatemalan list of non-importable commodities, but the Sección de Coordinación will maintain for its own use in the implementation of its policies a list of commodities which are deemed non-essential to Guatemala and which are in scarce supply or would utilize valuable cargo space, and will reject applications for Import Recommendations covering such commodities. When it appears likely that the volume of applications for a commodity appearing on this list will be large, the principal importers of such commodities will be advised privately by the Sección de Coordinación that until further notice it will be the general policy of that office to reject applications covering the commodity in question, and that it would be useless to file such applications unless special circumstances exist which would warrant the issuance of an Import Recommendation.

This procedure has already been followed in the case of certain commodities, an example of which is canned food. It has been determined by the Sección de Coordinación, in consultation with the Legation, that with certain exceptions canned foods are not essential to Guatemala. The principal importers of canned foods have, therefore, been advised by the Sección de Coordinación that until further notice it will be the general policy of that office to reject applications for Import Recommendations covering canned foods, except canned milk and other canned infant foods. Importers are still free, however, to file applications for Import Recommendations covering canned foods if special circumstances can be shown to justify the need for individual shipments.

It is believed that as applied to Guatemala this plan, because of its flexibility, will be more desirable than would the publication of a definite list of non-importable commodities.

Respectfully yours,

For the Minister:  
ARCHIBALD R. RANDOLPH  
*Acting Commercial Attaché*

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814.24/490

*The Ambassador in Guatemala (Long)*<sup>31</sup> to the Secretary of State

No. 83

GUATEMALA, June 17, 1943.

[Received June 21.]

DEAR SIR: I have the honor to refer to the Department's Circular Airgram of June 7, 1943, 6:10 P. M.<sup>32</sup> transmitting the request of the

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<sup>31</sup> The Legation in Guatemala was raised to the status of Embassy on May 19, 1943, when Boaz W. Long presented his credentials as Ambassador.

<sup>32</sup> *Ante*, p. 117.



Board of Economic Warfare that the consent of the Country Agency in Guatemala be obtained to the issuance of export licenses by the Board of Economic Warfare in Washington for other than allocated materials although covering Import Recommendations for such may not have been issued by the Country Agency.

Import Recommendations have been issued in Guatemala in the period April 1 to date for commodities and materials whose shipping weight totals approximately 8,000 long tons, of which, according to latest advices, the Board of Economic Warfare has licensed approximately 650 long tons, leaving a backlog of such materials for immediate licensing and shipment of approximately 7,350 long tons. Current information on the backlog for Guatemala of licensed materials not covered by Import Recommendations is not available here, but it is apparent that such backlog must be in excess of 3,000 long tons, there being at least 1,500 tons of steel alone licensed but not yet shipped. Therefore, the unshipped backlog for Guatemala made up of licensed materials, plus unlicensed materials for which Import Recommendations have been issued, could scarcely be less than 10,000 gross tons, exclusive of materials for projects—a backlog which, under the existing estimates of supply of shipping for Guatemala, would be sufficient to fill ships destined to Guatemala for more than three months. The existence of this backlog, together with the fact that the mechanical processes involved in the issuance of Import Recommendations in Guatemala have been so developed that all essential requirements are being promptly certified, leads to the conclusion that any temporary advantages to be gained from the large scale approval of applications for export licenses not supported by Import Recommendations, are far outweighed by the long-term disadvantages.

Decentralization Plan "A" was presented to the Government of Guatemala and accepted by that Government in the sense that it offered the best solution to the problems raised by critical shortages of supplies and shipping from the United States. Upon this premise the plan was announced and importers in Guatemala were informed that after the effective date, export licenses could not be obtained in the United States without the presentation of Import Recommendations issued in Guatemala. There followed a transition period during which personnel was recruited and trained in the details of the operation of the plan both by the Country Agency and by the Embassy. By various publications and countless individual interviews importers have been familiarized with the preparation of Import Recommendations, with the possible groupings of commodities, with the export aspects of the Controlled Materials Plan and with other regulations of the United States affecting export trade. As a result of these preparations officials of the Country Agency and of this Embassy now feel confident

that no essential requirements in Guatemala will lack prompt documentation for want of any flexibility in the mechanics of the plan as operative here. Under these circumstances, to approach the Country Agency with the proposal that a substantial volume of applications for export licenses be approved in Washington without the support of Import Recommendations from Guatemala, would necessarily indicate to the Guatemalan Government either that the Board of Economic Warfare has been unable to implement Decentralization Plan "A" in the United States or that shipping has ceased to be a problem.

At this point attention is invited to this Embassy's Airgram No. 307 of June 11, 1943, 4:45 P. M.<sup>33</sup> and previous communications in connection with the specific problem that has arisen in respect to the proposal that import control over wheat flour be taken out of the hands of the Guatemalan Government.

For these reasons, it is deemed inadvisable in the case of Guatemala, and it may well be that a similar situation is applicable to the other Central American countries, to relax the operation of Decentralization Plan "A" until our Government is able to assure the Government of Guatemala that such a step is predicated upon a permanent improvement in the shipping situation. The content and purport of the Department's Airgram under reference are, therefore, being withheld from the Country Agency pending the Department's reconsideration of this problem in the light of the existing facts.

To assist the Department and the Board of Economic Warfare in its appraisal of the operation of the Decentralization Plan "A" in Guatemala, the enclosed tables<sup>33</sup> are submitted. The enclosures portray the weekly progress of the Plan as recorded by this Embassy from the week ending May 22, a date seven weeks after the inauguration of the Import Recommendation procedure, which date was taken as an arbitrary fixture for beginning a regular analysis of the mechanics of this Plan by this Embassy.

It will be noted that as of June 12 the Country Agency in cooperation with this Embassy has examined 3,600 applications for Import Recommendations, had issued 2,507 Import Recommendations and that the shipping tonnage represented by these documents amounted to 7,693 long tons, Table 2 enclosed. Since the 12th of June additional documents have been issued and more shipping tonnage has been allocated.

An analysis of the data available here on the shipping that has actually been landed in Guatemala indicates that the cargo tonnage that was received per month by Guatemala in the months of February to May inclusive, surpassed by a substantial margin the target tonnage

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<sup>33</sup> Not printed.

figures prepared by the Board of Economic Warfare and the War Shipping Administration and reference is made for purposes of illustration to Table 3 enclosed.

Respectfully yours,

For the Ambassador:  
ARCHIBALD R. RANDOLPH  
*Acting Commercial Attaché*

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814.24/549 : Telegram

*The Ambassador in Guatemala (Long) to the Secretary of State*

GUATEMALA, September 2, 1943—noon.

[Received 3:23 p. m.]

443. Reference the Department's circular telegram August 31, 1943.<sup>35</sup> Guatemala Country Agency approves simplification described and will relinquish all documentary control over imports not requiring Import Recommendations but desires to express preference as to essentiality of commodities through monthly shipping programs.

LONG

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814.24/580

*The Ambassador in Guatemala (Long) to the Secretary of State*

No. 463

GUATEMALA, September 27, 1943.

[Received October 4.]

SIR: I have the honor to enclose, as of possible interest to the Department, a memorandum<sup>36</sup> prepared in the Economic Section of the Embassy in review of the operations in Guatemala of Decentralization of Export Control Plan "A".

From its adoption as of April 1, 1943, to September 18, 1943, a period covering 24 weeks, the results to date indicate that in the main Decentralization Plan "A" has been a satisfactory measure to provide the essential needs of Guatemala for imported goods from the United States under conditions of short supply and restricted shipping facilities in the country of export.

The public reaction to the operation of Decentralization of Export Control Plan "A" has in general been favorable. Whatever objections that developed upon the inauguration of the system and whatever complaints that have been heard during its progressive stages have been of commercial origin and characteristic of the kinds of objections and complaints that would be apt to be levelled at any type of control system that had been arbitrarily imposed as a result

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<sup>35</sup> Not printed, but see circular airgram, August 23, 7 p. m., p. 122.

<sup>36</sup> Not printed.

of abnormal conditions, and cannot be considered peculiar to the Decentralization program in itself.

Although details regarding the constantly changing supply situation have frequently of necessity been scanty in the field and heavy reliance has had to be placed by the field reviewing officers on the fixed supply estimates, it may be observed here that the setting up by the War Production Board of Second Quarter Estimates of Supply for CMP materials has been most helpful in providing supply information for the use of the Mission. The processing of Import Recommendations by the Embassy in Guatemala has had the desired effect of reducing to a minimum the issuance of Import Recommendations for non-essential goods, and the Country Agency which has worked in the closest possible cooperation with the Embassy in implementing the plan has scrutinized applications for Import Recommendations with far greater care than had been done under the Certificate of Necessity system. The thoroughness of the control made possible by the local administration of the Plan has produced a document which, everything considered, is believed to represent a valid claim upon the attention of the Export Licensing authorities in the United States as a call for an article which is strictly in accordance with the qualification that it satisfy the minimum essential requirements to the United Nations war effort, or that it maintain the essential services of the Government of Guatemala, or that it maintain the civilian enterprises essential to the economy of Guatemala. This contention is justified by the treatment that has since the beginning been accorded the Guatemalan Import Recommendations by the Office of Economic Warfare,<sup>37</sup> rejections by the Office of Exports of applications for export licenses since the adoption of Decentralization Plan "A" having been only .37 percent of the total number of Import Recommendations issued.

The Guatemalan importer has come to have a reasonable expectation of having his order filled in the United States and of having the shipment licensed for export as a result of the high validity average which the Guatemalan Import Recommendation has attained. An important educational factor for the Guatemalan importer has evolved from the centralization in the Embassy of local sources of information pertinent to our economic warfare controls, particularly in connection with the operational aspects of Decentralization of Export Control. Importers now habitually call upon the Economic Section of the Embassy to discuss the varied problems which the imposition of our wartime economic controls have sponsored.

Respectfully yours,

For the Ambassador:

ARCHIBALD R. RANDOLPH  
*Acting Commercial Attaché*

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<sup>37</sup> Successor agency of the Board of Economic Warfare.

## HAITI

838.24/425 : Airgram

*The Ambassador in Haiti (White) to the Secretary of State*

PORT-AU-PRINCE, April 17, 1943—11 a. m.

[Received April 20—5 p. m.]

A-147. Decentralization Plan<sup>38</sup> was inaugurated April 15 as planned. Greene and Adam<sup>39</sup> on recent visit here stressed to Haitian Government and this Embassy the requirement that each set of Import Recommendations contain articles comprising a single Schedule B<sup>40</sup> number.

A number of importers, as well as officials of the Country Agency,<sup>41</sup> have raised objections, some strongly, that it would prove a real hardship to them because of the character of the import of many articles of small quantity at a single time to obtain separate forms. There is absolutely no question that, aside from a very limited number of wholesalers who deal in flour, cement and other such articles which they buy in quantity, the great mass of importers in Haiti will experience hardship to a varying degree in conforming to this regulation because of the general character of imports into Haiti, the inability of the bulk of importers to order except for virtually current needs because of lack of finances and stringent credit restrictions, etc.

Another important factor which must be considered in this connection is the charge amounting to 10 cents United States currency for each set of forms. Upon the visit of Greene and Adam the Country Agency stated that it would be obliged to charge a nominal amount to cover high paper and other costs and it indicated that it would charge four cents. In the case of numerous importers of small articles the requirement of filling out numerous forms unquestionably will constitute a burden, and in spite of any explanations which this Embassy may make the possibility must be considered that the United States Government will be subjected to unfavorable criticism.

This Embassy, with Dowling of BEW<sup>42</sup> concurring, strongly recommends that this provision be waived insofar as Haiti is concerned and that it be allowed to accept single sets of Import Recommendations covering any number of items in a given major group in Schedule B filed by a single importer and ordered from a single exporter in the

<sup>38</sup> Decentralization Plan A; for an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>39</sup> William Greene of the Board of Economic Warfare and Hector C. Adam of the Department of State were assigned to assist local agencies in inaugurating a decentralized system of controls of U.S. exports.

<sup>40</sup> A statistical classification of domestic and foreign commodities for export from the United States, issued by the Bureau of the Census, Department of Commerce.

<sup>41</sup> The agency in Haiti responsible for exercising trade controls.

<sup>42</sup> Board of Economic Warfare.

United States. This will involve in many instances attachment to each copy of Import Recommendation forms a detailed list of articles, weights, prices, etc., in the nature of a commercial order.

Meanwhile, the Country Agency, despite instructions to the contrary given both by itself and by this Embassy, is receiving numerous sets of forms comprising articles bearing more than one Schedule B number and with detailed commercial orders attached to each form of the set. The Country Agency is returning all such forms, but long delays in obtaining correctly filled sets are anticipated, particularly from importers outside of Port-au-Prince because of transportation-communication difficulties.

Closely related to the recommendation under reference is the fact that despite the magnitude of the task facing the Country Agency, owing to lack of experienced personnel, it is composed of only three men with very limited capabilities as measured by American standards. The Embassy has made a number of suggestions with a view to effecting orderly administrative procedure within the Agency, but little has resulted. The Agency now gives indication of being overwhelmed with the work which it is expected to do, especially with the volume that may be expected if forms are required for every Commerce B number. As the Department may be aware, the Haitian Government work day is from 8 a. m. to 1 p. m., with numerous holidays, with overtime work virtually non-existent.

Unless a modification of some character is permitted in the use of the forms I question very seriously whether the Decentralization Plan can be made to succeed in Haiti.<sup>43</sup>

I should appreciate instructions as urgently as possible.

WHITE

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838.24/481 : Airgram

*The Ambassador in Haiti (White) to the Secretary of State*

PORT-AU-PRINCE, June 19, 1943—11 a. m.

[Received June 24—11 a. m.]

A-280. Department's airgram of June 7, 6:10 p. m., 1943,<sup>44</sup> concerning proposal to require Import Recommendations solely for allocated materials and Department's circular telegram No. 130 of June 12, 7 p. m., 1943,<sup>45</sup> concerning the issuance of Current Export Bulletin no. 99.<sup>46</sup>

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<sup>43</sup> In airgram No. A-322, May 8, 5:50 p. m., the Department advised that the Board of Economic Warfare would accept Import Recommendations covering more than one Schedule B number in hardship cases. In airgram No. A-369, June 15, 7 p. m., however, this was countermanded, and no immediate relief was provided.

<sup>44</sup> *Ante*, p. 117.

<sup>45</sup> *Ante*, p. 119.

<sup>46</sup> Issued by the Office of Exports of the Board of Economic Warfare.

As stated in the Embassy's telegram No. 104 of June 14, 2 p. m., 1943,<sup>47</sup> in reply to the telegram No. 130 under reference, there will be only protracted confusion and discredit of machinery now working smoothly if importers in Haiti are permitted to lodge appeals with BEW. The same unquestionably would hold true if the suggested plan in the Department's airgram under reference should be put into effect. Moreover, the Embassy is strongly of the opinion that any drastic change in the present decentralization procedure, insofar as it applies to Haiti, would have confusing effects.

There is every reason to believe that the Haitian Government itself definitely does not desire that there be "licensing of any material outside of allocated materials without Import Recommendations provided such materials are shipped only after all available materials covered by Import Recommendations have been shipped". It should be noted that there are any number of materials not under estimate of supply which are of far greater necessity to Haiti than many materials under estimate of supply, for example, cotton and rayon piece goods, flour, both laundry and toilet soap, lard, et cetera, for which Import Recommendations have been issued and are continuing to be issued in sufficient quantities.

The Country Agency, as well as the bulk of importers, now have gained knowledge of both the details and the broad scope of the plan. Not only have importers in general failed to offer objections, except a few importers at the very outset, but they have voiced their satisfaction concerning the plan in operation as a vast improvement over that which preceded it. This is based on their belief that under a controlled plan, with both the Embassy and the Country Agency acting together, the importers face a far better chance of obtaining, and obtaining more quickly, the goods which they order.

Under the improved setup of the Country Agency, with Mr. Défly<sup>48</sup> now at its head, there has been marked improvement in its operations, as previously reported. Its personnel has been strengthened, its book-keeping operations have been considerably improved, and it has achieved much greater flexibility in operations.

The target tonnage figure of 1700 long tons of dry cargo monthly has been achieved each month since its establishment and the average monthly tonnage has in fact been substantially above this amount. The Standard Fruit Company has indications that the total being brought in June will exceed 3,500 long tons. Shortages naturally develop here from time to time in certain imported items, but these current shipping facilities, plus continued small amounts being transported by small boats operating out of South Florida ports, appear

<sup>47</sup> Not printed.

<sup>48</sup> Serge Léon Défly.

sufficient to provide reasonable imports for Haiti, barring unforeseen eventualities.

The Embassy is of the opinion that the present procedure of requiring Import Recommendations for all imports has acted as a beneficial deterrent, although on a limited scale as yet, to comparatively widespread black market operations, wartime profiteering and other unsatisfactory conditions prevailing in Haiti, as the competent Haitian authorities are disposed to recognize. Further extremely valuable information is being obtained under this procedure for effecting a more satisfactory control of a commercial situation as against the threat of inflation.

In an extremely competitive market such as this it is probable that any procedure to permit importers of non-allocated materials to receive imports without Import Recommendations would cause resentment among some importers required to follow the decentralization procedure with its attendant controls by the Haitian Government and this Embassy. Such resentment undoubtedly would produce criticism and other unfavorable results. Moreover, it should be noted that certain elements of the business community engaged in wartime profiteering, etc. and whose operations should be watched would be most benefited by exemption from presenting Import Recommendations.

In view of these circumstances the Embassy has deemed it inadvisable to discuss the matter with the Country Agency, but it has requested the Agency to urge importers to place orders by telegram for an amount equal to three months' shipping target tonnage, namely 5,100 long tons, of a type essential to Haitian economy, readily available, and not requiring WPB <sup>49</sup> priority assistance for manufacture or processing. In view of the information set forth herein no reference was made to the Country Agency concerning the possibility of *increased* shipping facilities between the United States and Haiti.

WHITE

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838.24/535 : Airgram

*The Ambassador in Haiti (White) to the Secretary of State*

PORT-AU-PRINCE, August 28, 1943—11 a. m.  
[Received August 31—2 p. m.]

A-419. Reference Department's airgram of August 23, 7 p. m., 1943,<sup>50</sup> to certain American diplomatic missions in the other American republics. The following are the Embassy's comments on the three

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<sup>49</sup> War Production Board.

<sup>50</sup> *Ante*, p. 122.



plans for the simplification of export control outlined in the communication under reference:

*Plan No. I.*

This would appear to be the most desirable alternative for the simplification of control so far as Haiti is concerned. The Embassy is submitting herewith (see below) a fourth plan which contemplates certain modifications of Plan No. I, with a view to relieving some of the burden which the present system imposes upon the importer.

*Plan No. II.*

Since Haitian law does not require the importer to apply for a "permit to import" or similar document, this alternative would not appear to be feasible here. The Embassy knows of no other way in which complete consignee control could be exercised without some form similar to the Import Recommendation and which would carry sufficient data to enable the Embassy to effectively screen orders placed in the United States.

*Plan No. III.*

The principal objection to this alternative, as in the case of Plan No. II, from the Embassy's point of view is that there appears to be no way in which commercial orders could be processed at this end with a view to control of consignee and the maintenance of trade in pre-war channels.

As an alternative, which the Embassy and the Representative of the Office of Economic Warfare feel would be preferable from the various angles, there is submitted the following control procedure:

*Plan No. IV.*

Plan IV as advocated by this Embassy consists in part of a modification of Plan I and in balance of new suggestions. In outline, the Embassy's suggestion is as follows:

1) A modified form of the present Import Recommendation will be required for items in free supply.

2) This form may include all items ordered by one importer from one supplier in the United States not including any CMP<sup>51</sup> or allocated materials.

3) To aid the importer in determining what items may be ordered under the "blanket IR",<sup>52</sup> the Embassy is prepared to list the Schedule B numbers and commodity description of all items under estimate of supply. Schedule B numbers corresponding to CMP numbers will be included on the list. The list will be mimeographed and made available to the public. All items not found on the list may be grouped in "blanket IR's".

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<sup>51</sup> Controlled Materials Plan; for an explanation of this plan, see circular instruction of April 26, p. 111.

<sup>52</sup> Import Recommendation.

Items found on the list will require the usual Import Recommendation in its present form and subject to the present regulations.

4) On the modified Import Recommendation form the face of the present form will be retained, but there will be no requirement that items no. 11, 12 and 15 be completed. The reverse of the form will be blank providing space for a complete listing of the items under order, with these headings—Description, Amount and Value.

5) These special forms will be checked to ascertain that they do not include allocated or CMP items.

6) The special forms will also be screened for consignee control.

7) Disposal of the quadruplicate copy is subject to decision in Washington, but it is suggested that the copy not be returned to the importer.

8) The original and triplicate will be forwarded to Washington as usual.

WHITE

838.24/536 : Telegram

*The Ambassador in Haiti (White) to the Secretary of State*

PORT-AU-PRINCE, September 2, 1943—noon.

[Received 1:40 p. m.]

156. Reference Department's circular telegram dated August 31, 4 p. m.<sup>53</sup> Embassy with Dowling participating discussed proposed simplified export control procedure with Défly, head of Country Agency, who readily accepted on behalf of Government. Moreover, he expressed gratification and indicated he would be prepared to institute new change with minimum of delay as soon as date and procedure fixed.

WHITE

#### HONDURAS

815.24/820

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

No. 2785

TEGUCIGALPA, March 11, 1943.

[Received March 16.]

SIR: I have the honor to refer to the Department's circular airgrams of January 19, 1943, 8:00 p. m.,<sup>54</sup> January 30, 1943, 3:10 p. m., and February 19, 1943, 7:50 p. m.,<sup>55</sup> and to report that Decentralization Plan A<sup>56</sup> is to become effective in Honduras April 1, 1943.

This Legation has just been informed that the Department has suggested that Plan A be not started in El Salvador until April 1, in

<sup>53</sup> Not printed.

<sup>54</sup> *Ante*, p. 106.

<sup>55</sup> Neither printed.

<sup>56</sup> For an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

lieu of the original starting date of March 1, in order that there be opportunity to accumulate and forward needed data.

The Legation requests an instruction as to whether the starting date of April 1 in Honduras is approved by the Department or whether some later date should be selected.<sup>57</sup>

Respectfully yours,

JOHN D. ERWIN

815.24/930 : Airgram

*The Chargé in Honduras (Faust) to the Secretary of State*

TEGUCIGALPA, June 11, 1943—4:25 p. m.

[Received June 14—2 p. m.]

A-259. Reference Department's circular airgram of June 7, 1943, 6:10 p. m.<sup>58</sup> The Oficina de Control de Materiales Estrategicos has agreed to United States licensing of shipments without Import Recommendations provided this occurs after all available materials covered by Import Recommendations have been forwarded. The Director of the Country Agency<sup>59</sup> is enthusiastic over the possibility of thus increasing the exports to Honduras. The plan should eliminate the frequent criticism that boats come only partially loaded. It is also believed this will provide a solution for forwarding to Honduras shipments of in-transit materials believed to be principally textiles ordered from England and transshipped via the United States. One importer of such English goods recently appealed to the British Chargé d'Affaires in Honduras for assistance in getting such goods to Honduras without the necessity of Import Recommendations.

FAUST

815.24/999 : Airgram

*The Ambassador in Honduras (Erwin)<sup>60</sup> to the Secretary of State*

TEGUCIGALPA, August 27, 1943—11:30 a. m.

[Received August 31—11 a. m.]

A-382. Reference Department's circular airgram of August 23, 1943, 7:00 p. m.<sup>61</sup> and this Embassy's telegraphic reply of August 27.<sup>62</sup> It is recommended that alternative plan three is most suitable for Honduras. Alternative plan two is not feasible in as much as it is believed there would be no efficient means of keeping check on im-

<sup>57</sup> This date appeared to be satisfactory.

<sup>58</sup> *Ante*, p. 117.

<sup>59</sup> The office in Honduras responsible for administering import controls.

<sup>60</sup> The Legation in Honduras was raised to the status of Embassy on April 27, 1943, when John D. Erwin presented his credentials as Ambassador.

<sup>61</sup> *Ante*, p. 122.

<sup>62</sup> Telegram No. 191, not printed.

porters as there is no local requirement for exchange or import permits. In the five months operation of Decentralization Plan A in Honduras, there has not been even one instance which has come to the attention of the Embassy where a Proclaimed List national or person or company on the confidential list <sup>63</sup> of unsatisfactory consignees, or anyone acting on behalf of such persons, has attempted to import materials from the United States.

For the foregoing reasons it is believed that as efficient consignee control could be exercised in the United States as locally.

ERWIN

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740.00112A European War, 1939/36202c

*The Acting Secretary of State to the Ambassador in Honduras  
(Erwin)*

No. 1463

WASHINGTON, November 3, 1943.

The Acting Secretary of State refers to the Department's circular instruction of March 15, 1943 <sup>64</sup> authorizing the inclusion in the confidential list of persons who are engaged in the exploitation of commodity shortages by the sale at exorbitant prices of products imported from the United States and to the Embassy's report no. 124 of August 28, 1943 <sup>64</sup> indicating that speculation has caused a steady rise in the prices of imported products.

Since the inauguration of the decentralization program it is now also possible for the Embassy to prevent persons engaged in these activities from obtaining United States merchandise requiring an import recommendation through the denial of recommendations naming these individuals and firms as consignees. This method may be useful in controlling the situation and would indeed appear preferable since it affords an opportunity for the exercise of judgment by the Embassy concerning the specific items involved.

It is recognized that the Embassy may encounter difficulties in supporting such denials if questioned by the Honduran authorities. In this connection the Officer in Charge is authorized in his discretion to inform the appropriate officials of the Honduran Government of this Government's attitude with respect to the sale at exorbitant prices of American goods. The Officer in Charge may wish to point out that the Government of the United States is not disposed to permit further exportations to persons or firms which have been guilty of such practices since these activities react unfavorably upon the United Nations war effort in the following ways: (1) the sympathies and

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<sup>63</sup> For an indication of the inclusiveness of the Confidential List, see footnote 14, p. 115.

<sup>64</sup> Not printed.

cooperation of responsible elements in the local business community and of the public generally are adversely affected, since they believe that the exorbitant prices are the result of unusual profits by American exporters, whereas in fact the prices charged on all exports from the United States are strictly controlled by the Office of Price Administration and cannot exceed maximum limits established by that Office; and (2) the charging of exorbitant prices for American goods by foreign importers increases the local price levels, thus increasing the cost of strategic materials.

### MEXICO

811.20 (D) Regulations/9754

*Memorandum by the Chief of the Country Program Branch of the Board of Economic Warfare (Wilkinson) to the Assistant Director in Charge of the Office of Exports, Board of Economic Warfare (Lazo)*<sup>66</sup>

MEXICO, January 27, 1943.

Subject: Report on Visit to Mexico City

I am delighted to report that Dr. Cunningham<sup>67</sup> working with the Mission, has done a remarkable job in laying the groundwork for the immediate institution of the Decentralization Plan in Mexico. We have had a series of discussions with Mr. Lockett<sup>68</sup> and his staff with regard to the operational problems in connection with decentralization. I was very pleased to find a real grasp of the problem and a tremendous amount of the basic spade work already done. No difficulties will be encountered by the Mission or the Country Agency<sup>69</sup> in making those changes in the Mexican plan necessary to coordinate with Plan "A".<sup>70</sup> A skeleton staff has already been developed, which, I believe, can absorb the impact of the institution of the Decentralization Plan. Mr. Lockett has indicated his pleasure with the personnel which has been furnished to him by BEW<sup>71</sup> through the Auxiliary Foreign Service. Apparently they are blending into the work of the Mission in fine shape.

Mr. Lockett has advised me that they will be ready to issue the first preference request by February 15. (Reference is made to my

<sup>66</sup> Transmitted to the Department through the Embassy in Mexico without covering despatch.

<sup>67</sup> Charles H. Cunningham, field representative of the Board of Economic Warfare.

<sup>68</sup> Thomas H. Lockett, Counselor of Embassy for Economic Affairs.

<sup>69</sup> Name applied to the governmental agency in the American Republics that handled import procedural matters.

<sup>70</sup> Decentralization Plan A; for an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>71</sup> Board of Economic Warfare.

airgram of January 27, 1943, copy of which is attached.<sup>72</sup>) After discussing the general problems with Mr. Lockett I am convinced that we must take real pains to see that detailed information, with regard to war projects which are developed in Washington, are forwarded promptly to the Mission. In many instances the Mission can give us much information with regard to the materials needed to carry out these projects which can be supplied locally. Also, they can contribute by advising us of local inventory information and local substitute materials that may be available. It is apparent that our procedure, which calls for the screening of projects in which the country of destination is primarily interested by the Country Agency and the local Mission in the first instance, will contribute greatly to an intelligent handling of these proposals.

I would like to emphasize the fact that the Mission here seems to me to have a real appreciation of the importance of making the Decentralization Plan work in Mexico and an understanding of the ramifications of this work. Needless to say, I feel very much reassured as to the prospect of success of this work.

H. A. WILKINSON

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811.20 (D) Regulations/9688 : Airgram

*The Secretary of State to the Chargé in Mexico (Bursley)*

WASHINGTON, February 16, 1943—2 p. m.

A-1119. Your A-228, January 29, 1943, 11 a. m.<sup>73</sup> relative to the putting into effect of the decentralized export control in Mexico.

The Department and the Board of Economic Warfare now understand that initial issuance of import recommendations has been postponed from February 15 to March 1 or later. It is hoped that full instructions will be transmitted to the Embassy in the near future in order to permit the decentralization to go into operation as of March 1 or shortly thereafter. These instructions will cover the specific points raised by the Embassy in its airgram under reference, with regard to the time schedule, the commodities covered, and the estimates of supply.

It is anticipated that the estimates for the second quarter in general will include those commodities for which estimates were transmitted covering the first quarter plus a majority of the other commodities regarding which the Embassy has submitted 1943 requirements reports but excluding most end products. In preparing these estimates care will be taken to separate the amounts of materials covered by war projects and a careful recheck is being made of existing projects and programs.

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<sup>72</sup> Not attached to file copy.

<sup>73</sup> Not printed.

The foregoing will be clarified in air mail instructions which are being drafted in reply to the Embassy's despatches no. 6835 and no. 6901.<sup>74</sup>

HULL

812.24/1803

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

No. 7777

MEXICO, March 1, 1943.

[Received March 15.]

SIR: I have the honor to refer to the telephone conversation of February 25, 1943, between Mr. Evan M. Wilson of the Department and Mr. Henry E. Allen of the Embassy.

The situation as to the date of the inauguration of decentralization is set forth in the Embassy's despatch no. 7742 of February 25, 1943.<sup>75</sup> As soon as it is determined when the Import Recommendation forms will be ready, the cut-off date will be established and advised to the Department by telegraph or telephone, as requested.

It is the Embassy's view that decentralized control should be applied simultaneously to all articles and materials which are, at the outset, to be made subject to decentralized control. It is, however, to be noted that the Embassy, in conjunction with the Mexican certifying agency, has already instituted a measure of decentralized control since the issuance of the first quarter certificates of necessity for iron and steel and tin plate. In the case of these commodities, as well as in the case of copper, brass and bronze, and various other commodities, the Embassy has had the opportunity to go over the lists of applications for certificates of necessity and discuss them with the Mexican authorities; and with minor exceptions agreement has been reached with regard to the issuance of certificates, and the list of certificates so agreed upon has been forwarded to the Department. The list is then turned over to the Consignee Control Section of the Embassy, which examines into the political desirability of the consignees whose requirements have been recommended. Cases of political undesirability of such consignees will be reported to the Department. It will be observed that, except for the employment of the new Import Recommendation form, it has been possible to put into practice the local portion of decentralized procedure for many of the commodities subject to quota in the first quarter of 1943. The issuance of certificates of necessity for the first quarter has been delayed in the case of many other commodities, but the Embassy will endeavor to apply the foregoing procedure to these remaining commodities as and when the lists

<sup>74</sup> Neither printed.

<sup>75</sup> Not printed.

of proposed certificates of necessity are referred to the Embassy by the Mexican certifying agency.

Respectfully yours,

For the Ambassador:  
THOMAS H. LOCKETT  
*Counselor of Embassy  
for Economic Affairs*

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740.00112A European War, 1939/23510

*The Secretary of State to the Chargé in Mexico (Bursley)*

No. 2751

WASHINGTON, March 6, 1943.

The Secretary of State refers to the Embassy's despatch no. 6396 of January 6, 1943,<sup>76</sup> relating to the diversion of American exports to undesirable persons in Mexico by improperly using the name of satisfactory consignees.

The Department understands that the Board of Economic Warfare is now working with the Embassy to establish a plan for the decentralized control of exports from the United States to Mexico. It would seem that the specific problem raised by the Embassy's despatch under reference, namely diversions effected at the border without the knowledge of the named consignee, might to a great extent be solved when this plan, the details of which are, of course, known to the Embassy, goes into effect. This solution will, however, depend on whether customs brokers, many of whom, it is noted, have head offices in Mexico City, will be able to secure the necessary import permit under the plan for the ultimate consignee. If such customs brokers act as importers on behalf of the ultimate consignees, it would appear that the proposed plan will solve this problem only in so far as the necessity of filing a further untrue or forged statement (to the effect that the customs brokers are acting as agent for a satisfactory consignee) with Mexican authorities acts as a deterrent. The Embassy's views on the extent to which the proposed decentralized control program will solve the problem are requested.

Consideration is also being given by the Board of Economic Warfare to a requirement that all shipments to Mexico be made on a through bill of lading. It is suggested that such a procedure be coupled with a requirement that diversion by the named consignee can only be effected with the approval of the appropriate Mexican authority. The latter control would require the cooperation of the Mexican Government, but this might be gained since the provision against non-approved diversions would implement the control by the Mexican Government of the distribution of imported merchandise.

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<sup>76</sup> Not printed.



It is suggested that officers of the Embassy discuss this procedure with Mr. Cunningham and advise the Department of the Embassy's views as to its practicability and desirability.

The Department recognizes that it may be some time before the decentralized export control plan goes into operation, and requests the Embassy's opinion as to whether the extent of the diversions now being effected at the border is sufficiently great to require immediate action. The Department would appreciate receiving any figures the Embassy may be able to obtain showing the amount and general types of goods now believed to be delivered to unsatisfactory consignees in the manner outlined in the despatch under reference.

The solution suggested in the penultimate paragraph of the despatch under reference would appear to be a satisfactory solution to the problem, but it is questioned whether any such program should be initiated at this time unless there is a substantial volume of goods now being delivered to unsatisfactory persons, since it would entail a change in the usual method of shipping merchandise to Mexico and the proposed export control program should solve the problem.

The suggestion in the ultimate paragraph of the despatch under reference would seem helpful in discovering what customs brokers are guilty of the undesirable practice and, if the same can be adopted without undue difficulty, the Embassy is authorized to take the necessary action to put such a plan into effect.

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103.91702/1232

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

[Extracts]

No. 8698

MEXICO, March 24, 1943.

[Received March 27.]

SIR: I have the honor to inform the Department of a problem which has been raised by the Mexican Government in reference to decentralization. This problem is fundamentally quite serious from the standpoint of the effective operation of that portion of the Economic Section " which has been set up on behalf of the Board of Economic Warfare for the purpose of investigating, processing and approving requests for exports from the United States. It is believed that a better understanding of the problem can be obtained from a full exposition of the difficulties as they have arisen.

Last December, when Mr. Hector Lazo, Mr. Christian Ravndal, Mr. Charles Cunningham and others from Washington were in Mexico

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" Of the Embassy staff.

City,<sup>78</sup> Embassy memorandum of December 17, 1942, was presented to Under Secretary of Foreign Relations, Torres Bodet. The Embassy memorandum in question was presented to the Foreign Office for the purpose of acquainting the Mexican Government with a plan of procedure for decentralization of export control which our Government had found most satisfactory. Copies of the Embassy's memorandum to the Foreign Office of December 17 were attached to Embassy despatch No. 6109 of December 22, 1942,<sup>79</sup> and the memorandum is only mentioned in this despatch because of the answer thereto from the Foreign Office<sup>80</sup> and the relation thereof to the present difficult problem which has arisen.

Embassy despatch No. 6901 of January 23, 1943,<sup>81</sup> discussed the Foreign Office memorandum of January 7, 1943, which was in answer to Embassy memorandum of December 17, 1942. The Foreign Office memorandum of January 7 in paragraph numbered (1) very carefully stated that the Mexican Government, in the exercise of its sovereign right, will determine its essential requirements and will handle all distribution within its own territory. However, this definite statement of sovereign rights was somewhat softened by the announcement in paragraph marked (5), which stated that, in order to secure full cooperation, the two Governments would informally exchange impressions concerning the distribution of quotas, issuance of certificates of necessity, et cetera. Nevertheless, paragraph numbered (6) is now coming to light in all of its significance and is pointed to as setting forth the position of the Mexican Government, which is that in matters pertaining to distribution and essential requirements, the Embassy should have no contact with Governmental Departments, Agencies of the Government, or private industry and that any information desired by the Embassy on these subjects should be requested from the Comité Coordinador, or the Primo Villa Michel<sup>82</sup> committee. This paragraph numbered (6) of the memorandum of January 7 from the Foreign Office states, in free language, that in order to establish one channel for negotiations and exchange of impressions between the Mexican Government and the Embassy, all Governmental Departments and Agencies of the Mexican Government and Mexican importers in general will present their import problems to the Comité Coordinador. It was not so explained or envisaged at the time of the receipt of the Foreign Office memorandum that the Embassy would be requested not to send out any questionnaires to firms in Mexico or

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<sup>78</sup> Christian M. Ravndal, Chief of the Division of Exports and Requirements, Department of State, headed an interdepartmental mission concerned with economic warfare in general and priorities in particular.

<sup>79</sup> Neither printed.

<sup>80</sup> Foreign Office reply of January 7 not printed.

<sup>81</sup> Not printed.

<sup>82</sup> Licenciado Primo Villa Michel, head of the Comité Coordinador.

to make personal investigations concerning any matters pertaining to distribution or requirements. In so many words, the request of the Mexican Government that these questionnaires and investigations be discontinued and that any information desired should be requested of the Comité Coordinador means, strictly speaking, that the Economic Section should have no contact with business interests in Mexico on matters pertaining to the checking on distribution of American products in Mexico, the securing of information for determining essential requirements of Mexico or the determining of the justice of amounts allotted to consignees.

For more than six months, the Minister of National Economy Gaxiola has mentioned to the Economic Counselor from time to time that the distribution of products within Mexico was the sovereign right of Mexico, regardless of the origin of the products. The Economic Counselor always agreed with Minister Gaxiola on this point, but, it has been evident for some time that he was chafing under the fact that the Embassy was making its own investigations and, at times, found it necessary to disagree on quantities and consignees. Whenever such disagreements occurred, there was always a friendly discussion concerning them, but, nevertheless, Minister Gaxiola always felt that any objection raised on our part was an interference with his plan of distribution. Speaking frankly, a good many of the consignees were so flagrantly not entitled to receive the materials distributed to them by Minister Gaxiola's committees that the Embassy felt that it could not recommend them, in view of the sacrifices our own people are making by permitting the exportation of products which could be so well used at home. Nevertheless, Minister Gaxiola felt that we should take no notice of what distribution was made of American products after they entered the territory of Mexico, even though they might all be dumped into the river. Minister Gaxiola mentioned this matter to the Economic Counselor from time to time in informal conversations, but he did not carry it to the point of making a definite issue of it.

As soon as the Ambassador learned that Minister Gaxiola had sent instructions to Chambers of Commerce, industries, etc. that they should not give commercial information direct to Embassies, Legations, etc., he instructed the Economic Counselor to ask the Minister informally to request the Chambers of Commerce not to repeat the letter to their members until the whole subject could be discussed. When the Ambassador's request was given to Minister Gaxiola, he said that the matter of foreign representatives making investigations in Mexico and contacting direct business interests was a very serious thing for Mexico. He said that he would be very glad to discuss the

problem with the Ambassador, but he did not say whether or not he would ask the Chambers of Commerce not to advise their membership.

In view of the seriousness of the situation created by the letter received by the Economic Counselor from Primo Villa Michel and the instructions sent out to Chambers of Commerce from the Minister of National Economy, a number of conferences were held at the Embassy between the Ambassador, Mr. Bursley,<sup>84</sup> Mr. Cunningham and the Economic Counselor. The Ambassador said that the instructions to the effect that no commercial information should be given to representatives of foreign Governments had two very important aspects, (1) that pertaining to decentralization and (2) that relating to consular investigations which had been authorized by international agreements, practices and customs for many years. If the instructions issued by the Minister of National Economy should be strictly followed, then consular officers would be prevented from performing their essential commercial interviews. It seemed to be the consensus of opinion that this entire problem probably originated with Minister Gaxiola, and, the Ambassador said that he would invite him for luncheon on the following day, so that he could discuss the matter fully with him. He also said that he would see Minister Padilla<sup>85</sup> and Under Secretary Torres Bodet as soon as possible after his conferences with Minister Gaxiola.

The Ambassador said that Minister Gaxiola was very adamant in his belief that the Embassy should not make direct investigations but should seek the information which it desires through the Secretariat of National Economy. The Ambassador said Minister Gaxiola showed him a routine questionnaire which had been sent out by the Economic Section requesting certain information for export control. The Minister pointed to the question which asked for end use of a product and seemed to be quite exercised over the fact that we would think of asking such a question. The Ambassador discussed the whole problem at much length with Minister Gaxiola, explaining to him that our Government had decided to establish decentralization in Mexico for the purpose of better aiding that country to secure its requirements with greater ease. He told him of the tremendous volume of work involved in processing export applications and of the responsibility which the Board of Economic Warfare had placed upon the Embassy in performing the functions necessary to decentralization. The Ambassador explained to him that we were working under time limits and that volumes of information had to be forwarded to Washington by specific dates or the licenses would not be issued. The Ambassador said that all of these points made some impression on Minister Gaxi-

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<sup>84</sup> Herbert S. Bursley, Counselor of Embassy.

<sup>85</sup> Ezequiel Padilla, Minister for Foreign Relations.

ola, but that he still remained adamant in his position that the Mexican Government should supply us with whatever information we might desire and that we should not directly contact business interests. Minister Gaxiola reinforced his position by saying that many complaints concerning the fact that we are making investigations had reached the Government and that they could not be ignored.

The Ambassador held several conferences with Under Secretary of Foreign Relations, Señor Torres Bodet, in order to do everything possible to iron out the fundamental problem of our making investigations in Mexico. In addition, a memorandum (No. 51592 of February 26, 1943)<sup>86</sup> had been received from the Foreign Office stating that the Minister's attention had been brought to the fact that the Embassy had been seeking information direct from industrial and commercial establishments relative to production, sale and exportation of certain products. The memorandum in question requested the Embassy to solicit such information from the Foreign Office. The Ambassador told Mr. Torres Bodet that the instructions of Minister Gaxiola and the memorandum from the Foreign Office had raised the fundamental problem of the right of consuls to contact merchants and seek information, which custom and practice had been long established by international law and procedure. The Ambassador inquired of the Under Secretary as to whether or not it was intended that this aspect of the question should be raised and the Under Secretary replied in the negative. In view of the seriousness of the problems involved, the Ambassador said that he would like to consider the memorandum No. 51592 of February 26, 1943, from the Foreign Office as undelivered, at least until after further discussions had taken place, and the Under Secretary agreed to this. The memorandum in question and translation thereof are attached hereto as enclosures Nos. 7 and 8.

The Ambassador told Mr. Torres Bodet that the decentralizing part of the Economic Section of the Embassy was established in Mexico by the Department of State on behalf of the Board of Economic Warfare and that to maintain the organization in the Imperial Hotel Building, it was costing our Government between three million five hundred thousand and four million pesos a year. He said that the decentralizing unit had been set up in Mexico for no other purpose than to aid Mexico in securing its requirements with greater rapidity and certainty. He said to Mr. Torres Bodet that he wanted him to know that this was the real reason why we had established decentralization in Mexico and why we were making investigations to forward information to the Board of Economic Warfare.

The Ambassador told Mr. Torres Bodet that the Board of Economic Warfare had placed a great responsibility upon the Embassy in

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<sup>86</sup> Not printed.

Mexico City and that to properly discharge that responsibility to the benefit of Mexico and to the satisfaction of the Board of Economic Warfare, it was necessary that certain information relative to exports from the United States be secured and forwarded promptly to Washington. He emphasized that if the information sent by the Embassy was not satisfactory and did not reach Washington in time, the export licenses involved would not be granted, consequently, the Embassy was working under great pressure in order to obtain the information desired by the Board of Economic Warfare with the greatest possible accuracy and speed, so that Mexico would not be deprived of exports which it so badly needed. The Ambassador further explained in detail that if the Embassy were deprived of securing information direct from industry and commerce and, if the Mexican Government insisted that such information should be sought exclusively from it, then, the Mexican Government would be assuming full responsibility for its adequacy and for supplying the information within the time limits required by the Board of Economic Warfare. The Ambassador said that he wanted the Under Secretary to know that his Government would be assuming a tremendous responsibility under the circumstances and that if the information were not forthcoming in a satisfactory form and on time, it would mean that the export licenses for the materials involved would not be granted by the Board of Economic Warfare. In order to further emphasize this point, the Ambassador stated to the Under Secretary that the complaints which had been received by the Mexican Government concerning our direct investigations would probably sink into insignificance in comparison with the complaints which would be received in case export licenses could not be granted because of a lack of timely and satisfactory information. The Ambassador suggested that possibly a number of complaints which had reached the Mexican Government might have originated with intermediaries and companies that were trying to take an unfair advantage of the export situation and which had been unsuccessful as a result of investigations made by the Economic Section. The Under Secretary replied that no doubt some of them came from sources of that nature, but that they were not limited to that category.

The Under Secretary said to the Ambassador that a great amount of pressure had been brought upon the Government because the American Embassy was making these direct investigations instead of the Mexican Government. He said that this tremendous pressure could not be ignored and, therefore, it would be necessary for the Mexican Government to assume the responsibility of making the investigations and supplying the Embassy with information which it required. The Under Secretary said that beginning immediately, he wanted the Embassy to start requesting this information from the

Comité Coordinador and to discontinue sending out questionnaires or soliciting information direct which pertained to distribution within Mexico. The Ambassador explained in detail to Mr. Torres Bodet that the volume of work involved in securing the necessary information for Washington would completely swamp the Comité Coordinador and would do nothing other than create a large backlog which would suspend the procedure of considering export licenses. He said to the Under Secretary that it would take months and months to create and train an organization which would be able to secure the type of information indispensable to the issuance of export licenses. Mr. Torres Bodet said that he would have to discuss this phase of the question with the other officials of the Government, including Mr. Primo Villa Michel, and that he would advise the Ambassador a little later. The Ambassador suggested that he thought a conference between Mr. Primo Villa Michel, Mr. Cunningham and the Economic Counselor would be advisable so that the former could receive some idea of the responsibility and the tremendous volume of work which would fall upon him, in case the Mexican Government should undertake to supply the information requested by the Embassy for the Board of Economic Warfare. The Under Secretary concurred in this suggestion and arrangements were made for the conference. Before leaving, the Ambassador stated to Mr. Torres Bodet that he wanted him to know that he could not say yes or no to the request of the Mexican Government until after the matter had been thoroughly discussed in Washington between the Department of State and the Board of Economic Warfare, and, under such circumstances, it would probably be necessary to send Mr. Cunningham and the Economic Counselor to Washington for the purpose of fully presenting the matter before our officials.

At a further conference with Under Secretary Torres Bodet on Saturday, March 20th, the Ambassador restated to him that the Mexican Government was insisting on the assumption of a tremendous responsibility by requesting that it make the investigations pertaining to distribution and supply them to the Embassy. He said to Mr. Torres Bodet that he had decided to send Mr. Cunningham and the Economic Counselor to Washington in order to place the entire matter before our officials, which he felt could not be adequately done by correspondence or telephone. The Ambassador stated that he thought it would be advisable for the Mexican Government to prepare a memorandum of its wishes in the matter so that it could be taken to Washington by Messrs. Cunningham and Lockett, and that, by so doing, there would be no misunderstanding of the exact position of the Foreign Office. The Under Secretary agreed to prepare such a memorandum and, in the presence of the Ambassador, telephoned Primo

Villa Michel and asked him if he could have such a memorandum ready by Monday. Mr. Primo Villa Michel replied that he could not, but he believed he could prepare it by about Wednesday, and this was agreed to.

In view of the fact that Mr. Torres Bodet had asked the Ambassador to begin immediately requesting information from the Comité Coordinador, the Ambassador inquired as to whether or not he thought it would be advisable to turn over requests for information gradually, as the Comité Coordinador might prepare itself to receive them, rather than to discontinue investigations by the Embassy at once which would create a backlog at the rate of about one hundred requests for information a day. The Under Secretary replied that he had just conferred with Mr. Primo Villa Michel and that the latter had agreed that a transition period would be much preferable to an immediate stoppage of investigations by the Embassy. The Ambassador said that, under the circumstances, the Embassy would continue its present practice of making investigations until some decision had been reached in Washington and here concerning the entire matter.

[Here follow reports of further conversations along the same lines as those reported above.]

In view of the attitude of the Mexican Government in insisting that the Embassy discontinue its contacts with industrial and commercial houses and request commercial information through the Mexican Government, a very serious problem has been raised. The Board of Economic Warfare charged the Embassy under decentralization with the responsibility of screening and approving export recommendations. If the Embassy is prevented from directly securing sufficient information on which to base its approval of import recommendations, it will be greatly handicapped in its work, as the Department will readily understand. Nevertheless, the Mexican Government is insisting that all information pertaining to distribution within Mexico should be sought through the Comité Coordinador, and, therefore, since the operation of distribution is within the territory of Mexico, the desires of the Mexican Government cannot be ignored. Undoubtedly, regular investigations, such as WTDs and personal investigations concerning political desirability of consignees can be continued by the Embassy by using caution in order not to offend the sensibilities of certain Mexican officials on the subject of sovereignty.

The Economic Section has accumulated tremendous volumes of information on individuals, companies and projects which will enable it to screen most import recommendations, both carefully and thoroughly, even though the normal means of direct investigation might be closed. Should we agree to the desires of the Mexican Government, it is believed that enough avenues for securing information will be left open to permit the Economic Section to function adequately in



the screening of import recommendations although it will constitute a heavy load for our present staff. It is gratifying to report to the Department that not a single Mexican firm or individual has refused to supply information to the Embassy, in spite of the instructions which were sent out by the Minister of National Economy. In fact, a number of them have advised the Embassy that, regardless of such instructions, they want it known that they are ready to give any information desired. Therefore, in addition to the tremendous amount of information already accumulated in the Economic Section, it seems that, even though questionnaires on export control are discontinued, ways and means will be available for securing indispensable information, provided it does not arrive adequately and on time from the Mexican Government or, if the information supplied is questionable. From 40% to 50% of WT inquiries<sup>87</sup> relate to importers outside of Mexico City and in view of the favorable standing of our consuls in their respective districts, it is a certainty that they could supply the desired information. It seems to be certain that when Mexican importers fail to receive export licenses, they will come in droves to the Embassy for information and assistance, which naturally would afford a means of obtaining information. As a result, rather than to risk a break with the Mexican Government on this issue, which would no doubt handicap other important matters now under consideration, it seems the part of wisdom to go along with the Foreign Office as far as possible in its insistence that we secure our information pertaining to distribution through the Comité Coordinador, doing everything possible to help that Comité to function properly, but, making it very clear to the Mexican Government that if it does not supply the requested information adequately and on time, the responsibility for the non-issuance of export licenses will rest exclusively with the Mexican Government.

Respectfully yours,

For the Ambassador:  
THOMAS H. LOCKETT  
*Counselor of Embassy  
for Economic Affairs*

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812.24/1839 : Airgram

*The Secretary of State to the Ambassador in Mexico (Messersmith)*

WASHINGTON, April 9, 1943—9 a. m.

A-1456. Embassy's despatch number 8218, March 16, 1943.<sup>88</sup> To meet situations of an emergency character the Board of Economic Warfare does not require that export license applications be accompanied by the corresponding certificates of necessity or import rec-

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<sup>87</sup> Inquiries of the Division of World Trade Intelligence.

<sup>88</sup> Not printed.

ommendations. A properly executed export license application will be favorably considered when it contains a statement to the effect that a certificate or import recommendation has been issued for the materials listed on the application and will be submitted to the Board of Economic Warfare, Office of Exports, as soon as it is received from the foreign importer. The statement must include the number of the certificate or import recommendation so that the licensing officers in the Office of Exports may check against the lists supplied by the Mission of certificates or import recommendations issued each quarter.

HULL

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812.24/2148a : Airgram

*The Secretary of State to the Ambassador in Mexico (Messersmith)*

WASHINGTON, April 28, 1943—4:40 p. m.

A-1606. There has been discussion in some quarters to the effect that an early date such as May 15 should be set as a dead line when decentralization should become effective for Mexico. However, it is felt that decentralization should in no way be forced upon a country as it is a program devised to assist it, and it need not accept it at all. Furthermore, any unilateral action such as setting a definite date when import recommendations only will be considered might have repercussions on other phases of our relations with Mexico.

An immediate expression of opinion by the Embassy would be appreciated.

HULL

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812.24/2155 : Airgram

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

MEXICO, May 1, 1943—11 a. m.

[Received May 3—3 p. m.]

A-1014. Reference Department's airgram 1606, 4 [4:40] p. m., April 28, concerning effective date of decentralization in Mexico. Messrs. Cunningham, Bay,<sup>89</sup> Wagman<sup>90</sup> and Lockett conferred with Lic. Primo Villa Michel today in order to ascertain when his Comité Coordinador will be prepared and ready to place decentralization into effect. A mutual and satisfactory agreement was reached, whereby all requests for export licenses for products under allocation for the third quarter, with the exception of iron, steel and tinplate, will be made upon the new export recommendation forms. All such export recommendation forms for the third quarter will be processed by the

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<sup>89</sup> Charles A. Bay, Commercial Attaché.

<sup>90</sup> John P. Wagman, Senior Economic Analyst.

Economic Section, in accordance with Plan A. Iron, steel and tinplate for the third quarter are exempted from the use of the new export recommendations because they will not have been received from the printers by May 15, which is the last date for the receipt of certificates of necessity for those products. Also according to the mutual understanding, all certificates of necessity for second quarter products will be issued on or prior to June 30, which will give them a validity date through August 31. Thus, in reality, the mutual agreement reached with Lic. Primo Villa Michel means that decentralization begins with all matters pertaining to products of the third quarter, with the exception of iron, steel and tinplate. This arrangement is satisfactory to Villa Michel and he stated that there need be no question about it being adhered to. Mr. Cunningham and the other officers of the Embassy are convinced that this is the best arrangement that can be worked out. It is now realized that should an earlier date be set, the Comité Coordinador could not complete its organization in time to meet its obligations. As far as the Embassy is concerned, it is now and has for some time been performing all of the functions necessary to full operation under decentralization Plan A, except for the form employed. The screening of export requests has been and is now being done by the Embassy by investigating and making recommendations on WT inquiries and certificates of necessity.

MESSERSMITH

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812.24/2155 : Airgram

*The Secretary of State to the Ambassador in Mexico (Messersmith)*

WASHINGTON, May 10, 1943—4:20 p. m.

A-1678. Your airgram no. A-1014, May 1, 1943, 11 a. m. While no definite date when decentralization will begin in Mexico is given in your airgram, it is presumed that the Comité Coordinador is in accord to make this date July 1. This is satisfactory to the Department and the Board of Economic Warfare provided no Certificates of Necessity are issued in Mexico for any of the items under Certificate of Necessity procedure later than June 30 and that no export recommendations are issued in Mexico prior to July 1.

If this is in accordance with the Embassy's and the Comité Coordinador's understanding, exporters will be notified that from July 1 to August 31 both Certificates of Necessity and export recommendations will be accepted and that after September 1 only export recommendations will be received by the Board of Economic Warfare. Please confirm.<sup>91</sup>

HULL

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<sup>91</sup> In airgram No. 1141, May 15, 11 a. m., received May 17, 9:45 p. m., the Ambassador provided this confirmation (812.24/2238).

812.24/2328

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

No. 10299

MEXICO, May 27, 1943.

[Received May 31.]

SIR: I have the honor to refer to this Embassy's Despatch No. 9713, dated May 3, 1943,<sup>92</sup> transmitting to the Department a memorandum concerning a visit of the Economic Counselor of this Embassy to the Under Secretary of the Ministry of Foreign Relations regarding the proposed decentralization of Export Control.<sup>93</sup>

The Ministry of National Economy has named Ingeniero Gonzalo A. y Aceves as head of a unit which will be responsible for obtaining requirements information needed to process WT Inquiries. Ing. Aceves has stated to this Embassy that his organization is now ready to undertake this work. In order that the responsibility may be assumed gradually, he has asked that for the time being only an occasional WT Inquiry be referred to him for investigation and that on those not so referred the Embassy continue its usual investigation.

In accordance with this suggestion WT Inquiry No. 190, which was transmitted to this Embassy by the Department's Instruction No. 3294, dated May 21, 1943,<sup>92</sup> has been referred to Ing. Aceves with the understanding that the requirements information needed by the Embassy will be submitted to it by him within ten days from the date on which delivery of the inquiry was made. It is requested that export licenses be refused for all orders included in WT Inquiry No. 190 regarding which a report has not been received by the Department at the expiration of thirty days from the date of the Department's Instruction No. 3294. From time to time, as additional WT Inquiries are referred to Ing. Aceves their numbers will be transmitted to the Department. It is requested that with respect to these the same procedure be followed, that is to say, that export licenses be automatically rejected for all orders regarding which no report is received on or before the expiration of thirty days from the date of the instruction, transmitting the WT Inquiry to this Embassy. The necessity for obtaining the information within a period of time which will enable the Embassy to submit its report before the expiration of the stipulated term has been explained to Ing. Aceves.

It will be appreciated if the Board of Economic Warfare will take such precautions as are necessary to insure that with respect to WT

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<sup>92</sup> Not printed.

<sup>93</sup> This memorandum indicated that in their conversations in Washington, Lockett and Cunningham found that in response to the Mexican demand to handle the acquiring of information, the Board of Economic Warfare was inclined to eliminate Mexico from the decentralized scheme of export control but was finally persuaded to accept from the Embassy data obtained from Mexican governmental agencies (812.24/2190).

Inquiries which are not referred to Ing. Aceves, in accordance with the procedure outlined in the preceding paragraph, that is to say, those on which the Embassy obtains requirements information export licenses are not automatically rejected where the necessary report is not received by the Department within thirty days from the date of the instruction transmitting the inquiry to this Embassy. With regard to these, it is requested that the present procedure of allowing additional time be continued.

It should also be noted that the arrangement made with Ing. Aceves relates only to the requirements information as distinguished from political information regarding the consignees named in the WT Inquiry mentioned. The Embassy will continue to make its own investigations of political characteristics of consignees and of such other matters as may require special study.

Any further developments regarding this procedure will be made the subject of a subsequent despatch.

Respectfully yours,

For the Ambassador:  
CHARLES A. BAY  
*Commercial Attaché*

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812.24/2716

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

No. 11385

MEXICO, July 13, 1943.  
[Received July 21.]

SIR: I have the honor to refer to the Department's airgram A-2035, July 2, 3 p. m., 1943,<sup>96</sup> stating that the Board of Economic Warfare had requested that certificates of necessity be issued for all materials under estimate of supply for the second quarter, in spite of the recommendation conveyed in the Embassy's A-1490 of June 25.<sup>96</sup> The Board of Economic Warfare stated that the lists of approvals by the Imports Coordination Committee<sup>97</sup> did not suffice, as they did not contain the names of the suppliers. This information is likewise not contained in the certificates of necessity. It is noted, however, that the Board of Economic Warfare states that it cannot correlate the lists submitted by the Embassy with the appropriate export license applications. This apparently constitutes an unsurmountable obstacle to the carrying out of the Embassy's recommendation that the issuance of actual certificates of necessity for certain products be dispensed with. Consequently, the matter has been reopened with the Imports Coordination Committee. That Committee had received on June 29 a communication from Mr. Amador,<sup>98</sup> who was in Washington with

<sup>96</sup> Not printed.

<sup>97</sup> Mexican governmental agency.

<sup>98</sup> Armando C. Amador, Counselor of the Mexican Embassy at Washington.

the Mexican-American Commission for Economic Cooperation,<sup>99</sup> stating that certificates of necessity would be required for all products under estimate of supply in the second quarter. The Committee continued, however, to operate along the lines of the Embassy's airgram A-1490 until the Embassy received the Department's airgram A-2035 one week later.

The Imports Coordination Committee is now proceeding to issue certificates of necessity for the remaining products under estimate of supply for the second quarter. It has been pointed out to the Imports Coordination Committee that, since all certificates of necessity will expire on August 31, 1943, it is essential that the second quarter certificates be issued at the earliest possible moment. The second quarter certificates issued after June 30, 1943 are to bear the date of June 30, 1943. The Counselor of Embassy for Economic Affairs has been assured by the President of the Imports Coordination Committee that extra clerical assistance will be obtained for this purpose, and it is hoped that all second quarter certificates of necessity will be issued by July 31. It is also expected that all fourth quarter iron and steel export recommendations will be issued before July 31. The Imports Coordination Committee furthermore expects to have the third quarter export recommendations issued by August 15 or shortly thereafter. For the reasons given in the Embassy's airgram A-1490, and from past experience, the Embassy is inclined to believe that this cannot be done. However, every effort will be made to hasten action by the Imports Coordination Committee and to expedite the Embassy's own handling of these cases.

Respectfully yours,

For the Ambassador:  
THOMAS H. LOCKETT  
*Counselor of Embassy  
for Economic Affairs*

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812.50/374

*The President of Mexico (Avila Camacho) to President Roosevelt*

[Translation]

MEXICO, July 19, 1943.

VERY ESTEEMED MR. PRESIDENT: I address these lines to you to confirm to you the expressions of satisfaction which I conveyed to you by telegram<sup>1</sup> on the occasion of the termination of the work with which our Governments charged the members of the Mexican-American Joint Commission for Economic Cooperation.

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<sup>99</sup> For correspondence on the work of this Commission, see vol. VI, pp. 417 ff.

<sup>1</sup> The text of this telegram of July 15, 1943, and the reply of the same date from President Roosevelt were released to the press on July 17.

I sincerely believe that the friendly development of these labors should be considered one of the immediate practical fruits of our interview in the month of April and although I am convinced that the spirit which prevailed in the negotiations was the same spirit of constructive good neighborliness which in years past has animated our peoples, I am also certain—in so far as the activities of the Mexican delegates are concerned—that the results obtained were due, primarily, to your inspiration and to your good judgment in selecting them from among the group of your most competent collaborators.

For that reason, I wish to convey my appreciation of the kind personal interest which you gave to a matter of such importance to the two nations. Nevertheless—and in the spirit of absolute frankness which has characterized all of our contacts—I should feel that this letter was incomplete if I did not add that, in my judgment, the excellent work of the Commission needs to be completed by a series of measures to make feasible its conclusions.

Taking into account the natural complexity of the bureaucratic system, within an organism having such enormous ramifications as that which has aroused the will of the American people to meet the obligations of the war, I consider it useful to bring to your attention the possibility that the offices in the United States charged with carrying out the recommendations of the Commission take note of the desirability of organizing—with respect to the shipment of articles requested by Mexico—a simpler system of processing, perhaps not identical with that already in effect as to Canada,<sup>2</sup> but which would be equally rapid and efficient in the granting of the indispensable priorities.

In matters of such transcendental importance time is an essential factor and anything that is done to expedite the issuance of the export licenses will redound in mutual benefit and will consolidate the hopes awakened in Mexican public opinion, even more than the meetings of the Commission, the origin of the meetings; that is to say: the presidential accord from which emanated the initiative to call them together.

In view of the nature of and the justification of these hopes—which, on the other hand, are not disproportionate if the incomparable productive capacity of the United States is taken into account—it has seemed to me opportune to write you, for I am certain that our opinions will again coincide as to the urgency that a labor begun under such auspicious circumstances promptly acquire a character of reality daily more apparent.

Assuring you in advance of my gratitude for the dispositions which you may believe adequate to adopt for the administrative direction

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<sup>2</sup>For the announcement of an agreement whereby exports to the American Republics were to be jointly programmed by the United States and Canada, see Department of State *Bulletin*, May 22, 1943, p. 454.

of this question—which, in principle, has been determined in a clear and equitable manner—I am, with best wishes for your well-being and with the same esteem as always, with very cordial greetings, your friend,

MANUEL AVILA CAMACHO

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812.50/374

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

[Extracts]

No. 11706

MEXICO, July 23, 1943.

[Received July 29.]

SIR: I have the honor to transmit herewith a copy of a letter addressed by President Avila Camacho to President Roosevelt (Enclosure No. 1), together with a copy of a translation thereof (Enclosure No. 2),<sup>3</sup> as well as a copy of a letter which I have addressed to President Roosevelt (Enclosure No. 3),<sup>4</sup> all of which are self-explanatory. It will be noted that in this letter, President Avila Camacho expresses his appreciation in warm terms of the work of the Joint Mexican-United States Economic Committee and the strong conviction that it will be necessary to carry through the recommendations of the Committee as rapidly and as fully as the circumstances permit. It will be further noted that in his letter, President Avila Camacho requests that Mexico be given treatment in the matter of allocations and priorities identic to that, or similar to that, with Canada, in order that the procedures in connection with shipments may be facilitated in the mutual interests of the two countries.

I am transmitting, under separate cover, to Secretary Hull the original of the letter addressed by President Avila Camacho to President Roosevelt, together with the original of my letter addressed to President Roosevelt, with the request that he be good enough to bring these to the attention of the President with appropriate comment.

In my letter to President Roosevelt, of which a copy is transmitted with this despatch (Enclosure No. 3), I have set forth briefly and as concisely as possible, the reasons why I believe it is in the mutual interests of both countries that we consider a more expeditious and less cumbersome system of licensing shipments to Mexico and of establishing appropriate priorities. As a result of the intervention of various agencies of our Government in this matter, so far as Mexico and the other American republics are concerned, delays which are

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<sup>3</sup> *Supra.*

<sup>4</sup> Not printed.



often serious are almost inevitable as a result of the working of the complicated mechanism which has been set up. What is more important, however, than this is the fact that after decisions of principle with respect to specific allocations, articles and shipments have been reached by the responsible members of our Government in the agencies concerned, it is possible, under the existing procedure, and not infrequently happens, that a subordinate, and at times a rather low subordinate, is in a position to hold up indefinitely the approval of licenses, priorities and shipments which, in principle, have been agreed upon by his superiors. Without going into detail and specific examples, which can readily be cited, it has frequently happened that a subordinate official in one of the agencies whose approval is necessary for a shipment will withhold his signature or approval and indefinitely delay action upon a license because he questions a decision which may have been made by the licensing authorities of the Government, by the licensing unit in our Embassy in the country in question, or even the decision of his own superiors in Washington.

The President of Mexico and the Minister of Foreign Relations who, as the Department is aware, are deeply interested in solidifying the collaboration between our two countries for the near and for the long range, are of the opinion that a simplified procedure will redound greatly to the interest of both countries. They are of the opinion that even though it may not be practicable to apply a simplified procedure such as that which is in effect with Canada to others of the American republics at this time, it is possible to do so, so far as Mexico is concerned, without raising any question of discrimination. They have expressed the opinion that Mexico and Canada are the only two of the American countries which have these long land borders with us and whose relationships in many respects have a special character, particularly in the economic field; therefore, any arrangement which is arrived at with Mexico which is similar to that with Canada cannot be considered as discriminatory treatment against others of the American republics. I am in agreement with this point of view.

Respectfully yours,

G. S. MESSERSMITH

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812.50/386

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

No. 12210

MEXICO, August 11, 1943.

[Received August 16.]

SIR: I have the honor to acknowledge receipt of the Department's memorandum instruction No. 3930, of August 7,<sup>5</sup> transmitting a letter

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<sup>5</sup> Not printed.

addressed by President Roosevelt to President Avila Camacho<sup>6</sup> in reply to a letter which President Avila Camacho addressed to President Roosevelt. In this connection reference is made to my despatch No. 11,706, of July 23, 1943, with which I transmitted the letter addressed by the President of Mexico to President Roosevelt.

In view of the fact that I will not see the President of Mexico for a few days, I deemed it advisable to deliver the original of this letter to the Minister of Foreign Relations, Dr. Padilla, last evening, who indicated that he would see that it got into the hands of President Avila Camacho today. In handing the letter to Dr. Padilla I stated that he would note that President Roosevelt had given the appropriate instructions to the agencies of our Government concerned to consider changes in administrative procedure that will facilitate the exportation of goods to Mexico.

The Foreign Minister stated that the President would be deeply appreciative of the attention which President Roosevelt and the appropriate authorities of our Government were giving to this matter.

Respectfully yours,

G. S. MESSERSMITH

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812.24/3073 : Airgram

*The Acting Secretary of State to the Ambassador in Mexico  
(Messersmith)*

WASHINGTON, October 28, 1943—5:25 p. m.

A-2774. Reference is made to the Embassy's A-2016 of September 1, 1943<sup>7</sup> concerning simplification in the procedure for exports from the United States. The Department has carefully noted the Embassy's comments. It should be pointed out that many commodities which are outside of the scope of the present Mexican decentralization plan are not in free supply. Therefore, it would be impossible to place on general license all commodities for which Export Recommendations are not required. A recent survey has indicated that there are few commodities which are now in free supply. As soon as a commodity becomes in free supply, it will be placed on general license if the said commodity does not require an Export Recommendation under the agreement with Mexico, as set forth in Current Export Bulletin No. 104.<sup>8</sup> The Embassy will note that in accordance with Comprehensive Export Schedule No. 12, page 20, shipments to Blocked Nationals are not permitted under general license, and the exporter has full respon-

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<sup>6</sup> Not attached to file copy.

<sup>7</sup> Not printed; in it the Ambassador suggested that American exporters be allowed to export commodities in free supply without an export license.

<sup>8</sup> Issued by the Office of Exports of the Office of Economic Warfare (successor agency to the Board of Economic Warfare).

sibility of determining whether the consignee is or is not on the Proclaimed List.

The Embassy is assured that its recommendations will be given due consideration in any discussions concerning simplification of the control of exports to Mexico.

STETTINIUS

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812.24/3634b

*Memorandum of Conversation, From the Office of Exports, Foreign Economic Administration*

[WASHINGTON,] November 1, 1943.

Subject: Proposed Roll Back of Decentralization Plan A<sup>9</sup> in Mexico.

A meeting was held today attended by the following:

Dr. C. H. Cunningham, Representative, Office of Exports, Mexico.  
Mr. Rene A. May, Deputy Chief, Country Program Branch.  
Mr. R. I. Dodson, Chief, Latin American Exports Div., Country Program Br.  
Mr. C. L. Merriam, Chief, Mexico Section, Country Program Branch.  
Miss D. C. Oesting, Ass't. Chief, Mexico Section, Country Program Branch.  
Mr. Derek Brooks, Deputy Chief, Operations Branch.  
Mrs. Joan Raushenbush, Deputy Chief, Requirements Branch.

When the Decentralization Plan was adopted for presentation to the other American Republics it was predicated on the following problems existing at that time:

1. Short supply of materials,
2. Exceedingly tight shipping situation, and,
3. Minimum essential requirements of the other Republics.

When this Plan was presented to Mexico that country rightly appreciated that shipping was not a serious problem for her and as a consequence never accepted full decentralization. After a considerable lapse of time and discussion Mexico accepted Decentralization Plan A for only those materials for which certificates of necessity were formerly required, i.e., those under allocation. In view of the Controlled Materials Plan<sup>10</sup> certain class B products were included on the list of materials requiring the export recommendation procedure under Decentralization as accepted by Mexico.

Mexico, as will be noted from the above, was never particularly interested in Decentralization nor has that country apparently made any serious effort to adequately administer the issuance of export recom-

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<sup>9</sup> For an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>10</sup> For an explanation of this plan, see circular instruction of April 26, p. 111.

mendations as will be noted from the following up-to-date statement of the situation as presented to the meeting by Dr. Cunningham.

1. The Comité Coordinador de las Importaciones has been entirely unable to handle the flow of applications for export recommendations being received. They are practically one-quarter behind in their work.

2. The status as of October 14th of export recommendations received by the United States Embassy from the Comité Coordinador was briefly as follows: on iron and steel, first quarter, 1944, due in Washington, September 1st, some export recommendations received by the Embassy in Mexico City as late as October 14th. Some have not yet been received. It ordinarily requires from two to three weeks for these to be received in the Embassy and pass through the State Department to the Licensing Officer in FEA.<sup>11</sup>

3. The situation regarding third quarter export recommendations is as follows. On class B products only seven lists out of fifty-two have been received. In many cases the actual export recommendations do not accompany the lists.

On farm machinery only a small part was received. On consumer durable goods, general industrial equipment, plumbing and heating, power, radio, none have been received.

In the case of most drugs, paper, wood pulp, wool tops, belting and rayon and some textiles, no action has been taken by the Mexicans.

4. The Mission has consistently called the attention of the Comité Coordinador to the fact that the work is falling behind and this has had no effect. It is apparently not alone a question of personnel; it has been impossible to sufficiently impress the top administrative officials with the seriousness of the situation.

5. Due to the failure of Mexico to adequately comply with its functions under Decentralization, it has been impossible for the FEA to render adequate supply assistance, particularly with respect to class B products and class A products that have to be manufactured in sufficient time to secure the materials in the quarter in which they belong. Again, in many lines such as automotive parts, radio tubes, etc., the export recommendations have not arrived from Mexico in sufficient time to permit licenses to be issued within the quarter of allocation, and Mexico is losing the materials to which she is entitled because of the non-arrival in Washington of export recommendations on anything like schedule time.

6. There is an increasing amount of complaint by exporters which reached a peak during the National Foreign Trade Convention, October 25th, 26th, and 27th in New York at which time the exporters specifically protested this situation to the FEA officials in attendance; there is despair among importers because of this situation. Most importers in Mexico understand where the responsibility for this situation lies. Exporters are holding the Office of Exports responsible and lay the blame on the Decentralization Plan. Some remedy for this situation is imperative in the interest of the American export trade.

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<sup>11</sup> Foreign Economic Administration, into which the Office of Economic Warfare was consolidated on September 25, 1943.

Therefore, in order to remedy the situation and giving due consideration to American exporters and the requirements of the Mexican public a roll back in Decentralization Plan A for Mexico was proposed and agreed to by the meeting as follows:

A. Estimates of supply to be furnished Mexico and export recommendations issued by the Comité Coordinador de las Importaciones only on the items included on the attached list.

B. All other items not under general license will be subject to individual license.

C. This would necessitate a reversion to the former practice of utilizing World Trade Intelligence reports. As a result, the Embassy will be asked to check not only on the consignees but the end use of those shipments to go forward under individual license but not covered by export recommendations.

D. It is the desire of this Committee to put the foregoing into effect as of January 1, 1944.

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812.24/3635

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

No. 14306

MEXICO, November 19, 1943.

[Received November 27.]

SIR: I have the honor to refer to the Department's Instruction No. 4768 of November 15, 1943,<sup>12</sup> transmitting a memorandum<sup>13</sup> from the Chief of Office of the Office of Exports, Foreign Economic Administration, setting forth a detailed plan for effecting a "roll-back" of the decentralization plan for Mexico as of January 1, 1944. •

On instructions from the Ambassador, the Counselor of Embassy for Economic Affairs discussed the "roll-back" plan in detail with Mr. Primo Villa Michel, President of the Comité Coordinador, on the morning of November 18. Mr. Villa Michel was told that in accordance with a recent letter from President Avila Camacho to President Roosevelt, requesting a simplification of export controls on exportations from the United States to Mexico, studies had been under way in Washington to determine ways and means of effecting this simplification. He was further told that conditions surrounding different products in the United States, at times, changed very rapidly and that the inability of Mexico to screen, distribute and issue export recommendations for the vast number of Class B products in time to meet the requirements in Washington was working greatly to the disadvantage of Mexico, because many licenses could not be issued. Under the circumstances it was stated to him that our Government was ready to aid Mexico in this situation by proposing a return to the original

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<sup>12</sup> Not printed.

<sup>13</sup> *Supra*.

Decentralization Plan A, as agreed to by the two Governments, and this would mean the elimination from decentralization of the vast number of Class B products which are giving the Comité Coordinador and the Department of National Economy so much additional work. Mr. Villa Michel, after some consideration, inquired as to when our Government desired to place the new "roll-back" plan into effect and he was informed, as of January 1, 1944. He stated that he believed that the return to Plan A would solve many of the problems which the Comité Coordinador is now encountering. He recognized that the present set-up of his coordinating committee could not properly and timely issue the necessary export recommendations for the vast number of products now required under the Decentralization plan. Mr. Villa Michel stated that he personally favored the "roll-back" plan as it had just been presented to him and that he would discuss the entire matter with the Minister of Foreign Affairs during the course of the day, advising the Embassy as soon as possible. It was quite evident from Mr. Villa Michel's attitude that he considered a return to the original agreement on decentralization as the best means of solving the inability of the Comité Coordinador to issue export recommendations on both raw materials and class B products in time to assure Mexico of their effectiveness in Washington. He indicated that he would present the "roll-back" plan as favorably as possible to the Minister of Foreign Affairs and, unless he encountered some unexpected obstacle, the Embassy anticipates that the proposal will be accepted.

Respectfully yours,

For the Ambassador:  
THOMAS H. LOCKETT  
*Counselor of Embassy  
for Economic Affairs*

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812.24/3703: Airgram

*The Ambassador in Mexico (Messersmith) to the Secretary of State*

MEXICO, December 9, 1943—11 a. m.

[Received December 11—3 p. m.]

A-2823. Reference Department's airmail instruction no. 4768, November 15, 1943,<sup>14</sup> transmitting the desire of F.E.A. to affect a roll-back of the Decentralization Plan as applied to Mexico to become effective January 1, 1944. In further conferences today with Primo Villa Michel, President of the Comité Coordinador, he requested on behalf of his Government that the proposed roll-back be postponed at least until April 1, 1944, in view of the fact that all fourth quarter

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<sup>14</sup> Not printed.

export recommendations for this year will be completed by December 11 and, also, because requests for applications for the first quarter of 1944 have already been published and the applications are now being processed by the Mexican Government. Primo Villa Michel is reluctant to release the control of the distribution contemplated by the roll-back desired by F.E.A. because he feels that the distribution of many of the products within Mexico still requires control by the Government. In addition to the reasons stated above as to why Primo Villa Michel wishes a postponement of the roll-back until at least April 1, 1944, the Embassy believes that he is requesting at least the additional quarter of 1944 in which to demonstrate that his Comité can meet its obligations with respect to the issuance of export recommendations. Under the circumstances, the Embassy very strongly recommends that the request of Primo Villa Michel be acceded to by F.E.A. Progress made by the Comité Coordinador in fulfilling its obligations will be observed very carefully by the Embassy during the next few weeks and F.E.A. will be currently advised of the Embassy's opinion as to whether or not the Comité is capable of timely and adequately performing its functions beyond April 1, 1944. In the meantime, the Comité Coordinador is studying the list of products now under decentralization with the view of suggesting the elimination of those products in the distribution of which it has no interest. The Embassy will appreciate prompt advice as to the decision of the Department and F.E.A. concerning the postponement of the roll-back as requested by the Mexican Government.

MESSERSMITH

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812.24/3703 : Airgram

*The Secretary of State to the Ambassador in Mexico (Messersmith)*

WASHINGTON, December 18, 1943—6 p. m.

A-3090. From FEA, Bureau of Areas, Pan American Branch, for Cunningham. It is difficult for FEA and the Department to understand the complete reversal of Mr. Primo Villa Michel's point of view, as reported in Despatch 14306 of November 19 and interpreted in last paragraph thereof and the Embassy's A-2823 of December 9, 11:00 a. m.

It should be made very clear to Mr. Primo Villa Michel that the roll back we wish to institute in no way should be construed as a criticism of the Mexican Government or any of its dependencies. It is only a conscientious effort on the part of FEA and the Department to recognize that during these times changes have to be made quickly and occasionally drastically if we are to serve within the existing limitations the best interests of Mexico and the United States.

Mr. Primo Villa Michel should readily appreciate that with manufacture in this country geared to war time operations, it is impossible for us to process adequately export recommendations for fourth quarter which are only "completed" outside of this country 20 days before the quarter expires. Under normal circumstances we might be able to work along under such a handicap, but not now if Mexico is really desirous of getting full benefit of the present limited estimates of supply and its share of those commodities not so restricted.

For the confidential information of yourself and the Embassy, Export Recommendations are not being processed in good season by Mexico, so FEA has been subjected to tremendous pressure from American exporters who rightly feel their export trade lines to Mexico are being seriously jeopardized.

This same pressure during the fourth quarter 1943 made necessary the issuance of Current Export Bulletin No. 132 and the approval of export licenses for automotive parts, radio receiving tubes, lamp bulbs, fountain pens and mechanical pencils, and farm machinery without accompanying Export Recommendations. A similar procedure might be necessary during the first quarter 1944 if such commodities were retained under decentralization, in order to maintain even a minimum flow of these exports to Mexico.

In view of the foregoing, we are of the opinion that nothing is to be gained by delaying the institution of the proposed roll back.

Under the circumstances, it would be appreciated if you will have the roll back proposed in Department's airmail instruction 4768 of November 15 favorably reconsidered by the Embassy and the Mexican authorities so it may be put into effect January 1, 1944. If necessary, you may assure Mr. Primo Villa Michel FEA will make every effort to give license applications accompanied by Export Recommendations for materials included in the roll back preferred attention over those unaccompanied for first quarter 1944.

Please telegraph reply.

HULL

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812.24/3707 : Airgram

*The Secretary of State to the Ambassador in Mexico (Messersmith)*

WASHINGTON, December 18, 1943—6:30 p. m.

A-3091. Reference is made to the Embassy's despatch no. 14306 of November 19 and airgram A-2823 of December 9, 1943, concerning the rollback of decentralization. The FEA is sending through the Department an airgram for Cunningham,<sup>15</sup> with which the Department does not fully agree.

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<sup>15</sup> *Supra.*



However, the Department does consider it of vital importance to our whole relationship with Mexico in the exports field that the Mexican Government accept the rollback as of January 1. The rollback will tremendously simplify the procedure with regard to those projects which are approved by the Mexican-United States Commission for Economic Cooperation and will eliminate many of the procedural difficulties which have been delaying projects such as Altos Hornos, Cia. Fundidora de Fierro y Acero de Monterrey, and Puente Grande, although independent measures are being taken to secure approval of the projects mentioned despite decentralization. Furthermore, the rollback is designed to free exports to Mexico; on Class B products, decentralization has operated to choke off all trade with Mexico because of the extended delays of the Comité Coordinador in processing Export Recommendations. The request of Primo Villa Michel to delay the institution of the rollback for an additional quarter is regarded in Washington as a play for time in which to strengthen and consolidate control of imports into Mexico on a more or less permanent basis, whereas decentralization was proposed as a temporary system of mutual control to meet emergency conditions. This is the interpretation placed on the complete reversal of attitude expressed in the two communications under reference.

The offer of FEA to give preference during the first quarter to export license applications accompanied by Export Recommendations will, it is believed, adequately fulfill any commitments which the Mexican Government may have made in this regard.

You are requested to review this matter and give the Department your comments urgently.<sup>17</sup>

HULL

#### NICARAGUA

817.24/701

*The Minister in Nicaragua (Stewart) to the Secretary of State*

No. 939

MANAGUA, April 6, 1943.

[Received April 10.]

SIR: I have the honor to report that Decentralization Plan A<sup>18</sup> is now in operation in Nicaragua and that it went into effect on April 1 as scheduled.

The plan was able to be put into effect in accordance with the Time Schedule announced only through the untiring efforts and magnificent cooperation on the part of Colonel Francisco A. Mendieta, President

<sup>17</sup> In airgram No. 5, January 3, 1944, the Ambassador reported that the Mexican Government accepted a roll-back of decentralization, effective January 1, 1944 (812.24/3803).

<sup>18</sup> For an outline of the plan, see circular airgram of January 19, 8 p. m., p. 106.

of the Board of Control of Prices and Commerce, and his staff. Colonel Mendieta has successfully overcome all obstacles and has been instrumental in formulating an Executive Decree which, it is anticipated, will be signed by the President of Nicaragua in a few days and which will give the Board of Control of Prices and Commerce blanket authority to take whatever steps they deem necessary for effective cooperation with the Legation on all matters pertaining to Decentralization of export control to Nicaragua.

Respectfully yours,

JAMES B. STEWART

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817.24/777 : Airgram

*The Ambassador in Nicaragua (Stewart)*<sup>19</sup> to the Secretary of State

MANAGUA, June 30, 1943—8:30 a. m.

[Received July 6—2 p. m.]

A-277. For Division of Commercial Affairs. Reference Department's circular airgram June 7, 6:10 PM and circular telegram, June 12, 7:00 PM,<sup>20</sup> requesting the Embassy's advice, comments, and recommendations concerning subject matter contained therein.

The Country Agency<sup>21</sup> advises the Embassy that it does not favor a free licensing of materials without Import Recommendations for the following reasons:

1. Plan A permits a more even, fair and impartial distribution of imported materials among industrials, importers, etc.;
2. It provides the Board<sup>22</sup> a ready available source of information as to who are the importers receiving the various commodities;
3. 1 and 2 enable the Board to take immediate action in case prices go above the ceiling, or when due to shortages, freezing becomes necessary.

Nevertheless, they approve of this licensing plan when it is necessary to meet unexpected demands for cargo, provided it is confined proportionally to the estimates of shipping tonnage for Nicaragua reported to the Department by the Embassy each month.

The Country Agency has suggested that it will request those importers receiving material without import recommendations to submit to that office a copy of the commercial invoice. In this manner 1, 2 and 3 would be more adequately met. The Country Agency acted immediately in the following manner when notified of the desire to license material in excess of the target tonnage, in order to permit the necessary flexibility to take advantage of all available shipping space.

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<sup>19</sup> The Legation in Nicaragua was raised to the status of Embassy on April 14, 1943, when James B. Stewart presented his credentials as Ambassador.

<sup>20</sup> *Ante*, pp. 117 and 119, respectively.

<sup>21</sup> The Nicaraguan Board of Control of Prices and Commerce.

<sup>22</sup> Board of Economic Warfare.

The Import Recommendations on hand and awaiting action were processed less restrictedly, according to the Country Agency. Importers were advised to immediately submit applications to the Country Agency, covering those materials mentioned in Department's airgram, for consideration. Those importers receiving approved applications will immediately place their orders with their suppliers in the United States by telegraph or otherwise.

STEWART

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817.24/761

*The Secretary of State to the Ambassador in Nicaragua (Stewart)*

No. 731

WASHINGTON, July 12, 1943.

The Secretary of State refers to the Embassy's despatch no. 1157 of June 11, 1943<sup>23</sup> concerning the operation of the Controlled Materials Plan<sup>24</sup> under Decentralization Plan A.

The Department appreciates the difficulties experienced by the Embassy in attempting to integrate the operations of the Controlled Materials Plan and Decentralization Plan A. The War Production Board when it devised the Controlled Materials Plan was concerned primarily with problems arising from military production and the system is ill-adapted to exports. Steps to remedy this situation are progressing slowly.

Under the Controlled Materials Plan barely sufficient time elapses between the final allotment of materials to claimant agencies and freezing of production schedules or actual production to permit the scheduling and production of domestic orders. It would clearly be impossible to go through the decentralized export control procedure both in the field and in Washington during the interval between the granting of an allotment by the War Production Board and the time when the materials or articles must be scheduled for production or produced.

Therefore it has been necessary for the Board of Economic Warfare to furnish estimates of supply and request Import Recommendations considerably in advance of the receipt of the allotment of Controlled Materials from the War Production Board. It will be obvious that the actual allotment of controlled materials may be greater or less than the sum total of estimates of supplies for all countries. The deadline dates for submission of approved Import Recommendations to the Board of Economic Warfare are determined with the purpose of allowing a reasonable time thereafter during

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<sup>23</sup> Not printed.

<sup>24</sup> For an explanation of this plan, see circular instruction of April 26, p. 111.

which exporters may take the procedural steps required of them. These steps may in fact take more or less time than calculated.

In other words, there can be no exact mathematical determination in advance that the material covered in an Import Recommendation approved in the Embassy on a certain date will be produced and exported on another fixed date in the future. There are too many variable factors to permit any such correlation, some of these factors being as follows: (a) the allotment may be greater or less than the estimate of supply, as stated previously; (b) the exporter may delay in securing a supplier; (c) the supplier may delay in applying for an export license and supply assistance; (d) the supplier may have a backlog of orders which will delay production; (e) available shipping may be unsuitable for the particular type of commodity or material.

The one factor that is certain is that export orders for controlled materials in certain shapes and forms and for certain critical components where production facilities in the United States are taxed to capacity will not be produced unless the entire export procedure is completed and the orders are specifically scheduled for production by the War Production Board considerably in advance of the time of production.

It would be impossible to communicate to the field the specific procedures and supply situations for each product. In general, however, the time lag between approval of Import Recommendations and production will be greatest (a) in the case of A products where the controlled materials used in the manufacture of the A products must generally be produced in the quarter preceding the commencement of production of the A product and where the lead time is great and (b) in the cases of certain types of B products built to unusual specifications where the manufacturing facilities are taxed to capacity and where the lead time is great.

The lag between the date of the Import Recommendation and production will be least in the case of certain more or less standard B products where orders may be filled from existing stocks.

In answer to the specific questions raised in the despatch under reference, the Department informs the Embassy as follows:

1. The Embassy was correct in approving Import Recommendations for iron and steel products included under estimates of supply of Class B products and in charging these Recommendations against the estimates of supply of Class B products.

2. The Department has transmitted to the Embassy with instruction no. 695 of June 21, 1943 <sup>25</sup> a list correlating as far as possible Schedule B <sup>26</sup> classifications and CMP numbers. This list should

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<sup>25</sup> Not printed.

<sup>26</sup> A statistical classification of domestic and foreign commodities exported from the United States; issued by the Bureau of the Census, Department of Commerce.

result in the simplification of the procedure followed by the Embassy as outlined in the despatch under reference.

3. On May 24, the War Production Board removed wire nails from the list of Class B products. CMP 715.0 now reads "nails and tools, not steel wire nails".

4. The CMP products in the 800's were inadvertently omitted from the list of "Products Assignments" by the War Production Board, and were replaced in change notice 2 of May 7, 1943, a copy of which is transmitted herewith.<sup>27</sup>

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817.24/841 : Telegram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, September 9, 1943.

[Received September 10—3:48 a. m.]

546. Reference Department's plain airgram of August 23, 1943, 7 p. m.,<sup>28</sup> Department's circular telegram of August 31, 4:50 [4] p. m.<sup>29</sup> and telephone call by Mr. Brockman of the Department<sup>30</sup> to Mr. Edward B. Lawson, Commercial Attaché, American Embassy, Managua, Nicaragua, September 7. The Country Agency of Nicaragua approves the procedure recommended in Alternative No. III for materials in free supply. Materials under estimate of supply and those requiring priority assistance shall be processed in the present manner requiring an Import Recommendation.

STEWART

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103.917/5694 : Airgram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, December 14, 1943—10:30 a. m.

[Received December 17—3 p. m.]

A-513. For the Foreign Economic Administration.<sup>31</sup> Reference Department's circular airgram of November 13, 1943, 12:10 p. m.<sup>32</sup> and Department's circular telegram of December 10, 10 a. m.<sup>33</sup> Also Department's circular airgram of November 13, 1943, 12:20 p. m.<sup>33</sup>

The Country Agency states that in view of certain discrepancies caused by local banking regulations affecting commodities exportable from the United States under general license, it will require import recommendations for all commodities exported to this country. The

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<sup>27</sup> Not attached to file copy.

<sup>28</sup> *Ante*, p. 122.

<sup>29</sup> Not printed.

<sup>30</sup> John B. Brockman of the American Hemisphere Exports Office.

<sup>31</sup> The Office of Economic Warfare (formerly the Board of Economic Warfare) was consolidated into the Foreign Economic Administration, September 25, 1943.

<sup>32</sup> *Ante*, p. 131.

<sup>33</sup> Not printed.

following is quoted from the Country Agency's letter of December 10, 1943 to the Embassy :

" . . .<sup>35</sup> please take notice that effective immediately all commodities that have been withdrawn from the Decentralization Plan including those commodities listed in Export Bulletin No. 125,<sup>36</sup> will be subject to Import Recommendations."<sup>37</sup>

A verbal exception to this requirement was received to wit newsprint and orders for \$25.00 or less.

STEWART

### PARAGUAY

834.24/353

*The American Embassy in Paraguay to the Paraguayan Ministry for Foreign Affairs* <sup>37</sup>

### NOTE VERBALE

The Embassy of the United States of North America presents its compliments to the Minister of Foreign Affairs and has the honor to inform the Ministry that the Government of the United States in Washington, D. C. has recently projected a plan which is to be known as the decentralized export scheme. It is believed that the inauguration of this new program will greatly facilitate the Paraguayan Government and Paraguayan importers in obtaining essential and necessary materials in the United States.

Heretofore imports of critical materials from the United States into Paraguay have been controlled by the issuance of a Certificate of Necessity by the Direction General of Industry & Commerce of the Ministry of Agriculture, Commerce and Industries. Under the new decentralized plan <sup>38</sup> the Direction General of Commerce will be able to indicate what commodities are considered to be the most essential for the economic life of the country. Import recommendations covering all commodities rather than Certificates of Necessity, formerly issued for specific commodities, will be issued by the Direction General of Commerce and this Mission will assist in the examination of these recommendations. As recommendations are approved the Embassy, through the Department of State and the Board of Economic Warfare in Washington, D. C., will make every effort to expedite the delivery of the materials covered by the recommendations.

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<sup>35</sup> Omission indicated in the original airgram.

<sup>36</sup> Issued by the Office of Exports of the Office of Economic Warfare.

<sup>37</sup> Copy transmitted to the Department by the Ambassador in Paraguay in his despatch No. 862, March 15; received March 24.

<sup>38</sup> Decentralization Plan A; for an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.

It is the belief of the Embassy that the inauguration of this new plan which is currently proposed to become effective as of April 1st will work to the material advantage of Paraguay. The plan has already been discussed in some detail with the Minister of Agriculture, Commerce and Industries<sup>39</sup> and it is the understanding of the Embassy that the Minister, Dr. Esculies, is in complete agreement with its acceptance and its inauguration. The Embassy therefore takes this means of formally advising the Ministry of Foreign Affairs of this development and also suggests that a communication of acceptance of the plan from the Minister of Agriculture would be appreciated.<sup>40</sup>

ASUNCIÓN, February 18, 1943.

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834.24/383a : Airgram

*The Secretary of State to the Ambassador in Paraguay (Frost)*

WASHINGTON, May 5, 1943—3:50 p. m.

A-220. The Board of Economic Warfare has requested the Department to inform the Mission as follows:

Reference is made to "Statement for Special Missions on Cargo Backlog Problem,"<sup>41</sup> page 2, line 13: "As of the date that the Decentralization Plan is to go into effect in the country, an inventory will have to be made in Washington and sent to the field." In pursuance of this statement, BEW has examined the backlog situation as of the effective date of the decentralization program planned in your country.

We are mostly concerned with the danger of having insufficient cargo to take care of normal and unexpected shipping opportunities and to provide tonnage to replace unexpected delays in manufacture caused by the war situation. Therefore, we cannot too strongly urge the immediate issuance of Import Recommendations for the entire second quarter without regard to target tonnage as previously instructed because all indications point to an excess of shipping space available. It is most urgent that Import Recommendations be issued without delay and be forwarded promptly to the exporter in order to prevent delays in licensing and in order to mark cargo available considering that today's situation requires a longer time to prepare and fabricate materials.

HULL

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<sup>39</sup> Francisco Esculies.

<sup>40</sup> The acceptance of the Minister of Agriculture was transmitted to the Ambassador by the Minister for Foreign Affairs in his note verbale of March 11; neither printed.

<sup>41</sup> Not found in Department files.

834.24/395 : Airgram

*The Ambassador in Paraguay (Frost) to the Secretary of State*

ASUNCIÓN, May 22, 1943—10 a. m.

[Received May 27—2 p. m.]

A-166. Reference Department's Airgram No. 220 of May 5, 1943, 3:50 p. m. The flow of Import Recommendations has just begun after considerable difficulty in getting the decentralization export procedure under way. Every effort will be made to speed up the issuance of these forms and their transmittal to suppliers in the U. S., in order to take advantage of the anticipated increase in available tonnage indicated by the Board of Economic Warfare.

The slow start on the system is due to the fact that the Direction General of Industry and Commerce, the Country Agency<sup>42</sup> here, is desperately short of personnel of any kind, much less of persons sufficiently trained to cope with the operations involved in decentralization. In addition, it undertakes to manage several other emergency tasks, such as rationing of gas and oil, price regulation, export control, etc., with the result that the work on decentralization gets only a fraction of its attention.

The critical nature of the situation has been brought to the attention of the Country Agency and the Minister of Agriculture during the past few days by members of the commercial section of the Embassy and is being taken up personally and informally by myself. It is hoped that an improvement will be shown in the coming weeks. It has been pointed out that Paraguay is in danger not only of losing some of its allocation of scarce materials, but also part of the shipping tonnage at its disposal, if sufficient import recommendations are not dispatched to Washington immediately.

A full report on the present status of the decentralized export control plan in this country is in preparation and will be forwarded in the form of a despatch within the next few days.

FROST

834.24/435 : Airgram

*The Chargé in Paraguay (Montgomery) to the Secretary of State*

ASUNCIÓN, July 3, 1943—10 a. m.

[Received July 8—3 p. m.]

A-221. Reference is made to Department's circular airgram of June 7, 1943, 6:10 p. m.,<sup>43</sup> and Embassy's Airgram A-202, June 23,

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<sup>42</sup> The Paraguayan office responsible for administering import controls.

<sup>43</sup> *Ante*, p. 117.



1943, 9:15 a. m.,<sup>46</sup> regarding plan to issue export licenses in Washington for non-allocated materials without requirement of presentation of Import Recommendation, and the need which has arisen for telegraphic orders for merchandise so that sufficient tonnage backlog can be created immediately to take advantage of sudden windfalls in shipping.

The Department is informed that the Country Agency in cooperation with the Embassy during the last week has made public this announcement through the local radio and the three leading newspapers. In every one of the announcements it was clearly stated that telegraphic orders would be accepted only for non-allocated products and that this provision was of a temporary character and in no way indicated the discontinuance of the Decentralization Export Plan.

Importers were asked to consult with the Country Agency before telegraphing to ascertain whether or not the products they were ordering were under allocation. A few importers have already responded to the call, but because of Paraguay's poor trade connections with the United States, and the relative slowness with which this country transacts its business, it is doubted that orders of this type will reach large proportions.

MONTGOMERY

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834.24/472 : Telegram

*The Secretary of State to the Ambassador in Paraguay (Frost)*

WASHINGTON, September 8, 1943—1 p. m.

376. Reference Embassy's 483 September 2, 2 p.m.<sup>46</sup> The Department and OEW<sup>47</sup> are fearful that the issuance of the simplified import recommendation forms for non-quota materials which are urgently needed and waiving all forms on the remainder of non-quota goods might not be productive of desired results since exceptional procedures tend to confuse rather than facilitate operations here.

The Department understands that there is legislation in Paraguay requiring an import permit for all goods entering the country, and it would appear possible to control the flow of non-essentials through this mechanism.

One of our foreign Missions has made the following suggestion. The simplified import recommendation or any other suitable form would be required abroad, thereby enabling the Embassy and Country Agency to continue control over imports, shipping space, and con-

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<sup>46</sup> Not printed.

<sup>47</sup> Office of Economic Warfare, successor agency to the Board of Economic Warfare.

signees. The import recommendation form would not, however, be forwarded to the U. S. and procedures of Alternative III<sup>48</sup> would be operative in this country. In effect, this suggestion provides for the preservation of controls in the field and permits exporters in this country to offer their wares abroad to the same extent as they could prewar within the willingness of the foreign Government to issue an import permit.

It appears desirable to take all practical steps to reestablish Importer-Exporter relationships with a minimum of government intervention. It is believed here that existing documentation tends to stifle trade and encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and allow the materials to be diverted to consumption in this country.

It is desired to effect the simplification of procedure October 1, 1943, for those countries that have accepted Alternative III and the Embassy is requested to telegraph whether Paraguay will accept Alternative III.<sup>49</sup>

HULL

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834.24/636

*The Ambassador in Paraguay (Frost) to the Secretary of State*

No. 1449

ASUNCIÓN, October 28, 1943.

[Received November 5.]

SIR: I have the honor to refer to the Department's Circular Telegram of September 30, 2:00 p. m., 1943,<sup>50</sup> in which was announced a simplification of the Decentralization Plan for materials in free supply. While the Embassy welcomes the simplification for various reasons, particularly because it tends to increase the volume of trade between the United States and Paraguay, at the same time it should be pointed out that this change in the Decentralization Plan reduces the effectiveness of the almost absolute control of consignees which the Embassy was able to maintain when Import Recommendations were required for all shipments.

Over-all control since the inauguration of the Decentralization Plan on April 1, 1943 has not been as complete as the Department anticipated in its Confidential Instruction of August 20, 1943,<sup>50</sup> in which it was stated (Paragraph (1), Page 4) that in the future it should be possible to control cloaking activities very largely through the

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<sup>48</sup> See circular airgram of August 23, 7 p. m., p. 122.

<sup>49</sup> This acceptance was indicated in the Ambassador's telegram No. 504, September 14, 3 p. m. (834.24/480).

<sup>50</sup> Not printed.

Decentralization Program of consignee control. On various occasions shipments have reached Paraguay which not only were not endorsed by Import Recommendations, but also were consigned to firms which the Embassy considered undesirable for the commodities concerned.

[Here follow examples of specific shipments.]

WESLEY FROST

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834.24/638

*The Ambassador in Paraguay (Frost) to the Secretary of State*

No. 1476

ASUNCIÓN, November 2, 1943.

[Received November 15.]

SIR: I have the honor to refer to the Department's unnumbered despatch of October 13th,<sup>52</sup> transmitting a communication from the Office of Economic Warfare concerning the adoption of a simplified Import Recommendation form; and to report that the Paraguayan Country Agency, the Direction General of Industry and Commerce, has just received delivery on a new stock of Import Recommendation forms, sufficient for at least eight months, and, consequently, does not consider it feasible to adopt the simplified form at this time.

In other countries the quantity of forms represented by the recent delivery is such as could readily be discarded for the advantages of simplification. However, this country is poor, its budget is small, and the amount involved in the new printing just delivered figures rather prominently in the expenditures of the Direction General of Industry and Commerce. As a matter of fact, delivery has been held up on several occasions because of the uncertainty of the Government Printing Office as to payment by the Country Agency. The difficulties and delays in obtaining the original supply of Import Recommendation forms were outlined in the Embassy's despatch No. 1065 of May 25 [27], 1943.<sup>53</sup>

The Embassy will keep informed constantly as to the situation of the Country Agency's supply of forms and will endeavor to have the new form introduced as soon as possible.

In the meantime, it has passed on to the Country Agency a list of the questions on the present form to which answers are not essential and no Import Recommendations will be held up, either by it or the Embassy, where the information covered by these questions is absent.

Respectfully yours,

WESLEY FROST

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<sup>52</sup> Not found in Department files; the reference may have been to a circular on this subject dated October 18, not printed.

<sup>53</sup> Not printed.

## PERU

811.20 (D) Regulations/9939

*The Ambassador in Peru (Norweb) to the Secretary of State*

No. 6172

LIMA, February 22, 1943.

[Received March 6.]

SIR: Referring to the Department's telegram No. 25, dated January 9, 9 p. m., 1943,<sup>54</sup> regarding the arrival of Dr. Wilkinson<sup>55</sup> and Mr. Henry<sup>56</sup> for the purpose of initiating the decentralization export control plan in Peru, I have the honor to report that their work was successfully concluded on February 17, and the persistence and tact with which they pursued their tasks created a very favorable impression among the leading Peruvian officials.

[Here follow three paragraphs on procedure and personnel.]

Attached hereto is a copy of the memorandum of agreement which was approved on February 15 and submitted through the Foreign Office on February 20. It closely resembles the form adopted in other countries visited by Dr. Wilkinson and Mr. Henry. Points of major interest were the Minister's<sup>57</sup> final whole-hearted acceptance of the idea that in this critical period the United States is fully justified in requesting its Peruvian friends, colleagues and clients to sacrifice; in drastically limiting the diversion of strategic materials from the immediate war effort to ordinary civil use; and in restricting shipping space to the 7,000 tons now allotted to Peru. Although I believe the Minister had been gradually coming to this opinion during previous weeks of rather intense deliberation on the subject, as a result of our various conferences, there is no doubt that the accurate, technical knowledge and firm presentation of the seriousness of the supply situation by Dr. Wilkinson and Mr. Henry were factors of special influence.

Finance Minister East suggested April 1, 1943 as the date on which the decentralized export control plan should become operative and this date was agreed upon by all concerned.

Respectfully yours,

R. HENRY NORWEB

[Enclosure]

*Memorandum of Agreement*

In order to promote the greatest possible efficiency in the war effort and to facilitate the discharge of the responsibilities of the Board

<sup>54</sup> Not printed.

<sup>55</sup> H. A. Wilkinson, representative of the Board of Economic Warfare.

<sup>56</sup> R. Horton Henry of the American Hemisphere Exports Office, Department of State.

<sup>57</sup> The Minister of Finance, Julio L. East.

of Economic Warfare, hereinafter referred to as "the Board", for the administration of the commercial export programs of the United States, it is deemed desirable to delegate certain phases of the Board's activities to the Embassy of the United States at Lima, hereinafter referred to as "the Embassy".

Under the proposed procedure the Embassy, in close collaboration with the Government of Peru, through an agency that will be designated by the latter as the "Import Department", hereinafter referred to as "the Department", will be charged with certifying Peru's import requirements to the end that the Board may be advised at all times of such requirements.

The general outline of the plan of procedure which tentatively has been considered most effective is as follows:

1. All juridical or natural persons resident in Peru desiring to import articles and materials from or by way of the United States will present to the Department applications for "import recommendations".

2. The Department will make a prior examination of such applications for import recommendations with a view to selecting and segregating on a provisional basis those which are considered most urgently required. This preliminary selection by the Department will be made in the light of the estimates of supply fixed by the United States as available to meet Peru's minimum essential requirements, the estimates of transportation availabilities, and importance of the article covered by the applications to the economy of the country, its public services, the prosecution of the war, and the maintenance of continental defense.

3. The applications which have been examined by the Department will be referred to the Embassy for consideration in the light of the standards set forth in the preceding paragraph and on the basis of the Proclaimed Lists.

4. After such consideration the Embassy and the Department, by mutual agreement, will determine which applications for import recommendations will be approved. Such applications will include those approved by both the Department and the Embassy as well as those initially rejected by the Embassy but subsequently accepted after consultation with the Department.

5. The import recommendations approved jointly by the Embassy and the Department will be held within the limits of estimates of supply for designated articles and the estimated transportation availabilities (as referred to in paragraph 2).

6. The import recommendations definitely approved in accordance with the established procedure will be classified by the Embassy and the Department according to the following categories:

Category A—Orders relating to the production and transportation of materials essential to the war program of the United Nations.

Category B—Orders relating to the maintenance of essential services of the local Government (this category will include public utilities).

Category C—Orders relating to the maintenance of civilian enterprises essential to the economy of the country of destination.

All copies of import recommendations will be appropriately marked to indicate the action taken by both the Embassy and the Department.

7. The Board will endeavor to issue export licenses on the basis of the import recommendations approved jointly by the Embassy and the Department, the supply situation in the United States and the availability of transportation. It should be understood that the Board may refuse to grant export licenses for any of the recommended orders when such action is deemed necessary to the best interests of the war program of the United Nations.

8. The Board, without reference to the preceding procedure, may approve applications for permission to export goods necessary to take care of the needs of war projects of the United Nations. Such applications will cover goods which are not included in the estimates of supply furnished Peru, and, therefore, will not be charged against such estimates of supply.

9. The Embassy on behalf of the Board will inform the Department as to the disposition by the Board of import recommendations received and as to the issuance of any export licenses not covered by import recommendations.

10. In the case that, at the time an approved import recommendation is being "processed", the applicant is placed on the proclaimed lists or becomes an unsatisfactory consignee, the Department will be so advised in order that the Department jointly with the Embassy may designate a new consignee.

11. The Board in collaboration with the Embassy and the Department will endeavor to develop procedures by which information can readily be furnished to importers of material not easily obtainable in the United States.

12. The Board, the Embassy and the Department will draw up instructions regarding the operation of the proposed procedure and will devise ways and means to facilitate its implementation.

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823.24/690 : Airgram

*The Secretary of State to the Ambassador in Peru (Norweb)*

WASHINGTON, May 21, 1943—11 a. m.

A-666. Reference is made to the Embassy's telegram no. 614 of April 29, 8 p. m.<sup>58</sup> The Board of Economic Warfare advises that

<sup>58</sup> Not printed.

heretofore it has requested all applicants for SP<sup>59</sup> licenses for war projects to submit a copy of the program license application with bills of materials to the Embassy for its information. Hereafter, such copy will be presented to the Board of Economic Warfare for transmission to the Embassy. The Board of Economic Warfare, in the case of mining company programs, petroleum company programs and other war projects, will proceed to issue SP licenses without awaiting the results of any screening operation in the field. This measure is necessary to insure a steady flow of supplies for the war effort. However, if the Embassy wishes to forward its comments with regard to the programs, these comments will be taken into consideration in licensing subsequent supplies.

SP licenses for non-war projects will be screened in the field in accordance with the Department's circular instruction of April 15, 1943.<sup>60</sup>

The Department has no intention for the present of replacing the late Colonel Barbour.<sup>61</sup>

HULL

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823.24/718 : Airgram

*The Secretary of State to the Ambassador in Peru (Norweb)*

WASHINGTON, June 8, 1943—7 p. m.

A-726. Reference is made to Embassy's A-870 of May 12.<sup>62</sup> With respect, to the use of shipping priority ratings, the Embassy is advised that in cases of material which cannot be classified as necessary for the United Nations' war effort or hemisphere defense but yet is extremely urgently needed, an A priority classification may be given to such a case. Such a case should be considered as a definite exception to the general rule, and the Embassy should attach a memorandum to copies nos. 1, 3 and 5 explaining the urgency and therefore the reason why the exception was made.

With respect to example no. 2 set forth in the airgram under reference, your attention is again invited to the Department's airgram no. A-574 of April 10<sup>62</sup> in which it was explained that it is not possible under existing circumstances to know the exact month when any particular shipment will take place. Therefore, it is necessary to charge the current quarter for a particular shipment even though it is expected that the material in question will not arrive until a later quarter. Furthermore, in the example cited by the Embassy it should be realized that several months will normally elapse before a crane is

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<sup>59</sup> Special Project.

<sup>60</sup> Not printed.

<sup>61</sup> Col. Percy E. Barbour, mining technician and Senior Economic Analyst; his death had occurred May 4, 1943.

<sup>62</sup> Airgram not printed.

scheduled for production, produced and made ready for shipment, and finally shipped. Another factor that should be considered is the desirability of there being a backlog of orders for production and shipment in Washington at all times in order that a smooth flow of supply be maintained as gaps in scheduling may arise or in cases where an unexpected improvement in the shipping situation occurs.

In the third cited example<sup>64</sup> the same reasoning would apply. However, the Embassy and the country agency should exercise discretion in the approval of import recommendations by granting them first to more needy cases.

HULL

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823.24/780 : Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, June 16, 1943—noon.

[Received 4:35 p. m.]

855. Reference Department's unnumbered airgram June 7, 6:10 p. m.<sup>65</sup> and circular telegram June 12, 7 p. m.<sup>66</sup> The various sudden modifications introduced in the export control system since the initial period when the United States proposed the granting of general licenses in exchange for local legislation governing reexports have been subject to criticism among local officials and businessmen in a way which has not enhanced our reputation for efficient planning and enterprise.

Decentralization Plan A<sup>67</sup> was inaugurated with extensive publicity and after laborious negotiations only 10 weeks ago. The Peruvian as well as our own Government set up special organizations and regulations which are just being accepted by the general public.

The Canadian Government's exports have just been placed under the plan during the last few days and in the absence of any reference to Canadian goods the reaction will be unfavorable.

Moreover, the Peruvian Government certainly will be unable to understand how it is possible to authorize United States exporters to establish essentiality or for the Office of Exports to examine privately submitted applications "on their own merits", when the local authorities at the behest of the United States Government have just announced it is imperative the Peruvian Government itself render the decision in order to assure sacrifice in maximum degree for the common cause.

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<sup>64</sup> This involved the question of whether an Import Recommendation for merchandise available in the second quarter but not needed by an importer until December, should be withheld from the importer until the fourth quarter.

<sup>65</sup> *Ante*, p. 117.

<sup>66</sup> *Ante*, p. 119.

<sup>67</sup> For an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.



The release of Export Bulletin No. 99<sup>68</sup> quite surely will produce turmoil throughout the hemisphere and diminish confidence in the sincerity of the United States. Only by the utmost fortune will the Axis forces fail to seize upon it. In the Embassy's opinion no effort should be omitted to suppress dissemination thereof.

I have discussed the principal points in strict confidence with the best-informed Peruvian authority. He heard the news with consternation and requested my cooperation in holding this whole subject in abeyance pending mature deliberation.

In the meantime we can quietly approve Import Recommendations for additional tonnage on non-allocated commodities with sufficient liberality to fill the extra shipping space. Several bottoms could be used immediately or at any time for lumber, coke, several pending orders for second hand textile and other machinery, etc.

It is my sincere hope the Department will be successful in warding off this impending setback in our comparatively favorable relations with Peru and I believe with all nations including our immediate Allies in the struggle.

BEW representative here concurs in the foregoing.

NORWEB

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823.24/916 : Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, September 1, 1943—3 p. m.

[Received 8:10 p. m.]

1178. Reference Department's circular airgram Aug. 23, 7 p. m.<sup>69</sup> and circular telegram August 31.<sup>70</sup> In principle the Embassy is in complete accord with removing restrictions as quickly as possible on the exportation of American merchandise not in short supply. Any alteration in the Decentralization Plan at the present time is felt to be contingent upon whether or not available tonnage is sufficient to handle all requests made by Peruvian importers for non-allocated commodities. (For the Department's information it is believed, considering the restrictions imposed by the long list of commodities in short supply, that Peru is not likely to be able to utilize more than roughly 35,000 tons of shipping per quarter including project tonnage.)

The building up of a backlog of cargo such as occurred under the old general license procedure should be avoided by all means. If available tonnage is sufficient to prevent the accumulation of such a backlog then the Embassy favors the adoption of Alternative Plan

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<sup>68</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>69</sup> *Ante*, p. 122.

<sup>70</sup> Not printed.

III given in the Department's airgram. It is understood that there would be published a specific list of those articles under general license. Due to the complexity of the CMP<sup>71</sup> plan it is now frequently a matter of interpretation whether an article is or is not under allocation.

For allocated commodities it will be even more important that OEW<sup>72</sup> refuse to grant licenses within [*without?*] important [*Import?*] Recommendations or the previous approval of the Country Agency<sup>73</sup> and the Embassy. Reasonable satisfactory consignee control can be exercised through shipping manifests and the cooperation of local Superintendent of Customs.

The Embassy will report further upon completion of conversations with the Peruvian authorities from whom no serious objections are anticipated.

NORWEB

823.24/918 : Telegram

*The Ambassador in Peru (Norweb) to the Secretary of State*

LIMA, September 3, 1943—3 p. m.

[Received 6:32 p. m.]

1189. Reference Embassy's telegram No. 1178, September 1, 3 p. m. The Finance Minister<sup>74</sup> agrees Alternative Plan III is the most rational way of beginning the movement to normal commercial conditions. He expressed the hope however that a practical method of control could be established to avoid a congestion of arrivals of the unallocated goods at some undetermined date and hour when ocean transportation suddenly becomes abundant, and cited the experience of 1919-20 when many importers encountered financial difficulties.

NORWEB

823.24/960

*The Ambassador in Peru (Norweb) to the Secretary of State*

No. 7911

LIMA, September 22, 1943.

[Received September 28.]

SIR: In transmitting the attached copy of Dr. John P. Gillin's<sup>75</sup> letter of September 20, 1943,<sup>76</sup> to Mr. Lazo of OEW,<sup>77</sup> attention of

<sup>71</sup> Controlled Materials Plan; for an explanation of this plan, see circular instruction of April 26, p. 111.

<sup>72</sup> Office of Economic Warfare, successor agency to the Board of Economic Warfare.

<sup>73</sup> The Peruvian office responsible for administering import controls.

<sup>74</sup> Julio L. East.

<sup>75</sup> Export official of the Office of Economic Warfare.

<sup>76</sup> Not printed.

<sup>77</sup> In charge of the Exports Office of the Office of Economic Warfare.

Mr. A. A. Bombe, I have the honor to state that the contents were discussed by the corresponding Lima representatives of OEW and of the Embassy and that the suggestions represent practical methods of ironing out wrinkles for Peru.

However, it is felt there is an additional point of importance. The Decentralization Plan is operating quite successfully and the Embassy is giving adequate attention to the import recommendations prepared and submitted by the Department of Importations of the Finance Ministry.

The primary responsibility for making the service available to all the Peruvians, regardless of their location within the Republic, rests with the Peruvian authorities, and the Embassy has discussed the general subject with them on different occasions. At one time Finance Minister East was considering the appointment of regional representatives of the Office of Importations, but for reasons best known to him there have been no developments toward achieving that objective. In any event, it does seem that as importers in all parts of the country have become better acquainted with the Decentralization Plan, the necessity of opening branch offices at the Country Agency has correspondingly diminished. Whenever the Iquitos importers become sufficiently interested to do so, they are at liberty to take their own particular problems up with the Finance Ministry and bring about such adjustments as the Peruvians may deem appropriate. The Embassy, of course, will handle as usual all applications whenever they are submitted.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

*Counselor for Economic Affairs*

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823.24/1065 : Airgram

*The Chargé in Peru (Patterson) to the Secretary of State*

LIMA, December 1, 1943—10:30 a. m.

[Received December 6—3 p. m.]

A-1586. For Foreign Economic Administration.<sup>78</sup> Reference circular airgrams of November 13, 1943, 12:10,<sup>79</sup> 12:20, 12:30, and 12:40 p. m., and circular airgram of November 16, 7:10 [7] p. m.,<sup>80</sup> in connection with the continued modification of the Decentralization Plan.

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<sup>78</sup> The Foreign Economic Administration assumed the functions of the Office of Economic Warfare on September 25, 1943.

<sup>79</sup> *Ante*, p. 131.

<sup>80</sup> None printed.

These airgrams were discussed with the Special Representative of the Lima office of Foreign Economic Administration and the subject matter was then thoroughly gone into with the Peruvian Country Agency.

Following the expressed wish of the Finance Minister to accept any plan or suggestion which will lead toward a simplification of export control from the United States and toward free and normal channels of trade, the Peruvian Government is willing to accept the modification as set forth in the above airgrams. It is therefore understood that farm machinery; chemicals (with few specified exceptions); food, fats, and oils; and telegraph equipment and certain communication apparatus included in Schedule B <sup>81</sup> numbers 7082, 7083 and 7087, will not require Import Recommendations after January 1st. It is understood that the above items are not in free supply, but that applications for export licenses will be acted upon in Washington without reference to the Mission or the Country Agency. It is understood also that applications for export licenses for second-hand machines (with certain exceptions, such as typewriters) will not require Import Recommendation, but that telegraphic approval will be required of the Mission and Country Agency in the case of each individual application.

In reply to the request made in the airgrams, the following observations of the Country Agency are given:

Every change toward the simplification of export control is appreciated, and it is realized that the elimination of certain formalities here with regard to the commodities mentioned above constitutes a definite step in that direction. It was hoped, however, that it would be found possible to follow the procedure apparently contemplated in the original simplification plan; namely, simply to transfer items from the controlled to the free list, without introducing any other modifications.

The Country Agency's main reason for expressing this wish is the difficulty in explaining the various shades of control to the importers, particularly those of the type exemplified by the conflict between Export Control Bulletins 132 and 125, which although discussed in a telephone conversation with Washington on November 23, still is not entirely clear to the Embassy in view of the contents of the Department's circular airgram of November 16, 1943, 7:00 p. m.

PATTERSON

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<sup>81</sup> A statistical classification of domestic and foreign commodities exported from the United States; issued by the Bureau of the Census, Department of Commerce.

## URUGUAY

833.24/642 : Telegram

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

MONTEVIDEO, June 10, 1943—4 p. m.

[Received June 10—2:14 p. m.]

571. Country Agency <sup>82</sup> greatly perturbed over telegrams, letters, and circulars being received by importers from suppliers in the United States stating categorically that Decentralization Plan <sup>83</sup> in Uruguay is to be discontinued. This Government organization is concerned because of its personnel and building expansion program. Embassy and Country Agency already have noted apathy on the part of importers in filing Import Recommendations which condition, if not altered, will defeat plans to stimulate flow in accordance with latest instructions received in Department's telegram circular May 7, 9 p. m.,<sup>84</sup> and telegram number 312, May [June] 5, 1 p. m.<sup>85</sup> to promote immediate orders for non-allocated and non-essential materials not in scarce supply. If actual situation supports such an announcement, Embassy suggests advisability of a published denial locally of such reports emanating from the United States and requests Department's telegraphic instruction.

Dwyre

833.24/655a : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, June 11, 1943—3 p. m.

320. Embassy's 571, June 10, 4 p. m. Reports in question probably refer among others to BEW <sup>86</sup> Current Export Control Bulletin No. 99,<sup>87</sup> June 7, which outlines certain modifications in Decentralization with respect to non-essential lists. Bulletin also includes following language:

"Likewise, where foreign importers have been denied Import Recommendations, whether or not the item is on the non-essential list, but can show that the product is essential, such proof should be forwarded by the exporter to the Office of Exports, and each case will be examined on its own merits."

<sup>82</sup> The Uruguayan Contralor de Exportaciones y Importaciones.<sup>83</sup> Decentralization Plan A; for an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.<sup>84</sup> *Ante*, p. 114.<sup>85</sup> Not printed.<sup>86</sup> Board of Economic Warfare.<sup>87</sup> Issued by the Office of Exports of the Board of Economic Warfare.

Bulletin was issued without Department's prior knowledge and Department is endeavoring to have Bulletin modified or withdrawn. Meantime suggest every effort be made to stimulate import recommendations. Also suggest withhold announcement in local press.

HULL

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833.24/642 : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, June 17, 1943—5 p. m.

332. Your 571, June 10, 4 p. m. Some press speculation and trade letters and cables have resulted in erroneous information concerning Decentralization Plan for export control as operative in most of the other American republics. BEW and the Department wish it definitely understood that published and unpublished rumors to the contrary notwithstanding, there is, first, no intention to abandon decentralization; secondly, that any and all changes that may in the future be made will only be made after full consultation and concurrence on the part of the appropriate Government agencies in the other American republics and the United States; that no changes have been made through issuance of Bulletin 99 of the BEW which merely recognizes the right of American exporters to appeal to their Government directly in case of undue hardship. In the consideration of such cases, BEW will adhere strictly to the spirit and letter of the Decentralization Plan. In this connection your attention is drawn to the reservation of right in paragraph 9 of Decentralization Plan A. Unless and until altered agreements are entered into, the Decentralization Plan is in full effect as agreed upon and there will be no licenses issued except as provided for under the plan.

You are authorized to communicate the foregoing to the Government to which you are accredited adding that this Government would have no objection if it were published in the local press.

HULL

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833.24/684 : Airgram

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

MONTEVIDEO, June 23, 1943—12 noon.

[Received June 30—noon.]

A-331. Reference is made to the Department's airgram No. A-396 of June 2, 1943.<sup>88</sup> In the airgram above mentioned the Department transmitted a communication from the Board of Economic Warfare

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<sup>88</sup> Not printed.

containing the recommendation that non-importable lists be eliminated from the Decentralization Plan A procedure. This communication stated the reasons for such recommendation and directed the Embassy to place this information before the Country Agency and at the same time propose the elimination from the original undertaking for the establishment of Decentralization Plan A that portion of the same which, by the establishment of an importable list, produced, in effect, a complementary non-importable list. The Embassy was further instructed to advise the Department by airgram, immediately upon the reaching of an agreement on the amended procedure, and further to make arrangements for proper announcements both in Uruguay and in Washington of the cancellation of the non-importable list prepared by the Uruguayan Country Agency at the request of our Government as one of the requirements for the establishment of Decentralization Plan A.

Inasmuch as the Embassy, as yet, has received no Current Export Bulletin of the Office of Exports of the Board of Economic Warfare containing the Uruguayan non-importable list, both the Country Agency and the Embassy have presumed that no publication of the same has been made. The Department has been advised telegraphically that the Country Agency was in complete accord with the amendment suggested and had agreed to the immediate abrogation of the Uruguayan non-importable list as an arbitrary published guide for American exporters.

The Country Agency, however, advised the Embassy that it saw no reason for an announcement of the cancellation of the list inasmuch as no publication of the same had been made in Uruguay and no evidence had been received that the list had been published in the United States.

However, in this connection the Country Agency requested the Embassy to advise the Department that Uruguay, in its program of import control, for a number of years has determined the non-essentiality of imports according to a regulative classification of such commodities known as "Category 3". This non-essential list was communicated to the Department in Embassy's airgram A-38 of January 21, 1943.<sup>89</sup> The Country Agency has informed the Embassy that it cannot legally abrogate the list of commodities classified as non-essential for import and known as "Category 3". The Country Agency stresses the point that the non-importable list prepared at the request of our Government did not provide a mechanism for indicating the opinion of the Country Agency as to essentiality inasmuch as its own organic procedure already had contemplated such a classification.

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<sup>89</sup> Not printed.

The Department has already been advised that exchange liquidations must be granted previous to the shipment from any country to Uruguay of commodities classified by the Uruguayan Government as non-essential. The failure to observe this procedure is punished by fines and many such fines already have been imposed. Furthermore, the Department has been advised that Uruguayan importing firms are allotted fixed annual quotas of foreign exchange which cannot be exceeded without official authorization. A further regulatory measure is that banks generally are discouraging the opening of credits covering non-essential imports in favor of exporters abroad unless exchange permits have been previously granted to the importer in Uruguay.

The Department is informed that, notwithstanding the official procedure relating to imports of non-essentials, the Country Agency is not assuming an arbitrary attitude regarding such imports. The Country Agency, in response to the Department's recent instructions relating to the improved shipping situation, already has agreed with the Embassy to disregard provisionally the classification "Category 3" as the same relates to exports from the United States.

DWYRE

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833.24/686 : Airgram

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

MONTEVIDEO, June 25, 1943—12 noon.

[Received July 1—11 a. m.]

A-333. Reference is made to Department's telegram No. 332, June 18 [17], 1943, 5:30 a. m. [5 p. m.]. The Department's telegram herewith mentioned and several interchanges of telegraphic communications between the Department and the Embassy all refer to a situation created by diverse interpretations of Current Export Bulletin No. 99 issued by the Office of Exports of the Board of Economic Warfare.

The Embassy informs the Department that the contents of the specific telegram under reference have been communicated to the Country Agency and that this Uruguayan Government organization has received the exposition of the attitude of the Department and the Board of Economic Warfare toward Decentralization Plan A with extreme satisfaction and with an expression of great appreciation for its candor and completeness.

The Embassy and the Country Agency are now considering a publication in the local press based upon the contents of the Department's telegram and authorized by the Department as a means of counteracting the apathetic and confused attitude of the Uruguayan importers caused by misinterpretations of Current Export Bulletin No.



99. This attitude has threatened to nullify the efforts of the Country Agency and the Embassy to increase the flow of applications for Import Recommendations in order to take advantage of the improved shipping situation.

Prior to the receipt of the Department's specific telegram under reference, the Country Agency had received directly a copy of Current Export Bulletin No. 99. Copies of this bulletin also have been received by numerous importers, sent to them by exporters in the United States.

The Department directs that the attention of the Country Agency be called to the reservation of right in Paragraph No. 9 of Decentralization Plan A. This particular paragraph had been contemplated both by the Country Agency and the Embassy prior to the receipt of the Department's telegram. With respect to the paragraph under reference, the Country Agency made the frank statement to the Embassy that, even at the risk of appearing obtuse, it could not reconcile the proposal of the licensing authorities of our Government with any "action necessary to the best interests of the war program of the United Nations".

The Embassy is able to inform the Department that the atmosphere created by Current Export Bulletin No. 99 has been entirely cleared as far as the Country Agency is concerned. It is believed that, in fairness to this Government organization, it should be brought to the attention of the Department and the Board of Economic Warfare that the Country Agency, in treating with the Embassy on the situation under reference, has adhered always to friendly and frank discussions and has not permitted the incident to diminish in the slightest degree the full cooperation which it always has extended to the Embassy and the authorities of our Government.

DWYRE

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833.24/829 : Airgram

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

MONTEVIDEO, September 3, 1943—12 noon.

[Received September 9—3 p. m.]

A-473. Department's circular airgram, August 23, 7 p. m.,<sup>90</sup> Department's circular telegram, August 31, 4 p. m., and Embassy's telegram no. 792, September 2, 6 p. m.<sup>91</sup> Confirming the Embassy's telegram under reference, the Department is informed that the purport of the three alternatives providing for a simplification of export control as it relates to materials in free supply was presented to the Country Agency, together with a full explanation of the motives

<sup>90</sup> *Ante*, p. 122.

<sup>91</sup> Neither printed.

behind such a simplification of procedure and of the results which it was sought to obtain. The Uruguayan Government organization recognized certain merits in Alternatives I and II, although neither was regarded in its entirety as adaptable to Uruguay or as an improvement over present control. Alternative III was rejected categorically by the Country Agency as incompatible with its organic and legal functions and as contrary to the spirit of the undertaking entered into with the Government of the United States to participate in joint export control. The motive inspiring the simplification project was construed by the Country Agency only as theory and not as supported by actual conditions existent in Uruguay.

As indicated in the Embassy's telegram under reference, it is believed it will be possible to reach an accord with the Country Agency on a more simplified export control, but never to the extent indicated in the provisions of Alternative III, nor to the point that Uruguay will relinquish any of its rights or legal obligations to be the final judge as to its requirements and imports. The Embassy outlined in the telegram under reference the simplification process regarded as most feasible and most likely to obtain the assent of the Country Agency to any amendment in present procedure. Authorization was requested from the Department to present to the Country Agency for its consideration the following modifications in export control of materials in free supply:

- (1) An adoption of the simplified Import Recommendation form for materials in free supply as suggested in Alternative I and as recommended in Embassy's airgram A-409 of July 31.<sup>92</sup>

- (2) No change in local implementation of control as established by Decentralization Plan A as it relates to the Country Agency.

- (3) The complete and exclusive control of imports of materials in free supply with full onus of the administration of same to pass to the hands of the Country Agency. Implementation of Import Recommendations as at present would provide for consignee control by the Embassy.

- (4) The absolute establishment to the maximum completeness of a list of materials in free supply maintained against changing conditions and kept current by frequent periodical additions or deletions.

The authority over exchange and import control vested in the Country Agency is set forth in the law amending its organic powers, which law appears in the *Diario Oficial* of the Uruguayan Government, number 10307 of January 17, 1941. Other references to this authority will be found in Embassy's airgram no. A-38 of January 21, 1943,<sup>92</sup> and Embassy's telegram no. 571 of June 10, 4 p. m. The airgram details certain inherent powers of the Country Agency to prohibit imports of commodities which the Uruguayan Government regards as non-

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<sup>92</sup> Not printed.

essential, while the telegram provides a background for a comprehensive understanding of the Country Agency's conception of its prerogative in the control of imports.

The Uruguayan Country Agency, through the exercise of its authority over the disbursement of foreign exchange, through its functional power to demand that an importer obtain a permit prior to the embarkation of merchandise, and as a result of its operative prohibitory procedure with respect to the entrance into the country of non-essentials, is endowed with the structural elements of the most rigid of import controls. As the result of a close cooperative understanding with the Country Agency, the Embassy finally has succeeded in circumscribing certain of the latter's regulatory procedures through a mutual understanding that, provisionally, no obstacles will be placed in the way of fomenting the flow of Import Recommendations.

The Embassy believes that the Department and the Office of Economic Warfare<sup>94</sup> will comprehend more clearly the situation which has confronted the Embassy if they take into consideration the fact, already brought to the attention of the Department, that constant arrivals of merchandise licensed for export without import recommendations have moved the Country Agency to the strongest expressions of disapproval. Certain licensings have been regarded as in complete violation of the agreement entered into between the two countries to establish a joint export control, while other actions have been interpreted as approaching the margin of the spirit of the undertaking.

The Embassy has been confronted constantly with the task of mitigating any action which the Country Agency might take under its functional powers to control imports. The recent attitude adopted by the Office of Economic Warfare as described in communications from the Department, which indicates a policy of referring all applications for export licenses not covered by Import Recommendations for the decision of the Embassy and the Country Agency, has produced an alterant most beneficial to the relations between the Embassy and this Uruguayan government organization.

The efforts of the Embassy and those of the Country Agency, once the latter's attitude was modified favorably, with enthusiastic cooperation from commercial and industrial organizations and the press, to foment the flow of Import Recommendations have brought the average monthly tonnage represented by approved Import Recommendations since the inception of Decentralization Plan A to approximately 10,500 tons or only 500 tons in excess of the 125% of the target tonnage figure.

The Country Agency is not in accord with the Embassy on the point that the complicated procedure exacted from the importer is a contributing factor toward the present restraint in imports. The

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<sup>94</sup> Successor agency to the Board of Economic Warfare.

government organization insists that the only causes of this restraint are economic and psychological. It is true that Uruguay economically is passing through a critical period. The lack of many strategic materials, principally combustibles, is an important contributory cause. The Embassy also agrees with the Country Agency to the extent of admitting that one of the major deterrents to an increase in imports is the present apathetic attitude of Uruguayan trade toward buying, reflected in its apparent determination not to stock or anticipate needs, a course undoubtedly inspired by the belief that the favorable progress of the war could produce, without warning, a complete change in price and marketing conditions.

DAWSON

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833.24/819 : Telegram

*The Secretary of State to the Ambassador in Uruguay (Dawson)*

WASHINGTON, September 9, 1943—1 p. m.

474. Reference Embassy's 792, September 2, 6 p. m.<sup>95</sup> It was not this Government's intention in proposing the simplification of export control procedure that existing legislation involving import or exchange permits be revoked or in any way prejudiced, and it is regretted that such an impression was gained by the country agency.

The Department did, however, anticipate a more favorable reaction in view of the statements contained in the Embassy's A-409, July 31, 12 noon.<sup>95</sup>

It seems desirable to take all practical steps to reestablish direct importer-exporter relationships with a minimum of Government intervention. It is believed here that existing documentation under decentralization tends to stifle trade and to encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and to allow the materials which otherwise might be exported to be diverted to consumption in this country. Looking, therefore, to post-war competition it seems necessary to enable the United States exporters and suppliers to regain the goodwill of their agents and customers in the other American republics.

In view of the existence of import and exchange regulations in Uruguay it would seem feasible to accept Alternative III since the importers would still be required to secure an import and exchange permit before placing an order or accepting an offer for merchandise from abroad. If, however, the country agency is reluctant to accept Alternative III, the Embassy may wish to consider the following suggestion made by one of our foreign missions.

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<sup>95</sup> Not printed.

The simplified import recommendation or any other suitable form would continue to be required abroad and operate in conjunction with import and exchange regulations thereby enabling the Embassy and country agency to exercise control over imports, shipping space and consignee. The import recommendation form would not, however, be forwarded to the United States and procedures of Alternative III would be operative in this country. In effect this would preserve control in the field and permit the exporters and suppliers in this country to offer their wares abroad to the same extent as they could prewar within the willingness of the foreign government to grant exchange and an import permit.

Would this suggestion prove acceptable to the country agency? It is desired to effect the simplification of procedure October 1, 1943 for those countries that have accepted Alternative III and the Embassy is requested to telegraph outcome.<sup>97</sup>

HULL

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103.917/5453

*The Ambassador in Uruguay (Dawson) to the Secretary of State*

No. 3582

MONTEVIDEO, November 30, 1943.

[Received December 8.]

SIR: I have the honor to refer to the Department's circular airgrams of November 13, 12:10 p. m.,<sup>98</sup> November 13, 12:20 p. m., November 13, 12:30 p. m. and November 13, 12:40 p. m.,<sup>99</sup> concerning the proposed elimination of certain articles and materials from Decentralization Plan A.

The proposals covered by the Department's airgrams under reference, to become effective on January 1, 1944, have been considered by the Embassy and the Country Agency, and will be treated together as a group in this despatch, since the proposed changes in procedure will apply to them equally. Exception is made only in the case of farm machinery, a discussion of which was the subject of the Embassy's despatch no. 3579 of November 29, 1943.<sup>1</sup>

There is enclosed with this despatch a translation of a letter from the Uruguayan Contralor de Exportaciones y Importaciones (Country Agency)<sup>1</sup> which was prepared by that organization as an exposition of its position with respect to the proposed changes in Import Recommendation procedure, and in reply to the Embassy's inquiry on

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<sup>97</sup> In telegram No. 882, October 1, midnight, the Ambassador reported that Alternative III had been placed in effect in Uruguay as of that date (833.24/873).

<sup>98</sup> *Ante*, p. 131.

<sup>99</sup> None printed; they indicated specific commodities which were to be excluded from the Decentralization Plan such as foods, fats, oils, medicines, drugs, etc. (103.917/4900, 4902, 4958).

<sup>1</sup> Not printed.

that subject. From this letter it will be seen that the Country Agency agrees, in principle, to the proposed changes, but points out that it must retain control over the import of the materials to be removed from Decentralization procedure, except for farm machinery and equipment which it will permit to be imported without prior intervention on its part.

The attitude of the Country Agency has consistently been, and according to its legal functions must continue to be, that it must retain prior right of approval for importations, whether subject to Import Recommendations or not, in order to rationalize the expenditure of the country's foreign exchange resources and to prevent the influx of an undue quantity of those articles classed as luxury goods. In the case of the articles and materials now suggested for removal from the Decentralization Plan, the Country Agency proposes to institute the internal licensing procedure now in effect for commodities valued at more than \$25.00 (U.S. currency), whose export from the United States may be accomplished under general license. Under this internal procedure, the Embassy is given an opportunity to review each case for consignee control, and to determine whether the transaction may actually be carried out without Import Recommendation under existing regulations. (Embassy's despatch no. 3535, November 20, 1943,<sup>2</sup> file 820).

In sum, therefore, it can be stated that the Uruguayan Country Agency will agree to the proposed changes outlined in the Department's airgrams under reference, with the understanding that it will continue to exercise internal import licensing control.

Respectfully yours,

For the Ambassador:

ROBERT G. GLOVER  
*Commercial Attaché*

#### VENEZUELA

831.24/563

*The American Ambassador in Venezuela (Corrigan) to the  
Venezuelan Minister for Foreign Affairs (Parra-Pérez)*<sup>3</sup>

No. 1229

CARACAS, February 19, 1943.

EXCELLENCY: I have the honor to refer to recent conversations between officials of the Venezuelan Government, and representatives of the United States Board of Economic Warfare, the Department of State, and this Embassy, regarding certain proposed changes in con-

<sup>2</sup> Not printed.

<sup>3</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 4146, March 30; received April 6.

trol procedure over export licensing of materials and the use of shipping space from the United States to Venezuela during the present war emergency.

There is enclosed for the consideration of the appropriate Venezuelan authorities a memorandum <sup>6</sup> outlining in general terms the "decentralized" procedure and the reason for its adoption as set forth to the Venezuelan Import Control Commission and the Minister of Finance <sup>7</sup> by the representatives above-mentioned. It is believed that the strict application of this procedure will be of material assistance in maintaining the flow of commodities essential to Venezuela's economy under the difficult supply conditions imposed by the war.

Since the program envisaged constitutes only procedural modifications of the controls system already in effect, it is hoped that the Venezuelan authorities will give prompt sanction to its application at an early date.

Please accept [etc.]

FRANK P. CORRIGAN

331.24/479 : Telegram

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

WASHINGTON, March 10, 1943—11 a. m.

169. Embassy's 185 of February 16.<sup>8</sup> In the absence of any further advice, the Board of Economic Warfare has announced in Current Export Bulletin No. 80, dated March 5,<sup>8</sup> that the Decentralization plan <sup>9</sup> will become effective April 1. Wire confirmation immediately.

WELLES

331.24/604 : Telegram

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

CARACAS, March 13, 1943—10 a. m.

[Received March 13—1:48 a. m.]

273. Embassy's 263, March 11, 11 a. m.<sup>10</sup> Cabinet yesterday confirmed April 1, for application Decentralization Plan.

CORRIGAN

<sup>6</sup> Not printed.

<sup>7</sup> Alfredo Machado Hernández.

<sup>8</sup> Issued by the Office of Exports of the Board of Economic Warfare.

<sup>9</sup> Decentralization Plan A; for an outline of this plan, see circular airgram of January 19, 8 p. m., p. 106.

<sup>10</sup> Not printed.

831.24/549 : Airgram

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

CARACAS, March 25, 1943—4:45 p. m.

[Received March 29—4 p. m.]

A-124. Embassy's telegram No. 147, February 5 [6], 9 p. m., Department's telegram No. 80, February 9, 10 p. m.<sup>11</sup> Import Control Commission desires to issue Import Recommendations for all shipments valued at \$25 or less. Reasons given are (1) that such action will prevent splitting of orders in order to circumvent Import Recommendation procedure, (2) that control will thereby be complete over importations of non-essentials, and (3) that difficulties will not be experienced in regard to exceptions specified in Comprehensive Export Schedule No. 11,<sup>12</sup> on pages 78, 79, and 80. Although inclusion of all shipments valued at \$25 or less will entail additional work, nevertheless, it is considered that a flood of small orders will be placed in the United States valued at less than \$25 each if control is not exercised. Furthermore, issuance of Import Recommendations for small orders creates possibility of screening to determine whether consignee and ultimate purchaser are acceptable. After importers become familiar with Import Recommendation procedure control over small orders might then be withdrawn.

Current Export Bulletin No. 79, Item No. 11, under "A", states that general licenses will not be cancelled for shipments valued at \$25 or less. If Commission is permitted to use Import Recommendations for such shipments general licenses should be cancelled. Everything considered Embassy recommends that Commission be allowed to use Import Recommendations for all shipments valued at \$25 or less. Prompt reply urgently requested.

CORRIGAN

831.24/563

*The Venezuelan Minister of Finance (Machado) to the American Counselor of Embassy (Groves)<sup>13</sup>*

[Translation]

CARACAS, March 27, 1943.

MY DEAR MR. GROVES: I acknowledge receipt of your communication dated the 20th of the current month<sup>14</sup> in which you state that you

<sup>11</sup> Neither printed.<sup>12</sup> Issued by the Office of Exports of the Board of Economic Warfare.<sup>13</sup> Copy transmitted to the Department by the Ambassador in Venezuela in his despatch No. 4146, March 30; received April 6.<sup>14</sup> Not printed.



have read with the greatest attention and interest the Resolution of this Ministry, Bureau of Economy and Finances, dated March 15 of the present year, in connection with the program of decentralization of the control of exportations.

You say that, even though from the terms of the Resolution it appears to be necessary to obtain a prior permit for all importations to Venezuela from the United States, it is understood that the exceptions indicated in the Memorandum annexed to the Note of that Embassy, No. 1229 of February 19, 1943, addressed to the Venezuelan Chancellor, and discussed in recent conversations between representatives of your Government and Members of the Import Control Commission, will be taken into account in the subsequent regulations that said Commission may establish, in accordance with instructions of this Ministry. You add that it is likewise presumed that the requirement of prior permits does not have as purpose in any way to modify the contractual situation that governs the commerce between the United States and Venezuela, such as is established by existing agreements between both Governments, and you conclude indicating that my confirmation would be appreciated on the two points of view expressed above.

In regard to the first, I am pleased to state to you that, in fact, in the regulations that the Import Control Commission is going to dictate, it will be taken into account within the limits agreed upon in the conversations to which you refer and without prejudice to the provisions in effect in Venezuela, contained in the Law of Customs Tariff and in the Law on Arms and Explosives, relating to the importation of explosives and war material.

In regard to the second point, this Office considers that the measure in question is in all ways analogous to others taken previously both by the Government of Venezuela as well as by that of the United States; and it is well also to observe that in order to comply with the suggestions in the Memorandum on decentralization to which your communication refers, the subjection of all importations coming from the United States to prior permit, as has been done in the Resolution dictated for that purpose by this Ministry, was indispensable, as was clearly understood in the conversations between American officials on the one part and this Office and the Import Control Commission on the other.

These observations having been made, I am pleased to state to you that it was not the intention of the Government of Venezuela, in dictating that Resolution, to modify unilaterally the agreements on commerce existing between the Government of Venezuela and that of the United States of America.

Very truly,

ALFREDO MACHADO HERNANDEZ

831.24/549 : Airgram

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

WASHINGTON, April 12, 1943—4:40 p. m.

A-504. Your A-124, March 25, 4:45 p. m. As announced in Current Export Bulletins No. 79 and No. 80, general licenses will be cancelled for each country 2 months after the effective date of its Decentralization Plan A. The exception with respect to most shipments valued at \$25.00 or less applies equally to all countries, and it is not deemed advisable at the present time to treat Venezuela differently.

Please advise the Import Control Commission that while its motives in suggesting that all shipments require an Import Recommendation regardless of value are highly commendable, it is felt that uniform operational procedure dictates that all countries be treated the same. If, after some months of operation in Venezuela, it is found that unusual difficulties and a considerable amount of circumvention of Import Recommendation procedure exists, the matter will then be taken under consideration.

The Embassy may wish to point out to the Import Control Commission that in Comprehensive Export Schedule No. 11, page 80, paragraph D, it is stated that the splitting of orders or the securing of a large number of similar separate orders to circumvent the general license with respect to shipments valued at \$25.00 or less is strictly prohibited. Collectors of Customs are on the watch for such cases and it is believed that there will not be a considerable amount of violation.

HULL

831.24/563

*The Secretary of State to the Chargé in Venezuela (Flack)*

No. 1865

WASHINGTON, May 5, 1943.

The Secretary of State refers to the Embassy's despatch no. 4146 of March 30, 1943<sup>15</sup> regarding negotiations with the Venezuelan Government with respect to the inauguration of the decentralization program. The Department appreciates the thoroughness in which the Embassy has gone into this matter with the Venezuelan Government and expresses the opinion that after certain small differences of ideas have been clarified, the program will work to the advantage of both the Governments of Venezuela and the United States.

Numerous despatches, airgrams and telegrams have reached the Department in which various questions regarding decentralization

<sup>15</sup> Not printed; for certain documents transmitted with this despatch, see pp. 291 and 293.

have been raised. These communications have already been answered and therefore will not be repeated in this instruction.

Regarding the specific questions raised in the Embassy's despatch under reference, all products do not require import recommendations; for example, requirements for United States sponsored projects engaged in the exploration and exploitation of strategic materials do not require import recommendations. The determination of just what is included in this category should be decided in Washington and the Embassy is requested to consult the Department regarding problems that they may have in this connection.

With regard to the three points raised in the Embassy's despatch on oil companies requirements, the Board of Economic Warfare has been consulted and advises:

(1) Materials for resale in the open market such as greases and lubricating oils must have import recommendations.

(2) Equipment and supplies directly connected with exploration and exploitation do not require import recommendations if special license or war project license has been granted.

(3) Commissary items such as food and drug products must have import recommendations.

It is not considered necessary that definite non-importable lists be established. Each application should be considered on its own merits and recommendations made accordingly. However, both the Import Control Commission and the Embassy should seriously take into consideration the end use of the material desired and approve only such applications that are considered necessary to the war effort or to the economic welfare of Venezuela.

The backlog is no longer a problem. A great many shipments have already been made and some licenses have been canceled upon the request of the applicants. Therefore, it is not necessary or advisable to issue import recommendations for shipments already approved before the decentralization program was inaugurated. Furthermore, a liberal policy of issuing Import Recommendations can now be taken on items in long supply.

Instructions have already been transmitted to the Embassy regarding shipments valued at \$25 or less, and the Department wishes to again impress upon the Embassy the fact that the Board of Economic Warfare has made no provision for handling import recommendations of such shipments and neither have the exporters in the United States been informed that import recommendations or export licenses would be required for such shipments. Should the Venezuelan Government insist that import recommendations be issued their action might seriously hamper the operations of decentralization.

Estimates of supply of all allocated materials for the second quarter have already been transmitted to the Embassy. This includes Class B

Group I fabricated products containing controlled materials as well as farm machinery, automotive parts and accessories. Third quarter estimates of supply of certain raw materials were transmitted under cover of the Department's instruction, no. 1855, dated April 24, 1943.<sup>16</sup>

Regarding pharmaceuticals, medicinals and drugs, import recommendations may be issued for these products without limit taking into consideration that the total of all recommendations issued does not exceed 125% of the target tonnage and also taking into consideration the end use of the materials and whether the consignee and ultimate purchaser are acceptable.

The Embassy is requested to communicate with the Department in the event that other points in connection with the decentralization plan have not been thoroughly clarified.

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831.24/623 : Telegram

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

WASHINGTON, May 13, 1943—10 p. m.

337. From Lazo<sup>17</sup> for Eisenhardt<sup>18</sup> attention Reday. Your airgram A-202, April 29, 1943.<sup>19</sup> Venezuela instituted Plan A April 1, but in order to maintain adequate flow of commodities to Venezuela and to inflict minimum dislocation in commercial transactions the Board of Economic Warfare extended 30 days interim period to 60 days for issuance of export licenses without Import Recommendations as per circular airgram of April 24, 1943<sup>20</sup> and Current Control Bulletin No. 80. Furthermore, issuance of license is not contingent upon date material will be ready for shipment.

Shipping backlog now materially reduced. For your confidential information the immediate shipping picture is more favorable than for some time. Under these circumstances to make an inventory of material in backlog would be an unnecessary burden for both ourselves and the Control Commission. The present backlog figures are not sufficiently up to date to give you an accurate picture of the situation, and at best, would be only misleading. It is therefore anticipated that when Plan A becomes fully effective for Venezuela June 1st, backlog will not require special consideration nor revalidation by Control Commission of Imports.

It is important not to interrupt Venezuela's steady receipt of merchandise from this country, and we must be assured that Venezuela

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<sup>16</sup> Not printed.

<sup>17</sup> Hector Lazo, Assistant Director in Charge of Exports, Board of Economic Warfare.

<sup>18</sup> Karl J. Eisenhardt, Field Representative, Board of Economic Warfare.

<sup>19</sup> Not found in Department files.

<sup>20</sup> Circular airgram not printed.

will permit entry without Import Recommendation all commodities licensed for which freight space applications have been approved prior to June 1st. To recall licenses granted or cancel freight space applications would not only create an immediate deficiency of cargo but would be prejudicial to Venezuela's best interests.

Please assure Venezuelan authorities through the Embassy that we are carefully following situation and should unforeseen developments necessitate modification of our present view on this situation we shall immediately advise you so that appropriate steps may be taken. [Lazo.]

HULL

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831.24/695 : Telegram

*The Chargé in Venezuela (Flack) to the Secretary of State*

CARACAS, June 5, 1943—7 p. m.  
[Received June 6—8:27 a. m.]

519. Current Export Bulletin No. 98 received today announces effective immediately newsprint paper and wheat flour are under general license. Assume this means important [*Import*] Recommendations not required for these commodities.

If this abandonment of Decentralization Plan for newsprint and flour is official, effort must be made for modification of Finance Ministry resolution March 15 applying Decentralization Plan and requiring prior permits for imports into Venezuela which now constitutes an effective barrier to general license shipments excepting those valued at \$25 or less.

On the other hand, Department's airgram A-620, June 1, 12:30 p. m.<sup>22</sup> from BEW for Eisenhower implies that Import Recommendations are still expected for wheat flour in accordance with special procedure outlined in instruction No. 1901, May 1943.<sup>22</sup>

Full clarification of apparent contradiction and course of action desired is most urgently requested.

FLACK

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800.8830/2382 : Airgram

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

WASHINGTON, June 10, 1943—6:10 p. m.

A-644. Your A-286, June 2, and 513, June 4.<sup>23</sup> Please bring to the attention of the Import Control Commission and the newspaper consumers that it is of the utmost importance that the simplified decen-

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<sup>22</sup> Not printed.

<sup>23</sup> Neither printed.

tralization plan for newsprint, outlined in Department's A-558, May 6, 1943,<sup>24</sup> be strictly followed.

The Department considers the maintenance of newsprint supplies of the greatest importance and nothing will be permitted to interfere with the free and constant flow of newsprint when shipping space is available. The Department wishes to avoid repetition of the conditions wherein constant complaints of newsprint shortages were made and imminent suspensions of publications threatened.

The purpose of the instruction to the effect that import recommendation covering newsprint should consist of one document giving the tonnage distribution by consignees for a three months period, together with the usual suppliers, is to see to it immediately that the suppliers make prompt shipment and to ascertain whether suppliers have access to newsprint. Previous experience has disclosed that newspapers have given orders to suppliers of newsprint but for some reason or other the suppliers were unable to deliver. Through the cooperation of the Board of Economic Warfare, the entire newsprint governmental documentation has been simplified so that there be no delay from that cause. A scattering of import recommendations to numerous individual suppliers will not permit the rapid check herein explained.

The Embassy is requested again to urge the Commission to adopt the method outlined in Department's A-558 of May 6 with respect to newsprint starting with the third quarter. In the meantime, newsprint will be shipped in accordance with Embassy's A-90 of February 25, 1943.<sup>24</sup> Newsprint will continue under general license and control will be effected by the approval of applications for freight space (form BEW-138) by the Board of Economic Warfare.

HULL

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831.24/806

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

No. 4615

CARACAS, July 13, 1943.

[Received July 24.]

Subject: Decentralization Plan:—Review of Activities During the Second Quarter of 1943.

SIR:

*Problems Solved and Pending*

During the first three months of decentralization in Venezuela, the majority of the problems inherent to the implantation of such a system

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<sup>24</sup> Not printed.

in a Latin American country have been to a large degree solved. Lack of statistical experience, poor communications and untrained personnel have been the great obstacles to the smooth functioning of the Decentralization Plan and these factors, combined with a continued lack of vision in Venezuelan trade circles, must still be contended with before it can be said that the Plan is in "successful operation". The reinstating of the Maracaibo Regional Commission, for example, despite what political benefits may result, has not proved to be of any practical advantage to the Import Recommendation procedure but rather an additional cause of delay in the processing of individual Recommendations.

With regard to the problems discussed in despatch No. 4146, March 30, 1943<sup>26</sup> on "Negotiations with the Venezuelan Government in regard to the Inauguration of the Decentralization Program", satisfactory solutions have been found in almost all instances as reported to the Department from time to time. The question of special procedures for wheat flour and newsprint has not yet reached final settlement but it is believed that with the friendly cooperation shown at all times by the members of the Commission even such knotty points will shortly be smoothed out.

The Commission has, of course, been under considerable strain in seeking to understand and apply equitably the Controlled Materials Plan estimates of supply which have presented infinite complications in the distribution of supplies and cargo tonnage. Yet this problem is being worked out and, with time, should become reasonably easy for the Commission to handle. Another stumbling block to smooth progress has been the time element involved in distributing allocations, once they are announced, throughout the Republic and securing sufficient Import Recommendations to cover the estimates before the quarterly dead-line is passed.

Despite future difficulties that cannot be overlooked, it is believed that as more weeks pass and the Commission—as well as the trade—becomes more accustomed to this new procedure in export-import control, decentralization should work satisfactorily in Venezuela. But this will be so only insofar as the Washington agencies maintain a straight line of action and avoid unilateral or unannounced steps which most naturally throw the local set-up into confusion, until sufficient telegrams have been exchanged to bring order out of momentary chaos.

It may be reiterated here that, as stated in my airgram A-330, June 17, 5:15 p. m.,<sup>27</sup> the Import Control Commission looks to the Embassy and, through it, the Department of State to make Venezuela's position clear in the face of unilateral action on the part of other agencies of the United States Government.

Respectfully yours,

FRANK P. CORRIGAN

<sup>26</sup> Not printed, but see footnote 3, p. 291, and footnote 13, p. 293.

<sup>27</sup> Not printed.

831.24/889 : Telegram

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

CARACAS, August 28, 1943—9 p. m.

[Received August 29—5:46 a. m.]

769. Department's circular airgram August 23, 7 p. m.<sup>28</sup> The Embassy believes the early adoption of simplified export control is highly desirable since present procedure possesses little flexibility to meet changing conditions. Alternative Plan number III suggested by our exporters is considered here distinctly the most desirable procedure brought up for discussion since it eliminates foreign control on a greatly expanded general license list. It is possible that Venezuelan authorities would be reluctant to relinquish authority they now exercise and that some concessions under Alternative III would have to be considered. As second choice the Embassy recommends Alternative I since it provides considerable simplification of present procedure and would give Embassy full knowledge of all import applications. Alternative Plan II has the particular weakness that Country Agency could reject or require modification of import applications at will without knowledge of Embassy, thus possibly thwarting chief purpose of simplification. OEW<sup>29</sup> special representative here is in general agreement with above.

CORRIGAN

831.24/889 : Telegram

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

WASHINGTON, September 9, 1943—6 p. m.

650. Reference Embassy's 769 August 28 regarding simplification of Export Control procedure. The Department and OEW are awaiting decision of Country Agency as between Alternatives I and III. In the event that Venezuela is reluctant to accept Alternative III, the Embassy may wish to consider a modification suggested by one of the Missions. This modification would apply only in those countries that have import and/or exchange controls, and the Department understands that Venezuela does have such controls.

The modification contemplates that a simple import recommendation, or any other suitable form be required abroad, thereby enabling the Embassy and the Country Agency to continue control over imports, shipping space, and consignees. The import recommendation form would not, however, be forwarded to the U.S. and procedures of Alternative III would be operative in this country. In effect, this

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<sup>28</sup> *Ante*, p. 122.

<sup>29</sup> Office of Economic Warfare, successor agency to the Board of Economic Warfare.



suggestion provides for the preservation of controls in the field and permits the exporters in this country to offer their wares abroad to the same extent as they could prewar within the restrictions of exchange availability or the willingness of the appropriate government agency to grant an import permit.

It appears desirable to take all practical steps to reestablish Importer-Exporter relationship with a minimum of government intervention. It is believed here that existing documentation tends to stifle trade and encourage importers in the other American republics to seek other actual or potential sources of supply and exporters in this country to abandon their efforts to preserve their foreign markets and allow the materials to be diverted to consumption in this country.

It is desired to effect the simplification of procedure October 1, 1943 for those countries that have accepted Alternative III, and the Embassy is requested to telegraph result of its discussion with the Country Agency.

HULL

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831.24/941 : Telegram

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

CARACAS, September 10, 1943—7 p. m.

[Received September 11—2:21 a. m.]

815. Department's telegram number 650, September 9, 6 p. m. Proposal as set forth in circular telegram of August 31, 4 p. m.<sup>30</sup> was presented to Venezuelan Minister of Hacienda<sup>31</sup> and President of Import Control Commission<sup>32</sup> in conference last Saturday.

Embassy has been anxiously awaiting decision but from a telephone conversation with President of the Commission this afternoon it appears that question is looked upon with great seriousness by the interested Government agencies and must be submitted to Cabinet meeting study. I am assured, however, that a decision will be forthcoming by Tuesday or Wednesday next.

While there is no definite indication as to just what the official reaction will be at this time, it is hoped that Alternative III may be made effective within a reasonable period, without too drastic modification.

CORRIGAN

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<sup>30</sup> Not printed (810.24/336b) ; it instructed the Embassy to propose Alternative III, set forth in circular airgram of August 23, 7 p. m., p. 122.

<sup>31</sup> Arturo Uslar Pietri.

<sup>32</sup> J. J. González-Gorron dona.

831.24/1040

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

No. 4934

CARACAS, October 6, 1943.

[Received October 19.]

SIR: Referring to the proposal to simplify our export controls with Latin America through modification of the Decentralization Plan, as outlined in the Department's circular airgram of August 23, 7:00 p. m.,<sup>33</sup> supplemented by circular telegram of August 31, 4:00 p. m.<sup>34</sup> and subsequent communications, I have the honor to summarize below the developments in Venezuela from the time the original proposal was submitted to the local authorities on September 4, to the issuance of the Ministerial Decree of October 5 by which the Venezuelan modified version of the Department's proposal was adopted to become effective October 15.

On receipt of the Department's circular telegram of August 31, 4:00 p. m., instructing the Embassy to propose "Alternative 3" to the Venezuelan authorities for consideration and possible adoption, Mr. Groves, Counselor for Economic Affairs, arranged an appointment for September 4 with Dr. Uslar Pietri, Minister of Finance, and Dr. González-Gorrondona, President of the Import Control Commission. At this conference, the Department's proposed modification was outlined verbally, and a memorandum (dated September 3) setting forth the plan in some detail was left with the two officials; a copy of this memorandum, and of the memorandum of conversation dated September 4, are attached as enclosures Nos. 1 and 2.<sup>35</sup>

After one or two intervening conversations with the import control authorities, designed to expedite their reply, a memorandum was received from Dr. González-Gorrondona on September 14, in which the Commission expressed willingness to release from control a list of some 59 items of the Venezuelan import schedule which—with two or three exceptions—would doubtless be included among our list of general license products, the other products which we presumably would release from control, the Commission indicated it wished to retain under import permit requirement. Dr. González-Gorrondona's memorandum, a translated copy of which is attached as enclosure No. 3, was transmitted to the Department in summary form in the Embassy's urgent telegram No. 847 of September 17, 9:00 p. m.—copy of which is attached as enclosure No. 4.

<sup>33</sup> *Ante*, p. 122.

<sup>34</sup> Not printed.

<sup>35</sup> Enclosures mentioned in this despatch not printed.

In subsequent conversations relative to administrative details of the new scheme, the Commission stated that the new plan would be made operative by October 1 at the latest, as indicated in Embassy's telegram No. 866 of September 22, 9:00 p. m., a copy of which is attached as enclosure No. 5. In the latter telegram, the Import Control Commission's decision was reported, to make the requirement of import permits applicable to imports from all countries, in order to eliminate the question of discriminatory treatment which might otherwise arise.

It was not, however, until October 5 that the official Resolution of the Minister of Hacienda was published (*Official Gazette* No. 21,222—October 5, 1943), announcing the modification in the import control procedure to become effective October 15. In this decree a list of the fifty-nine (in whole or in part) tariff positions for which import permits would not be required, was included; a translation of the Ministerial Resolution of October 5 is attached as enclosure No. 6.

The Import Control Commission has informed the Embassy, and the public through the daily press, that the importation of materials from the United States remaining under estimate of supply will continue to require the same documentation after October 15 as hitherto. In addition, however, the importer after October 15 will be required to present copy No. 6 of the import recommendation when clearing these shipments through customs. The importation of articles under general license in the United States will require the Venezuelan import permit, for which purpose the Commission will continue temporarily to use the import recommendation form as hitherto, copy No. 6 of which will be returned to the importer to serve as the permit for clearance of goods through the Venezuelan customs (it is reported that a substantial quantity of these forms was printed and they will continue to be used on all controlled shipments from the United States in order to be sure that all forms are consumed, since they are sold at 50 céntimos (U.S. \$0.15) per set.) A new and simpler form has been prepared for use as an import permit on shipments arriving from other countries.

Regarding import recommendations that have been approved hitherto by the Import Control Commission and the Embassy for goods now placed under general license, the Commission stated that such goods will be cleared through Venezuelan customs on the basis of the approved copy of the import recommendation held by the local importer, regardless of when they may arrive or when the recommendation was issued.

As a result of a press conference to announce the change in import control procedure, held by the Minister of Finance and the President of the Import Control Commission on October 5, the Caracas daily

papers of October 6 published the Ministerial Resolution and carried considerable comment regarding the change. *El Universal*, a leading Caracas daily, carried an account of the conference in which the Minister explained the Government's principal reasons for retaining import control over many products which the United States was now exempting from export control. In his statement to the correspondents the Minister explained that the additional import control was intended (1) to give preference to the importation of the more essential products, (2) to avoid the importation, at high prices, of excessive quantities of less essential or luxury merchandise, which might then, with an early termination of the war, be dumped on the internal market and cause a serious disturbance of the country's economic equilibrium and delay the postwar return to more normal conditions. He stated that the import control system would be elastic in operation, and could be modified as conditions required. The Minister also stated that the granting of import permits would be based on imports of the applicant in the year 1939. A translation of the article appearing in *El Universal* of October 6 is attached as enclosure No. 7.

Despite the assurances given by the Minister of Finance in his press conference that the "import permit" system will be administered with "elasticity", and despite the other reasons based on "national interest", advanced by the Minister for this renewed control of imports, there is much misgiving and skepticism in Venezuelan trade circles regarding the near-term outlook under the new system. Fears are expressed that the welfare of the mass of consumers, who are dependent on imports for so much of what they need, will be sacrificed for the advantage of certain special interests; evidence of this fear is indicated in the letter of September 23 from the directors of the National Druggists Association to the Board of Directors of the Caracas Chamber of Commerce, in which the druggists request the cooperation of the Chamber in accomplishing the elimination of "import recommendations" as soon as practicable "in order to facilitate the better development of the country's commerce, at present seriously handicapped by the restrictions imposed by the Import Control Commission". A translated copy of the letter from the drug association directors to the Board of the Caracas Chamber of Commerce is attached as enclosure No. 8.

Evidence obtained through the daily press and through private channels indicates that the sentiment in favor of removing trade restrictions, as voiced by the directors of the drug association, are widely shared by representative business interests throughout the country. This is readily understandable when it is recalled that the consuming needs of the population in manufactured articles must be met very largely through importation of foreign products, the great portion of which in recent years have come from the United States.

As the Minister of Finance admitted in his press conference of October 5, it appears that the Venezuelan authorities did not consult the representative trade interests of the country in determining the Government's policy toward import trade control. This fact occasioned much speculation and considerable resentment in the daily press, the more so since the policy of the United States authorities looking to the removal of trade controls as rapidly as possible, had been widely publicized throughout the country. Typical of the sentiment prevailing in trade circles, prior to the announcement of the Government Resolution of October 5, was the statement appearing in the important Caracas daily *La Esfera* of October 1, in which the paper says, in effect:

"It was still impossible for us yesterday to obtain any information about the new system of control of imports from the United States. As we have already announced, the Caracas Chamber of Commerce has asked the Import Control Commission for an opportunity to discuss this matter. Yesterday the Commission reassured us that only when the Ministry of Finance was ready could this information be obtained. And so it still is not possible to inform the public about a matter of such interest to all Venezuelans."

A translation of the brief *La Esfera* statement is attached as enclosure No. 9.

In view of the widespread Venezuelan business sentiment favoring relaxation of trade controls, it may be expected that the responsible Government authorities will be subjected to considerable—and increasing—pressure as time goes by, to relinquish the extensive control over imports which the Government is now instituting. Nevertheless, from the tenor of press statements, and explanations given to a member of the Embassy staff by responsible Venezuelan officials, it appears probable that the Government's intention is to retain a fairly extensive control of imports, at least for the duration of the war and probably for the subsequent transition period as well. It may be hoped that some relaxation in the restrictions now maintained on certain classes of commodities from the United States in the semi-essential, or actually even in the essential category, may be relaxed, on the basis of local trade pressure and the informal intervention of the Embassy with the control authorities; typical of this category of products are pharmaceutical preparations, the importation of which is now varying restricted and not infrequently prohibited altogether.

With the requirement of prior permits on importations from all countries now imposed—except for the list of unrestricted articles enumerated in the Resolution of October 5—(since the Ministerial Resolution of March 15, 1943, applying the Decentralization Plan,

Venezuelan controls have applied only to imports from the United States) there would appear to be no discrimination, at least theoretically, in the Venezuelan treatment of trade with various countries. But such a large percentage of Venezuelan imports now come from the United States that the application of the import permit system may involve a *de facto* discrimination against our trade. Developments in this respect will be watched as carefully as possible and the Department will be kept informed of results.

Respectfully yours,

FRANK P. CORRIGAN

## ANGLO-AMERICAN COOPERATION ON POLICIES AND PROBLEMS CONNECTED WITH THE PROCLAIMED AND STATUTORY LISTS IN THE EASTERN AND WESTERN HEMISPHERES <sup>1</sup>

740.00112A European War 1939/11961f Suppl. : Circular airgram

*The Secretary of State to Diplomatic and Consular Officers in the American Republics* <sup>2</sup>

WASHINGTON, January 30, 1943—3:15 p. m.

Reference the section of the Department's circular telegraphic instruction of May 25, 1942 <sup>3</sup> concerning the inclusion of names in the Proclaimed List on the basis of Falange activities. In this telegram it was stated that with respect to Falange cases consideration should be given to local circumstances and recommendations generally confined to leaders and active members who are believed to be pro-Axis.

The danger of embarrassing this Government's relations with Spain, which are of military importance, has necessarily been a factor in the consideration of Proclaimed List action against Falangists. This consideration may now, however, be regarded as of considerably reduced weight in view of the fact that the Spanish Foreign Minister <sup>4</sup> recently informed the American Ambassador at Madrid <sup>5</sup> that the Spanish Government has ordered the abandonment of all Falange activity in the western hemisphere. <sup>6</sup> The Spanish Government has not, however, authorized a public announcement of its action in this respect and this information is therefore given for your confidential use in connection with Proclaimed List reporting.

Persons who are known to engage in pro-Axis activities or to express strongly pro-Axis sentiments should, of course, be recommended for inclusion in the Proclaimed List whether they are Falangists or not. In addition, where the local Falange organization is known to

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<sup>1</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 280-305. For additional correspondence with particular reference to the Proclaimed List program in the Western Hemisphere, see page citations under "Proclaimed List" in Index of this volume and in that of volume vi.

<sup>2</sup> Repeated as A-139, February 8, 1943, 6 p. m., to Madrid.

<sup>3</sup> *Foreign Relations*, 1942, vol. v, p. 290.

<sup>4</sup> Gen. Francisco Gomez Jordana y Sousa.

<sup>5</sup> Carlton J. H. Hayes.

<sup>6</sup> The Department was informed in telegram No. 179, January 24, 1943, 9 a. m., from Madrid, not printed. Initial notice about this action against the Falange was reported in telegram No. 1775, November 11, 1942, 5 p. m., from Madrid, not printed.

be assisting the Axis or actively promoting closer collaboration between Spain and the Axis, active membership in the Falange will be sufficient to warrant the person's designation as an undesirable consignee and, where otherwise appropriate, inclusion in the Proclaimed List.

HULL

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740.00112A European War 1939/278136<sub>11</sub>

*Mr. Winfield W. Riefler, Special Assistant to the Ambassador in the United Kingdom (Winant), to the Assistant Secretary of State (Acheson)*

[LONDON,] February 24, 1943.

DEAR DEAN: The problem of our future listing policy in neutral European countries continues to bother me. I have just been reviewing our despatches with the Department on the subject and still feel that the point of view here in London has not been adequately appreciated at home. I may be wrong in this because practically everything I have to say has been adequately covered in our communications to you, particularly in our telegram of October 30 and your very complete reply.<sup>7</sup>

Your reply seems to me to portray a conviction that listing is effective mainly because it imposes a legal bar to business in or with the United Nations, thus reducing the ability of the listed firm to contribute to the Axis cause. As a result it is implied that the vigor of our listing policy is measured by the proportion of potential firms that are actually listed. Although I have not participated in listing policy with respect to Latin America, it is my impression that these assumptions are correct for the great majority of firms in that area.

I do not believe that the same assumptions are always correct with respect to firms in European neutral countries contiguous to the Axis. This is particularly true in the case of certain very important firms located in Switzerland. Here many of the important firms whose contributions to the Axis we would like to diminish or stop have long had important trade contacts both with the enemy and overseas. The Axis is in a position to eliminate their overseas trade. We are not in a position to impose a physical barrier on their trade with Axis-Europe. These firms consequently may receive large current orders from the enemy which they are in a position to fulfil without direct obstruction on our part. They may, also, however, have minor orders from overseas which we can obstruct. To list such firms at the present time does not necessarily interpose a bar upon their ability to manufacture for the Axis. It may simply eliminate their current overseas business. This can frequently be made up by additional business for

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<sup>7</sup> Neither printed.



the Axis. When we threaten to list such firms, therefore, we simply force them to choose between Axis orders which they have the ability to fill and overseas orders, the continuation of which are uncertain because of Germany's counter-blockade. Aside from the stigma that attaches to listing, it may clearly be to the short run advantage of such firms to accept listing on our part rather than to face the loss of their German business. If they do so, they lose current contact with overseas trading outlets it is true, but this loss of contact may not seem serious if they anticipate an early end of the war.

These circumstances are clearly different from those prevailing in South America where firms are dependent upon us for supplies, equipment, shipping, financing, et cetera. The listing of a Swiss firm because of business with Germany unless it is dependent on supplies imported through our blockade (a condition which applies to very few firms at present) does not put it out of business. It may not in fact reduce its current operations at all because any orders which it loses by virtue of our listing can be more than made up by the orders that the Germans are willing to place. Under these circumstances a firm listed in Switzerland is in a sense a firm lost to us. It represents a defeat because it means that the firm has chosen to commit itself entirely to the Axis and to turn its entire capacity to the use of the Axis. Once a firm is listed we can only affect its further contribution to the Axis by putting pressure on the Swiss economy as a whole through further modification of the War Trade Agreement<sup>8</sup> or through our other blockade policies. The latter, though they may be effective so far as the economy as a whole is concerned, do not affect immediately or to any great extent the operations of the most important Swiss firms of all, i.e. those engaged in highly specialized manufacture for whom the Germans are willing to furnish raw materials from their war reserves.

Going back now to the proposition laid down above with regard to the assumptions of listing policy in Latin America, I think it might fairly be stated that the vigor and effectiveness of listing policy with regard to firms in European neutral states, particularly in Switzerland, is not to be measured by the number of potential firms that are actually listed. This results because the listing of such firms does not affect their ability to carry on business and to accept contracts with the Axis. The effectiveness of our listing policy in Switzerland is to be measured rather by the difference between their current deliveries to the Axis and those they might have made if we had not been in a position to threaten them with inclusion on the black list.

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<sup>8</sup> Anglo-Swiss-U.S. War Trade Agreement effected by exchange of notes dated December 19, 1943; for texts, see *Foreign Relations*, 1943, vol. II, pp. 888-892.

What is it then that gives any effectiveness at all to our listing policy in Switzerland? The answer, I think, lies along the following five considerations:

1. Listing involves a clear loss of current export outlets overseas. This, as noted above, is not of major importance in certain important cases because it can be offset by increased Axis orders.

2. Listing involves the loss of established trade connections overseas. This consideration has been of considerable importance. It may now lose a great part of its value since Swiss firms are quite optimistic with respect to an early United Nations victory.

3. There is a stigma of considerable importance attached to listing. This will increase the effectiveness of listing as victory seems near.

4. Listing involves apprehension over the future availability of assets controlled in United Nations' countries.

5. Listing raises fears that once the war is over competitive non-listed firms will be the first to re-establish their business overseas.

These last three reasons will become, increasingly, the main reliance of our listing activities. The last two will only apply, however, if the firms threatened with listing fear that the lists will be maintained for a period after the close of hostilities. If they are convinced that the United Nations propose immediately on the close of hostilities to eliminate the lists, the lists themselves tend to lose their effectiveness. While these considerations apply particularly to neutral firms manufacturing for the enemy in Switzerland, they are also applicable to certain firms in Portugal, and to a lesser degree, in Spain, Sweden, and Turkey.

These considerations seem to me sufficiently important to warrant a joint Anglo-American move designed at least to raise the fear that the lists will be maintained in certain cases for a period after the close of hostilities. I am fully aware that such a move would require careful consideration to insure that it did not backfire in Latin America and that it did not violate the pledges, express or implied, of the Atlantic Charter.<sup>9</sup> I do not feel that a solution of these problems is necessarily beyond the realm of possibility.

[Here follows a discussion of possible announcements by the United States and British Governments regarding post-war treatment of persons and firms in neutral countries who had aided the Axis.]

The justice of maintaining the lists for individuals and firms, particularly those in neutral countries, who, after warning, have continued to aid the war effort of our enemies would, I think, be generally recognized. Clearly, the end of the war should not mean that we drop our discrimination against those individuals who have participated in the visa extortion racket. Swiss residents who participated in this

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<sup>9</sup> Joint statement by President Roosevelt and Prime Minister Churchill, August 14, 1941, *Foreign Relations*, 1941, vol. I, p. 367.

racket may have gotten rich by helping to blackmail some Jewish refugee in Latin America to pay over funds for the release of a relative who in fact had already died in a concentration camp. So long as these participants stay in Switzerland we cannot touch them or their funds. They have instead been put on our lists. I see no reason whatever why the end of hostilities should be the occasion for ending such penalties as are involved to these individuals by being on the lists. Clearly, also, it should not be hard for the public to understand the reasonableness of denying future trading facilities in our markets to firms in neutral countries, who, after warning of the consequences, continued to manufacture for the enemy, especially when such manufacture was outside their normal business, as in the case of fuses. Finally, I doubt whether the Ford distributor in Switzerland who is repairing trucks for the German army, will get much sympathy if, in fact, he fails to receive the Ford Agency again after the war. As you may know he laughed at our threats to list him (1) on the grounds that he got no value out of his Ford connection during the war, and (2) that Ford would have to continue with him after the war because of the value of his distributing organization. He was convinced the lists would be dropped after the war.

Please forgive me for writing at such length to bring this matter again to your attention. You may, and probably have, already given it full consideration. I think it is sufficiently important, however, to merit reconsideration if the aspects of the problem outlined above were not appreciated when we had the matter up before.

Very sincerely yours,

WINFIELD W. RIEFLER

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740.00112A European War 1939/13480

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

No. 3991

WASHINGTON, March 13, 1943.

SIR: Reference is made to the Embassy's despatch no. 5493 of June 18, 1942, transmitting a Memorandum, dated June 8, 1942,<sup>10</sup> submitted by the Argentine Minister of Foreign Affairs and Worship concerning the Argentine Government's views on "The Proclaimed List of Certain Blocked Nationals". There is enclosed a draft reply to this Memorandum which, if approved by you, the Department desires you to present to the Argentine Minister of Foreign Affairs and Worship. There are also enclosed two sets of the accompanying documents referred to in the Memorandum, one set of which should be presented to the Argentine Government as attachments to the Memorandum.

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<sup>10</sup> Neither printed.

The enclosed Memorandum has been discussed with Mr. Merwin L. Bohan, Counselor of Embassy for Economic Affairs, on the occasion of Mr. Bohan's recent consultations with officers of the Department, and it is understood that Mr. Bohan considers the Memorandum to be in harmony with your views and plans for handling Proclaimed List questions and related matters with the Argentine Government.

The Department has postponed making a reply to the Argentine Memorandum for several reasons. First, aside from the general advisability of waiting for some time to pass before making a reply to this particular Memorandum, it seemed advisable to wait until there had been a full opportunity for the Argentine Government to put into effect the resolutions and recommendations adopted at the Meeting of Ministers of Foreign Affairs at Rio de Janeiro in January 1942,<sup>11</sup> and the Inter-American Conference on Systems of Economic and Financial Control at Washington in July 1942,<sup>12</sup> since the nature of this Government's reply would depend largely on what the Argentine Government was prepared to do on these matters. Secondly, as time passed and it became apparent that Argentina was not presently prepared to give effective implementation to the Rio de Janeiro and Washington resolutions and recommendations, it also became apparent that Chile was preparing to break relations with the Axis powers and to establish effective control measures.<sup>13</sup> Accordingly, it would have been unwise to present to Argentina the type of reply which was called for at a time when it might have been interpreted as being equally applicable to Chile. The foregoing factors are now out of the way and we are in a position to make a strong, forthright statement of the case as it applies to Argentina alone. The Argentine Ambassador to the United States<sup>14</sup> has recently indicated that the Argentine Government is anticipating a reply to its Memorandum and it, therefore, appears that this is the opportune time to present this Government's Memorandum.

The enclosed Memorandum has been prepared with a view to stating the case for the Proclaimed List in a manner that would make the official record strong and complete. The Memorandum has also been prepared with a view to making it the type of statement on this mat-

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<sup>11</sup> Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942. For text of Final Act including resolutions and recommendations, see Department of State *Bulletin*, February 7, 1942, pp. 117-141; for correspondence, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

<sup>12</sup> Held at Washington, June 30-July 10, 1942. For texts of resolutions, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942); for comment on resolutions, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

<sup>13</sup> The Chilean Government severed diplomatic relations with the Axis Powers (Germany, Italy, and Japan) on January 20, 1943, Department of State *Bulletin*, January 23, 1943, p. 83; for correspondence, see *post*, pp. 795 ff.

<sup>14</sup> Felipe A. Espil.

ter which would be of a helpful nature if it were subsequently to be made public in Argentina and throughout the American republics.

If the Memorandum as drafted meets with your approval, please advise the Department by telegram of the date when you propose to present it in order that the Department may simultaneously present a copy to the Argentine Ambassador here.<sup>14a</sup>

Very truly yours,

SUMNER WELLES

[Enclosure]

#### MEMORANDUM

The Government of the United States of America has given careful consideration to the views of the Argentine Government concerning "The Proclaimed List of Certain Blocked Nationals" set forth by the Argentine Ministry of Foreign Affairs and Worship in a Memorandum dated June 8, 1942,<sup>15</sup> transmitted to, and acknowledged by, the United States Ambassador to the Argentine Republic.

The Proclaimed List was established by the United States Government on July 17, 1941<sup>16</sup> as a measure of national defense following the declaration of the existence of an unlimited national emergency by proclamation of the President of the United States on May 27, 1941;<sup>17</sup> since this country subsequently became a belligerent in the current war as a result of Axis aggression against the territory of the United States, the Proclaimed List has been maintained as an integral part of this Government's total war effort. The Proclaimed List was established and is maintained solely for the purpose of resisting and combatting the aggressions of the Axis powers. It is common knowledge that the military aggression of the Axis powers against this country and certain of the other American republics was preceded and has been accompanied by a systematic, organized, and insidious economic and political aggression throughout this hemisphere. The only parallel in the history of nations to the nature and scope of these activities of pre-military aggression is the record of Axis penetration through-

<sup>14a</sup> In telegram 708, April 2, 1943, 4 p. m., from Buenos Aires, Ambassador Armour reported: "Memorandum will be delivered April 3. No changes were considered necessary in this most excellent exposé of the reasons for the issuance of the Proclaimed List." (740.00112A European War 1939/28103)

On April 8, 1943, Assistant Secretary of State Acheson handed a copy of the reply to the Argentine Ambassador to whom, Mr. Acheson noted in his memorandum of conversation dated April 8, 1943, the subject was obviously one which was unpleasant "and I gathered that he had hoped no reply would be made. He readily acquiesced, however, when I pointed out that the note could not be left unanswered and that there were matters raised in it which had to be clarified upon the record." (740.00112A European War 1939/28746)

<sup>15</sup> Not printed.

<sup>16</sup> 55 Stat. (pt. 2) 1657.

<sup>17</sup> 55 Stat. (pt. 2) 1647.

out Asia, Europe and Africa which served as a prelude and preparation for the military aggression against which almost all of the civilized world now stands united. The disastrous experience of the nations which have been overrun by the Axis armies made it abundantly clear that it was impossible, in fact it was suicidal, to temporize with these pre-military acts of penetration and aggression.

It is unnecessary at this time to relate at length the detailed nature of the subversive activities which the Axis powers carried out in every country in this hemisphere under the guise of maintaining peaceful and friendly relations. There is transmitted herewith a document recently published by this Government entitled "National Socialism—Basic Principles, Their Application By The Nazi Party's Foreign Organization, And The Use of Germans Abroad For Nazi Aims".<sup>18</sup> It is believed that this document, which has been prepared on the basis of thoroughly reliable source material, lays bare the structure and methods of Nazi penetration abroad. The same basic facts have been confirmed by first-hand investigations conducted within various of the American republics by their duly constituted authorities. In this connection reference is made to the reports of the Investigating Committee of Anti-Argentine Activities concerning certain aspects of Axis activities in Argentina.

Prior to the establishment of the Proclaimed List on July 17, 1941, this Government had become fully aware that certain persons and firms abroad were utilizing their commercial and financial relations with the United States to support Axis propaganda and subversive activities directed against the United States and the hemispheric solidarity policies of the American republics. The American republics collectively and individually took appropriate measures from time to time prior to the meeting of the Foreign Ministers at Rio de Janeiro in January 1942, to safeguard their collective and individual interests against any external threat. In the view of this Government it would have been unthinkable that, under the circumstances, the United States should have done less at the time than to prevent its citizens from giving direct or indirect aid and comfort to persons and firms abroad who were contributing directly or indirectly, voluntarily or involuntarily, to activities directed against the security of this country and the hemispheric defense policies to which all of the American republics were pledged. The establishment of the Proclaimed List was the only proper and effective means available to this Government to control commercial and financial transactions on the part of its citizens which were deemed inimical to the security of the nation and its foreign policies.

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<sup>18</sup> Department of State publication No. 1864 (Washington, Government Printing Office, 1943).

In this connection it is appropriate to take note of the reference in the Argentine Government's Memorandum to the fact that the United States Government on July 16 [26?], 1916 presented a note to the British Government<sup>19</sup> setting forth this Government's then views concerning the action of the British Government in publishing a so-called "black list". Reference is also made in the Argentine Government's Memorandum to the fact that the Argentine Government had also on May 11, 1916 expressed to the British Government its opposition to the British "black list". It is necessary and fitting to recall that in April 1917 the United States Government became a belligerent against Germany<sup>20</sup> and in October 1917 this Government published its "Trading With the Enemy List", which list was maintained throughout the World War on substantially the same basis as the Proclaimed List has been maintained in this conflict. It may be noted in this connection that there is no record of the then Argentine Government having registered objection with the United States Government to the establishment of the Trading With the Enemy List, a measure which this Government then found necessary in defense of its national existence.

The non-military warfare activities of the Imperial German Government which necessitated this Government's Trading With the Enemy List in 1917 were serious enough, but those activities were as nothing, in character or scope, as compared with the subversive, "fifth-column" activities of the Nazi regime. Since its inception the Nazi German Government has sought to organize and direct the lives and business activities of its nationals and supporters abroad to the single purpose of Nazi world domination. In 1941, as contrasted with 1916, this hemisphere was faced with the menace of an Axis "fifth column" which was largely supported from the participation of pro-Axis enterprises in friendly inter-American trade. Full recognition of the nature of this unprecedented threat to the security of the nations of this hemisphere is found in the resolutions and recommendations unanimously adopted by the twenty-one American republics at the Meeting of the Ministers of Foreign Affairs at Rio de Janeiro in January 1942 and the Inter-American Conference on Systems of Economic and Financial Control at Washington in July 1942. Assuming that such measures as the so-called "black lists" were properly subject to question under 1916 conditions, this Government believes there cannot be the slightest doubt concerning the absolute necessity and justification for such measures of self-defense under current conditions. Today the heart of the matter is to prevent the fires of Hitlerism in this hemisphere from being fed with our own resources.

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<sup>19</sup> *Foreign Relations*, 1916, supp., p. 421.

<sup>20</sup> April 6, 1917; see *ibid.*, 1917, supp. 1, p. 207.

This Government desires to re-emphasize that the Proclaimed List and the controls underlying it operate solely as regulations applicable to persons subject to the jurisdiction and laws of the United States. The primary purpose and effect of this regulatory action being to prohibit United States citizens from engaging in commercial or financial transactions deemed detrimental to the National security of their country, there can be no question of infringing the rights of Argentine citizens or the laws and constitution of the Argentine Republic.

The Proclaimed List is only one of many national defense and war-time regulations which this Government found it necessary to establish in the current emergency. Many of these measures necessarily limit the commercial and financial transactions of United States citizens at home as well as their transactions with persons and firms abroad. The United States Government fully recognizes that many of these emergency measures limit the full operation of "the liberal principles of international trade for peaceful purposes" referred to in the Argentine Government's Memorandum. This Government welcomes this opportunity to express its recognition of this regrettable condition, and also to reaffirm its resolute determination to adhere to these principles not only after peaceful conditions have been re-established in the world, but also throughout the war to the full extent that this may be practicable in the light of the overriding exigencies of the war emergency. Such departure from these principles as may be required by the necessities of war are a reflection of the inconsistencies between war and peaceful conditions rather than any inconsistency in this Government's commercial policy. In this connection it is appropriate to refer to the fact that the Trade Agreement signed by our two countries October 14, 1941 <sup>21</sup> gives explicit recognition in Article IV to the right of either Government "to adopt such measures as it may deem necessary for the protection of its essential interests in time of war or other national emergency".

In addition to the primary considerations stated above which led to the establishment of the Proclaimed List, other important considerations were involved. Even prior to the proclamation by the President of the United States of an unlimited national emergency on May 27, 1941, this country was engaged in the development of a comprehensive national defense program, and after the declaration of an unlimited national emergency following the serious development of events abroad with the further extension of Axis aggressions, this country's national defense program was greatly accelerated and extended. This program drew heavily on the productive resources of this country and as a result there developed a serious shortage in goods

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<sup>21</sup> For text of the Agreement, see 56 Stat. (pt. 2) 1685; for correspondence, see *Foreign Relations*, 1941, vol. VI, pp. 387 ff.



and products which were normally available for export to the American republics. Serious as this shortage was at that time, it was realized that the situation was certain to become worse. There is no need to describe the critical situation which has since developed due to acute shipping and supply shortages. Throughout this period of increasing difficulties this Government, pursuant to its policy of sharing all goods available for home consumption on an equitable basis with the peoples of the American republics, has striven unceasingly to make the fullest possible measure of essential goods available for export to the American republics. The problem has been made increasingly acute by the need for meeting this Government's high responsibility to furnish essential defense products to the other American republics which have assumed heavy national and hemisphere defense responsibilities in connection with their fulfillment of the resolutions unanimously adopted by the meeting of the Ministers of Foreign Affairs of the twenty-one American republics at Rio de Janeiro in January 1942. In view of these acute shortages the situation is such, and has been so for some time, that the export of almost every item from the United States represents a domestic sacrifice in this country, and despite these efforts and sacrifices to share our supplies, the inadequacy of our exports for the American republics is such that many of our friends in the American republics are bearing substantial hardships. The people of the United States and our staunch friends throughout the American republics are willing and glad to accept these sacrifices and hardships in the spirit of mutual sacrifice and assistance, but they could not and should not be expected to accept the same sacrifices and hardships to the end of sharing such short supplies and facilities with persons and firms who are actively aiding and abetting the Axis cause and thereby supporting the forces against which our people and the people of certain of the other American republics are fighting.

The only effective and fair means by which this country's increasingly short supplies and shipping facilities could be reserved for friendly persons and firms and withheld from pro-Axis elements was through the establishment of an official, published list of firms and persons abroad with whom United States citizens were not permitted to deal, except under license granted by the appropriate United States authorities. Thus, in a very real sense, the Proclaimed List has facilitated the movement of such goods as are available for export, reserved those goods for loyal friends, and thereby furnished a basis for common sacrifice by assuring the people of this country and of the other American republics that these short supplies were being shared with friends and not with their enemies.

This Government fully recognizes the rigorous consequences which may result to persons and firms included in the Proclaimed List and our persistent concern has been that, so far as possible, these consequences should fall solely on persons or firms who are directly or indirectly identified with or giving assistance to pro-Axis elements or activities. To this end this Government has endeavored to be scrupulously careful and fair in reaching decisions on the inclusion and removal of names on the Proclaimed List. Under the President's proclamation of July 17, 1941, establishing The Proclaimed List of Certain Blocked Nationals, no name may be added to or removed from the List without the unanimous approval of six governmental departments and agencies, viz: the Department of State, the Treasury Department, the Department of Justice, the Department of Commerce, the Board of Economic Warfare, and the Coordinator of Inter-American Affairs. Every case is considered by these agencies on the basis of all available information and no action is taken on any case unless the reliability of the information has been vouched for by an official agency of this Government.

The Proclaimed List has never been used and this Government will not permit it to be used, directly or indirectly, as a measure for influencing trade activities or opportunities, either private or national, except for emergency defense and warfare purposes. It is solely an emergency defense measure. In considering cases for inclusion in the List the sole criterion is whether the person or firm in question is identified with, or has been given direct or indirect assistance to pro-Axis elements or activities. It should be emphasized that persons have never been included in the Proclaimed List merely because of their German or Italian nationality or extraction. As has been recognized by the United States Government in according generally to Italians resident in the United States the status of non-enemy aliens and as the Argentine Government is of course aware, there are numerous persons of Italian and some of German nationality or extraction residing throughout the American republics who have consistently and sincerely refused to have anything whatsoever to do with pro-Axis elements or activities. These people have nothing to fear from the Proclaimed List. On the other hand there are certain persons and firms who while not themselves directly identified with Axis propaganda and subversive activities nevertheless contribute directly or indirectly to the support of such activities by acting as "cloaks" for pro-Axis persons and firms in effecting commercial and financial transactions. With respect to such persons, it must be made clear that while this Government, pursuant to its fixed policy of non-intervention in the internal affairs of other countries and of respect for the sovereignty of other nations, scrupulously respects the right of such persons to deal

with whomever they choose, this Government in turn must and does exercise its sovereign rights and responsibilities in determining whether under existing conditions it can permit its citizens to trade with persons and firms abroad who, for their own reasons, choose to traffic with and thereby assist our enemies in their avowed purpose of destroying this nation and the democratic principles on which it stands. A nation which respects the rights of others because it respects its own responsibilities and rights cannot permit its trade to jeopardize indirectly the victory which it is at the same time asking its citizens to achieve with their very lives.

This Government has not been slow to correct the inevitable mistakes which occur in an undertaking such as the Proclaimed List. Likewise this Government has been ready and anxious to reconsider any case where the reasons which led to inclusion in the Proclaimed List have been sincerely and effectively corrected or eliminated by the persons or firms concerned. It is a matter of considerable satisfaction that the great majority of cases which have been removed from the List have been of the latter category where the action was based on appropriate corrective measures having been voluntarily taken by the parties involved. This Government desires to emphasize that it has been and will be ready and anxious to receive through any appropriate and responsible channel any information which indicates that a name has either been mistakenly included in the List or should be considered for removal because of corrective measures having been subsequently taken to eliminate the conditions which led to inclusion in the List. As the Memorandum of the Argentine Government has pointed out, the administration of an undertaking such as the Proclaimed List is a hard and unpleasant task, but this is unfortunately true of most of the measures which free peoples have to take to protect their lives and freedom against the infinitely harder and more unpleasant measures which the Axis powers have sought to impose on them.

The Government of the United States has taken particular note of the suggestion in the Argentine Government's Memorandum that the United States Government would be gratified to be relieved of the task of maintaining the Proclaimed List. In this connection the Argentine Government's Memorandum further remarked as follows:

"Who could be better placed than the Argentine Government itself to know whether such and such a firm established in the country affects through its activities the interests of continental defense? The Argentine Government is the most interested party in ascertaining this; it is the one which has in its hands the legal and other instruments necessary to repress such activities."

The United States Government sincerely welcomes this statement of the Argentine Government's position as it has welcomed all measures

in furtherance of the vital task of securing the hemisphere from internal or external threats. This Government has no desire to continue the Proclaimed List or any other emergency measure in effect one day longer than the impelling necessities of the situation require. In the same friendly spirit that the Argentine Government has presented this matter, this Government is impelled to refer frankly to the continued existence of circumstances which render it impossible for this Government to relax at present such emergency measures as the Proclaimed List. It is common knowledge that in June 1942, the time when the Argentine Government's Memorandum was presented, Axis and pro-Axis commercial, financial, and other enterprises were operating extensively and freely in Argentina. Today the situation is not materially altered despite the Argentine Government's adherence, along with the other twenty American republics, to the specific proposals formulated at the Meeting of Ministers of Foreign Affairs at Rio de Janeiro in January 1942, and the subsequent Inter-American Conference on Systems of Economic and Financial Control at Washington in July 1942, for dealing with this problem throughout the hemisphere. The United States Government cannot believe that the Argentine Government is unmindful of the relationship which has been revealed in all countries between such pro-Axis commercial and financial enterprises and the furtherance, both openly and covertly, of Axis propaganda and other forms of subversive activity which in this hemisphere is directed against the independence and security of the American republics.

It is not the purpose of this Memorandum, and it would not be possible within its scope, to set forth the detailed record of pro-Axis activities and affiliations of particular commercial, financial and other enterprises within Argentina. It will be sufficient for purposes of illustration, and it is the painful duty of this Government to refer to one of the venomous pro-Axis propaganda enterprises which has operated in Buenos Aires throughout the period under discussion. In April 1942, several months before the presentation of the Argentine Government's memorandum, the United States Ambassador to Argentina had occasion personally and informally to invite the attention of the Argentine Minister of Foreign Affairs and Worship to the publication in Buenos Aires of a magazine entitled *Clarínada* which contained scurrilous and revolting pro-Axis attacks upon the President of the United States of America and upon this country. The publication of itself might conceivably be regarded as not worthy of attention were it not for the fact that it also regularly carries full-page advertisements of Argentine governmental and semi-governmental agencies and institutions. Whether or not such advertisements were originally authorized by responsible officers of the agencies and institutions in-

volved, the fact is that such advertisements are used by this publication in an effort to give it respectable status in the eyes of readers in Argentina and elsewhere and the long continued existence of the situation has been known to responsible officials of the Argentine Government. The July 1941 issue of *Clarín* included prominent advertisements of El Banco De La Provincia De Buenos Aires; the Ministerio Del Interior, Caja Nacional de Ahorro Postal; the Banco de la Nación Argentina; El Banco Municipal; and the Y.P.F. Such advertisements of the Banco de la Nación Argentina; El Banco De La Provincia De Buenos Aires and El Banco Municipal continued to appear monthly in this publication more than a year thereafter. The full-page advertisement of the Ministerio Del Interior, Caja Nacional de Ahorro Postal appeared as late as December 1942, and the same issue included similar advertisements of El Banco De La Provincia De Buenos Aires; the Banco Hipotecario Nacional; and El Banco Municipal.

In June 1942, at the time the Argentine Government's Memorandum concerning the Proclaimed List was presented, *Clarín* was flaunting its pro-Axis policy of international defamation and the magazine was carrying advertisements of the Banco de la Nación Argentina; El Banco De La Provincia De Buenos Aires and El Banco Municipal. This publication continued to carry such advertisements in subsequent months and in October 1942 it was included on the Proclaimed List by this Government. Photostatic copies of certain of the pictorial displays and of the advertisements of these Argentine governmental and semi-governmental institutions which appeared in this magazine are attached.<sup>22</sup> Manifestly, this lamentable situation presented no question involving the freedom of the press. Needless to state this Government would much prefer that it should not be necessary for it as a matter of self-defense or self-respect to take Proclaimed List action in situations of this type or in the case of pro-Axis commercial and financial enterprises where this country's and the hemisphere's defense interests are even more vitally, if less flagrantly, offended against.

In this same connection note has been taken of the suggestions made in the Argentine Government's Memorandum that: "The numerous measures adopted in the Pan American Conferences make it possible to establish a system of reciprocal collaboration making the system of black lists unnecessary", and more specifically "that a Committee situated in Buenos Aires be constituted, formed by representatives of the Argentine Government, Commerce, Banks and Industry. The mission of this Committee would be to examine in each case and in the light of Pan American resolutions and agreements, whether certain

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<sup>22</sup> Not reproduced.

commercial firms could cause prejudice or not to the security of the countries to the Continent.”

The United States Government, as has been stated above, would sincerely welcome the development of a “system of reciprocal collaboration” which would make the maintenance of “the system of black lists unnecessary”. Whether in view of the complex and technical nature of the problem it would be practicable to develop such a system as would make it possible to eliminate the use of such techniques of control entirely may be doubtful, but there is no doubt in the opinion of this Government that through the process of consultation between like-minded governments with the same determined objectives, measures can be taken which will permit modifications of the so-called “black list system” and adjust and accommodate the operation of the system to the respective interests and common objectives of the countries concerned.

It was the high hope and expectation of this Government—an expectation which is now in process of realization with most of the other American republics—that such a development would be made possible as a result of actions taken by the respective Governments of the American republics pursuant to the comprehensive policies and proposals adopted unanimously by all of the Governments of the Meeting of Ministers of Foreign Affairs at Rio de Janeiro in January 1942, and the Inter-American Conference on Systems of Economic and Financial Control at Washington in July 1942. This Government sincerely welcomed this opportunity to develop consultative procedures on these matters with the respective Governments of the American republics which have taken action in fulfillment of the resolutions adopted by all of the American republics at the aforesaid inter-American meetings. This opportunity was welcomed for several reasons. In the first place, such consultative arrangements on specific problems are, as the Argentine Government’s Memorandum recognizes, in harmony with and further strengthen the principle of consultation which is one of the primary tenets of Inter-American cooperation and of this Government’s foreign policy. Secondly, this Government fully recognizes that emergency measures such as the Proclaimed List which operate principally with respect to this country’s foreign trade and financial transactions have definite effects abroad and are therefore matters which, so far as practicable, should be the subject of mutual adjustment between good neighbors. Thirdly, the opportunity to establish consultative procedures concerning Proclaimed List matters on the basis of effective action taken by the other interested Government in fulfillment of the aforesaid inter-American resolutions afforded a solid basis on which to develop a more effective control over or elimination of inimical pro-Axis elements and activ-

ities—the common objective of the respective Governments—than could be achieved by either Government singly.

This Government believes that the resolutions unanimously adopted last year by all of the American republics at the inter-American meetings held at Rio de Janeiro and Washington, if effectively fulfilled by the respective Governments, already afford a satisfactory basis on which individual measures such as the Proclaimed List can, through a process of consultation between the respective Governments, be adjusted and accommodated both to the particular domestic interests of those Governments and to the more effective realization of the primary, common objective of all of the American republics to render this hemisphere secure from either external or internal threat by the forces of aggression. The necessity for establishing such a basis for consultation on the operation of the Proclaimed List is apparent when it is recognized that in order to make the consultations fruitful this Government must be able to forego Proclaimed List action on particular cases or to remove cases from the Proclaimed List on the basis of effective action taken by the other Government to correct or eliminate the conditions which would otherwise require Proclaimed List action. Such action by the other Government concerned frequently involves a complete reorganization of the enterprise or of its transfer to friendly interests and the blocking of the proceeds accruing to Axis or pro-Axis persons as a result of such reorganization or transfer. This Government's experience with consultative arrangements on Proclaimed List matters has proven that such arrangements are highly successful and productive of the results desired by both Governments only when such a basis for alternative and equally effective action has been established by the other Government as envisaged in the resolutions adopted by the American republics at the Rio de Janeiro and Washington Conferences.

The Government of the United States of America feels confident that the Government of the Argentine Republic will sympathetically understand the view of a country which is now engaged in a life and death struggle for its survival and for the survival of the same freedoms so highly cherished by the Argentine people, that collaboration on matters such as those discussed in this memorandum can be made fully effective only if the requisite basis for collaboration in this field is first established by the other Government concerned. As stated above, this Government believes that the inter-American resolutions referred to, if fulfilled, furnish such a requisite basis for the desired collaboration.

The Government of the United States, both in its own interest and in the common interest of all of the American republics in the furtherance of hemispheric unity and impregnability, sincerely hopes that

the requisite basis for such full and effective collaboration in these matters may be established in the near future and when it is, this Government will not be slow, on its part, in extending the fullest measure of cooperation.

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740.00112A European War 1939/28878 : Airgram

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

WASHINGTON, April 19, 1943—6:30 p. m.

A-611. Reference your A-203, March 29,<sup>23</sup> in which you request the Department's position with respect to the proposal of MEW<sup>24</sup> to place on the Statutory List persons hereafter becoming directors of listed firms or of newly-established firms which are obviously under enemy control or are formed to further enemy interests. The Department understands that this proposal is made for the purpose of thwarting Axis efforts to give prestige and respectability to firms which are acting on their behalf or which are being formed to carry out Axis interests and the Department would, therefore, be prepared to place on the Proclaimed List any persons who were added to the Statutory List on this basis. The Department also believes that it would be desirable for the local missions to make such discreet announcement of this policy as they might deem wise.

The Department has received no indication that there is a problem in the South American countries in this connection and, therefore, does not believe that any announcement of this policy there would be desirable.

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740.00112A European War, 1939/29344b : Circular airgram

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

WASHINGTON, April 21, 1943—4:15 p. m.

The Department desires to review the probable extent to which further names should be added to the Proclaimed List, and to obtain reports from the missions in this connection.

Several considerations must be taken into account :

1. The basic objective of including on the Proclaimed List the names of all firms and persons who have engaged in pro-Axis activities or who constitute a danger to the security of the Western Hemi-

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<sup>23</sup> Not printed.

<sup>24</sup> British Ministry of Economic Warfare.



sphere and who would be affected by the application of Proclaimed List controls or stigmatization should be pursued.

2. The Department anticipates that the point will be reached sooner or later in most countries at which virtually all persons or firms described in the preceding paragraph will have been included in the Proclaimed List. The question has been raised whether persons or firms should be put on the list because of "expressions of sympathy for the Axis", "having indicated in conversation a hope for a German victory", "having expressed views antagonistic to the United Nations", "having expressed fear of Yankee Imperialism", etc. The Department believes that there are several considerations against extending the List generally to persons against whom the only information is of this nature.

A. The inclusion of any considerable percentage of persons in this category would make the List of unwieldy proportions.

B. There would inevitably be a discrimination against certain persons or firms since it would be impracticable to include in the List all persons in this category.

C. The inclusion of such persons would weaken the standing of the List in the eyes of the local community as it became recognized that a considerable number of persons on the List had not engaged in any significant pro-Axis activity.

3. A considerable percentage of the names which have been added to the Proclaimed List during recent months have been included because of cloaking activities. While the threat of inclusion in the Proclaimed List has been one of the methods of combatting cloaking and has undoubtedly exercised a considerable deterrent effect, it has been recognized by the Department that it would not be possible completely to prevent cloaking by this means as there would always be persons who, through cupidity or pro-Axis conviction, would engage in cloaking regardless of the threat of inclusion in the Proclaimed List. Since many of these persons are not known in the community as essentially pro-Axis, the increasing percentage of such cases in the Proclaimed List is subject to the same disadvantages as are referred to in the preceding paragraph. The Department believes, therefore, that to as great an extent as may be possible the cloaking problem should be met through the careful screening of import recommendations under the decentralization of consignee control, through the obtaining of undertakings in minor cases where the mission has reason to believe that the undertaking will be observed, and by publicity designed to secure a greater observance of the List by the local community. The Department believes that it is desirable to continue to use listing as a method of combatting cloaking but hopes that the cloaking problem can be reduced to some extent by these other means.

It is essential that the Proclaimed List be maintained as a vital instrument of economic warfare and that it reflect currently the names of persons whose continued economic activity is contrary to the defense interests of this hemisphere. Any impression on the part of a community that the Proclaimed List was not currently active with respect to changes in its names would, the Department believes, remove a powerful deterrent to pro-Axis activities on the part of a

substantial number of persons who are now impressed by the threat of inclusion.

The foregoing expresses the Department's present thinking on its future policy with respect to recommendations for additions to the Proclaimed List. You are requested to submit your comment to the Department and to report on any special situations which might exist in the country to which you are accredited and which may be affected by the execution of a policy of this kind.

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740.00112A European War 1939/29735a

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

WASHINGTON, April 28, 1943.

SIRS: The Secretary of State encloses for the information of the missions a copy of a memorandum concerning the Proclaimed List which was delivered to the Argentine Government on April 3, 1943,<sup>25</sup> in reply to a memorandum received from the Argentine Government on June 8, 1942,<sup>26</sup> protesting the use of the Proclaimed List by this Government. Enclosure No. 1 of the memorandum, "National Socialism, Basic Principles, Their Application by the Nazi Party's Foreign Organization, and the Use of Germans Abroad for Nazi Aims" which was published by the Department as publication no. 1864, and enclosure no. 2, photostatic copies of offensively anti-democratic and anti-United States cartoons appearing in the Argentine publication *Clarínada*, are not enclosed.

The exchange of these memoranda should not be revealed to persons outside of this government until such time as their existence may be made known by the Department. It is believed, however, that the missions may find the contents of this government's memorandum useful in presenting to the respective local governments at such time as it may be appropriate the reasons and policies underlying the Proclaimed List. The Department does not suggest that special action be taken at this time to call these views to the attention of the local governments but merely that the information be used at such times as the question of the Proclaimed List may be raised.

The missions are authorized to make copies of this government's memorandum available to appropriate officers in the Embassy and to consular officers in the respective countries subject to instructions with respect to the confidential nature of the memorandum as set forth herein.

Very truly yours,

For the Secretary of State:  
DEAN ACHESON

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<sup>25</sup> See footnote 14a, p. 314.

<sup>26</sup> Not printed.

740.00112A European War 1939/30594

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

WASHINGTON, May 11, 1943.

MY DEAR MR. BOWERS: I have your letter of April 19<sup>27</sup> concerning the discrepancy in the publicity that is given to the Proclaimed and Statutory Lists in Chile and the unfavorable effect which it has had. I have discussed this question with some of the officers in the Department and find that the general subject has been receiving their attention.

The British Ministry of Economic Warfare has indicated for some time its concern over the fact that in most of the countries in this hemisphere the British were, with respect to the published lists, in the position of being regarded as a mere rubber stamp. Additions to the Statutory List for South America appear several weeks after their inclusion in the Proclaimed List has been announced, and the British have complained that this puts them in the light of merely following the lead of the United States. They feel that this tends to make the local governments and the local population generally regard them and their list as of secondary importance. A majority of our missions have felt that there was no incumbency upon this government to take steps to alter this situation. Several of the missions have specifically requested that discussions with respect to economic warfare controls take place in the first instance exclusively between the American mission and the local governmental authorities and that the British point of view be reflected through discussions between the American and British missions.

Several of the missions have, however, commented upon the problem that you refer to and the question has been discussed with the British here. As a result of these discussions it is altogether probable that an arrangement will be agreed upon whereby the British will make an announcement concurrently with the publication of each supplement to the Proclaimed List that the Ministry of Economic Warfare is taking similar action in the forthcoming supplement to the Statutory List. This announcement will be released simultaneously with the release relating to the Proclaimed List supplement. This arrangement appears to be in line with one of the courses of action which you suggest and should solve a major part of the problem.

You mention in your letter that on several occasions the British have led persons on the Proclaimed List to believe that this government is exclusively responsible for their inclusion in the lists and have sympathized with them because of their predicament. I suggest that

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<sup>27</sup> Not printed.

any instances of this nature that come to your attention be immediately taken up by you with your British colleague and if further instances should occur that they be reported to the Department. The British Embassy in the past has been cooperative in remedying activity by any of their missions that is out of line with the cooperative procedures in economic warfare that have been established.

Sincerely yours,

SUMNER WELLES

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740.00112A European War, 1939/19800 : Airgram

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

WASHINGTON, June 3, 1943—7 p. m.

A-775. Department's telegram 5871, November 21, 1942.<sup>28</sup>

1. We have discussed here with Minister Riefler the question of strengthening the deterrent effect of the threat of Proclaimed Listing upon firms in Switzerland, Sweden, Spain and Portugal. We recognize that the belief is widespread in neutral European commercial circles that the United States and Great Britain will at the close of the war promptly abandon the war trade lists and that any penalties which may flow from presence upon the lists during the war will be terminated forthwith. We also recognize that this belief, when combined with the increasingly common impression that the United Nations will bring the war to a victorious conclusion within the foreseeable future, acts more and more to minimize the hazards of listing in the eyes of a number of firms in neutral European countries. Those firms now feel they may with comparative impunity deal unrestrictedly with the enemy in the security of their belief that the war will soon be over and all will be forgotten or forgiven. That such an attitude interferes with the full effectiveness of the system of war trade lists is becoming increasingly obvious.

2. We are not prepared at this time to decide whether any part of the war trade lists will be carried into the post-war period. As we have pointed out, such a determination is inextricably interwoven with the entire fabric of our post-war program for which the pattern is not yet fully devised. Thus a public statement by this Government that portions of the lists will be retained after the cessation of hostilities is out of the question at present.

3. The Department believes, however, that some steps may be taken, short of a formal declaration as to the post-war position of listees, which will operate to strengthen respect for the Proclaimed List in neutral European countries through creating doubts among selected

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<sup>28</sup> *Foreign Relations*, 1942, vol. v, p. 299.

firms in those countries as to the duration of the penalties of listing. The immediate step which we contemplate is a direct approach (as described in paragraph 5 hereof) by the missions in the neutral European countries to firms in those countries which the missions have reason to believe would be susceptible to pressure in the form of engendered fears as to post-war continuation of certain economic warfare controls, including war trade listing. Further consideration will be given to additional steps such as planted newspaper articles and other forms of unofficial publicity on the possibility of portions of our economic warfare controls being projected into the post-war period.

4. We cannot overlook the fact that such informal steps as are taken may produce a situation requiring some public and official statement here or in London on the post-war status of the lists. It is our hope and belief that such a situation may be avoided. However, if circumstances should compel a statement, it would have to be prepared with a view to avoiding the arousing of substantially increased resistance to the lists in the other American Republics. We have been in the past, and still are, subject to considerable pressure in that area for the removal of the war trade lists. We cannot afford to create a situation which would seriously increase the difficulties of maintaining lists in those countries. Thus it is our present thought that such statement as may be made must disclaim any intention to project the lists, as a punitive measure, into the peace as part and parcel of the post-war regime. It would, however, point out 1) that adjustments upon the cessation of hostilities inevitably take time to effect; 2) that the problem appears to be capable of rapid solution in regions far removed from the scene of conflict; 3) that the greatest administrative delay, carrying with it the promise of serious problems, is likely to occur in delisting those firms which have gone out of their way to assist the enemy's war effort or which have so actively engaged in equipping or servicing or benefiting the military machine of the enemy as to render themselves subject to the post-war controls necessary to remove the menace of that machine.

5. The following is the substance of a telegram which the Department proposes that the Embassy send to the missions in Bern, Stockholm, Madrid and Lisbon:

a) It is apparent that there is a fairly widespread belief in the neutral countries that British and American economic warfare controls, including war trade lists, will be abandoned promptly at the close of hostilities and that this belief is reducing the deterrent effect of the listing threat. Various suggestions have been made as to how this impression can be overcome and the threat of possible post-war consequences of our controls used as an instrument for putting greater pressure on neutral firms and thereby reducing their assistance to

the enemy war effort. While we are not prepared at this time to issue a public statement indicating that a decision has been reached to continue the controls after the war, we believe the threat of listing could be used more effectively in dealing with individual firms by intimating the possibility of post-war consequences.

b) Whenever you believe that such a threat could be effectively used in negotiations with a neutral firm, you may point out that the impression which appears to prevail in some neutral commercial circles that all of our controls will be promptly abandoned at the conclusion of hostilities is ill-founded. As adjustments inevitably take time to effect, it is obvious that it will be necessary, for an indefinite period after the actual conclusion of hostilities, to continue measures of economic control in various fields. You may say that you have reason to believe that, in the administration of such controls during the period following the cessation of hostilities, the position of individual neutral firms during the war will be taken into account. You may point out to the selected firm that continuation of its assistance to the enemy war effort may prevent its early participation in the resumption of peacetime international commerce and delay the release of any of its assets which are or may become blocked in the United States. You may also, in appropriate cases, point out that the inclusion of a neutral firm or its officers or directors in the Proclaimed List may result in their property in this country being treated as enemy property. This threat should naturally be used with great discretion.

c) The effectiveness of this proposed procedure will rest heavily upon the care with which the missions select the firms to which it is to be applied and the adroitness with which the approach is made. It is obvious that this particular type of approach can only be useful in cases where (i) the mission has reason to believe that the individual firm would be influenced by fears of its post-war status as a listed firm and (ii) the mission is prepared, when the firm has not already been listed, to recommend its listing forthwith if it does not desist from its inimical activities.

d) As it is advisable that parallel action be taken in each case by both the American and the British missions, you are instructed to keep your British colleague currently informed concerning approaches which you contemplate making to individual firms in accordance with the foregoing.

e) You are requested to submit reports from time to time to the Department, repeating or sending copies to the London Embassy, on what action you have taken pursuant to the instruction and the effects thereof. The first report should be submitted not later than one month following the receipt of this instruction.

f) To assist us in giving consideration to such supplemental measures as may seem practical for the purpose of enhancing the fear of a post-war listed status, please report the approximate number of firms in the country to which you are accredited which are trading substantially with the enemy and which would be particularly susceptible to the post-war effect of economic controls, together with some indication of the nature and extent of the benefit to the enemy which they are at present rendering.

6. It is desired that the Embassy discuss with the appropriate British authorities the views and proposals contained in this airgram and submit to the Department the Embassy's comments and recommendations thereon.

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740.00112A European War 1939/27813%<sub>11</sub>

*The Assistant Secretary of State (Acheson) to Mr. Winfield W. Riefler, Special Assistant to the Ambassador in the United Kingdom (Winant)*

WASHINGTON, June 19, 1943.

MY DEAR WINFIELD: Several of us in the Department have carefully considered the problem raised by your letter of February 24 with reference to increasing the deterrent effect of the threat of listing by creating an uncertainty as to the post-war sanctioning of the List.

Let me say at the outset that we recognize that the war trade lists in Europe differ radically, both in basis and function, from the lists in Latin America. We recognize also that any action which would contribute to the uncertainty of firms which trade with the enemy regarding their post-war trade position would increase the effectiveness of our economic warfare program in Europe. The question in our minds has, of course, been whether the advantages which would result from an announcement of the character suggested by the British would, in fact, be sufficient to justify the risk, both to our economic warfare program in Latin America and to our objectives in other fields.

Your letter is addressed primarily to canvassing the advantages which would flow from an announcement. Before taking up this subject, I should like in a very general way to set forth our present ideas on the consequences which we should like to avoid.

First, we do not feel that the time has come to make a definite decision as to whether the war trade lists, in whole or in part, should be retained for any given period following the cessation of hostilities. In saying this, I am not rejecting the possibility that the lists may in fact be used for purposes akin to those you discuss on pages 5 and 6 of your letter,<sup>29</sup> although we tend to doubt whether the lists in Europe are so constructed as to make such use feasible. Being unready to make such a decision at the present time, we are reluctant to issue any statement in the form of a commitment which might prejudice our freedom to choose what the future may determine to be the most desirable course of action.

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<sup>29</sup> See last two paragraphs of letter of February 24.

Second, we do not want to set in motion a chain of events through which we could be maneuvered prematurely into a public commitment regarding the post-war use of the war trade lists.

Third, we do not want to take any steps which Axis propagandists could use to damage us out of proportion to the gains that might accrue to us from those steps.

Fourth, we do not want to take any steps which might increase resistance to the list in the other American Republics and thereby prejudice our political and economic warfare programs in the other American Republics.

One of the principal difficulties we have with the suggestion that a public statement be issued is the effect that any such statement would probably have in Latin America. You will realize as well as I that with respect to the Proclaimed List, our relations with the other American Republics are wholly different from our relations with the neutral European countries. Ever since its inception the other American Republics have been strenuously opposed to the list. Their opposition has been based on considerations not applicable to the European neutrals. It was urged at first that the maintenance of the list was inconsistent with our Good Neighbor policy. Later, after most of the other American Republics had broken off diplomatic relations with the Axis and many of them had declared war, their opposition was predicated on the theory that the maintenance of the list was an affront to the sovereignty of countries which were our allies. We have been able to counteract this opposition in part by justifying the list as an emergency measure designed to prevent United States goods from falling into the hands of inimical persons in the other American Republics during the war. Having in mind the opposition of the list on the part of the other American Republics, I am sure that you will understand that any suggestion that the list or certain portions thereof be maintained after the war would greatly strengthen that opposition and might interfere with important objectives.

Our views on these points naturally set the limits to any action which we are prepared to take. As indicated in the last paragraph of our A-138 of October 16 [10], 1942,<sup>30</sup> we are prepared to have our missions approach individual firms directly with a view to impressing upon them the possibility that the lists may be extended into the post-war period. Suggestions as to the details of that approach are set forth in an airgram which we are despatching. Our missions would seem to be in a position to single out firms which would probably be influenced by a fear of the post-war effects of listing, and to instill in such firms the proper doubts as to the future. This procedure has the merit of selectivity, and of avoiding the problems involved in a gen-

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<sup>30</sup> *Foreign Relations*, 1942, vol. v, p. 295.



eral public statement. We are also prepared to consider supplementing this direct approach to individual firms by a planted newspaper article of the general type which you suggest.

We doubt that the foregoing measures would inevitably produce a situation which would require a clarifying statement of the question either in the House of Commons or here. However, if this situation should develop, the matter could be handled by a pronouncement along the general lines suggested at the bottom of page 4 of your letter. We do not feel that such a statement need put us in a defensive position, although paragraph 5 of the Embassy's telegram 6128 of November 2<sup>81</sup> indicates some British apprehension on this score.

It would be necessary to work out very carefully in advance the tenor of any statement which circumstances might require. It should, as you say, disclaim any intention to project the lists into the peace as part and parcel of the post-war régime. It should indicate that we are studying an orderly method for eliminating the lists at the end of the war. It should point out that adjustments upon the cessation of hostilities inevitably take time to effect. It should be stated that the problem is believed to be capable of rapid solution in regions far removed from the scene of conflict. It might also imply that the most serious problem would probably obtain where firms have been actively engaged in equipping or servicing the military machine of the enemy, a machine which we are determined to demobilize, or where firms have made special contributions to the economy of our enemies. We do not believe, however, that a public statement following generally the lines suggested by the British and committing us to project the lists into the post-war period would be desirable. Although we recognize that such a statement would be good background for case-by-case negotiations, we doubt that it would add sufficient force to such negotiations to justify the risk of the concomitant disadvantages which we have set forth in our previous communications. In this connection, we have been acutely conscious of a basic dilemma: The weaker the statement we issue, the less its deterrent effect; the stronger the statement, the greater the danger that it would drag us into the difficulties we have discussed in our previous airgram and telegram. In considering the possible advantages which might be expected to flow from a statement, we have found it difficult to see how a statement sufficiently guarded to avoid the propaganda and Latin American problems would have any significant deterrent effect.

A consideration of various approaches by which we could indicate the possible extension of the lists in the post-war period, and thereby reduce the amount of the neutral economic potential available to the enemy, focuses on our present listing policy in Europe. As I under-

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<sup>81</sup> *Foreign Relations*, 1942, vol. v, p. 297.

stand it, our lists in Europe omit many firms, some of them extremely important, which are eligible for listing because they are important suppliers of the enemy or because of other enemy connections. Some of these firms are not listed because we have had some hope of persuading them to reduce the extent of their dealings with the enemy. These are the firms at which your proposal would be directed. In addition, it is my impression that there are many other firms which are not listed, in spite of their eligibility, either because our missions wish to avoid difficulties with the neutral governments, or because the number of those firms is so great that their inclusion would debase the significance of listing. We concur in this selective process and agree that reliance on negotiations with, and pressure on, particular firms is preferable to wholesale listing. However, it seems to us that the absence from our list *during the war* of firms which are notorious for their enemy connections will inevitably tend to reduce the effectiveness of any general or specific threat to punish some listed firms *after the war*. The expansion of sanctions flowing from listing will, of course, not persuade firms who have no fear of being listed. For these threats to be effective, it would appear to be necessary to follow them up by a vigorous albeit selective listing policy. In particular, this should involve an attempt to secure undertakings from firms whose dealings with the Axis we desire to affect, followed by listing where undertakings or performance is not forthcoming. In this connection, we understand it to be the view of our missions in Madrid, Lisbon and Stockholm that we should not engage in more extensive listing. Madrid in particular has expressed the view that we should concentrate on confidential lists and refrain from further significant additions to the published list.

Finally, in approving the case-by-case approach, we have assumed that the operations of the firms whose policies we might expect to affect are sufficiently significant to justify taking whatever risks these techniques might involve. In connection with our future consideration of any supplementary measures designed to create an atmosphere of uncertainty as to the post-war status of the list, we feel that it would be essential in order intelligently to balance the advantages and disadvantages to have some estimate of (1) the number of enterprises that would be affected, and (2) the nature and extent of their dealings with the enemy which we could hope to curtail. We recognize the difficulty inherent in making any estimate of this kind. However, it is clear that if the group is in fact small, it would be unwise to run the risk involved in issuing a general statement in order to secure a comparatively unimportant additional deterrent. We would welcome information on these specific firms, and your further views and those of the M.E.W. people.

The foregoing, as I indicated at the outset of this letter, represents the views of those of us in the Department who have considered the problem. In order to take the steps which we now consider feasible, we prepared an airgram to you asking you to take the matter up with the British along the lines of the ideas expressed in this letter. While we were in the process of taking the matter up with other interested agencies here, through one of those unfortunate slips which occur from time to time, our airgram became detached from the rest of the file and went out to you as our A-775 of June 3. As you will have seen from the telegram which I sent you today, our discussions with the other agencies have disclosed a feeling on the part of Treasury and BEW<sup>32</sup> that a public statement should be issued. In our discussions with these two agencies, they have raised much the same considerations in favor of a statement as have been brought out in our previous correspondence and discussions with you and which have already entered into the judgments expressed in this letter. We are looking forward to receiving a rather full report from you on the problem and on the views of the British which will enable us to reach some final conclusion.

Sincerely yours,

DEAN ACHESON

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740.00112A European War, 1939/35861 : Telegram

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

LONDON, September 3, 1943.

[Received 9:32 p. m.]

5845. Reference Department's A-775, June 3, 1943; Department's telegrams 3753, June 18; 5336, September 1,<sup>33</sup> and Acheson's letter to Riefler June 19 regarding possibilities of creating uncertainty relative to post-war employment of the Proclaimed and Statutory Lists.

Department's instructions on this subject have been carefully reviewed and discussions held with MEW where action was delayed several weeks because of the desire for advance clearance of the subject matter with Foreign Office, other Departments and the Dominions.

MEW and Embassy are in agreement that selective word-of-mouth approaches by our Missions to individual firms in Switzerland, Sweden, Spain, and Portugal constitute the best tactics in the plan for creating uncertainty regarding the possibility of post-war listing. Concurrently to that approach it is believed advantageous to strengthen our representatives' intimations with judiciously placed press articles and related publicity to the fact that in the last war the

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<sup>32</sup> Board of Economic Warfare.

<sup>33</sup> Telegrams No. 3753 and No. 5336 not printed.

blockade and black-listing did not become inoperative with the Armistice.

Should this program ultimately require an official statement of Allied policy on post-war listing it is essential that points to be included in any such official statement should be agreed upon with MEW in advance. Accordingly, the Embassy prepared a draft of five points designed to gain the ends desired without incurring the disadvantages mentioned in Acheson's letter. It is believed by Embassy that the main consequences which Department wishes to attain in any such statement were that (a) the announcement should not be the cause of repercussions in the other American Republics and thus prejudice the use of the Lists and other political and economic warfare programs in South America and (b) that the Department should not be manoeuvred into making a statement on post-war listing in advance of the time when a conclusive decision could be arrived at regarding the relative advantages and disadvantages of such post-war controls.

It is believed that a statement containing the following points will attain the ends desired :

1. The Allies disclaim any intention to perpetuate the Statutory and Proclaimed Lists as part and parcel of the post-war regime.

2. To attain this end the Allies are now studying an orderly method for eliminating the Lists at the end of the war.

3. Considering the "total" character of the present conflict and its vast impact upon commerce it is recognized that adjustments upon cessation of hostilities inevitably will take time to effect.

4. The problem of eliminating economic warfare controls, and in particular the Statutory and Proclaimed Lists, is believed to be capable of prompt solution in regions far removed from the scene of conflict.

5. At present the Allied Governments anticipate that the most serious problem in the elimination of such controls will probably arise in countries within the European blockade area where persons and firms, nationals of or residents in neutral countries, have nevertheless engaged actively in equipping or servicing the military machines of the enemy—a machine which the Allied Governments are determined to destroy. A similar delay in removing such controls may also arise where such persons and firms have elected to make special contributions to the economies of our enemies.

The device used to avoid the possibility of creating anxiety in the other American Republics is found in point 5: "countries within the European blockade area". Firms in the Western Hemisphere engaged in international trade are believed to hold an accurate understanding of the geographical line upon which the European blockade is created and thus should not be caused anxiety by an announcement indicating possible delay in eliminating the Proclaimed and Statutory Lists as affecting persons within the European area.

The next phrase in point 5, "where persons and firms, nationals of or residents in neutral countries, have nevertheless engaged" is drafted to point out that such neutrals, not being compelled to assist the enemy, may be considered in the post-war period even more objectionable than firms within Axis countries where a totalitarian regime compels full contribution to the enemy war potential. This element of choice, repeated in point 5 in the concluding sentence "have elected" is designed to meet the objection in paragraph 2 of the Department's 5871, November 2 [21], 1942,<sup>34</sup> wherein it is desired to avoid the implication that Axis firms within their respective countries will also be made subject to international retaliatory trade restrictions. It is believed the Department does not wish to have firms within Axis countries gain the impression that our post-war listing and other sanctions against objectionable firms in neutral countries represents the minimum [*maximum*] of unfavorable treatment which Axis firms within Axis countries may expect.

Subject to the reservation on the part of both parties of the right to consider jointly amendments to the statement, if changing circumstances make amendments necessary, the five points mentioned above have been formally agreed to by MEW for use in any statement which may be required to be issued as result of the word-of-mouth approach by our representatives in neutral Europe. Corresponding concurrence by the Department is urgently requested by telegraph to permit early despatch of instructions to Bern, Stockholm, Madrid and Lisbon.

If Department concurs in points for the statement, Embassy favors transmittal to Bern, Stockholm, Madrid and Lisbon of instructions contained in paragraph 5 (*a* to *e* inclusive) of Department's A-775 of June 3. In connection with paragraph 5 (*f*) of proposed instruction the Embassy believes that representatives in neutral Europe would encounter difficulty in reporting the approximate number of firms likely to be susceptible to post-war economic controls and would also be at a loss to report in detail on the nature and extent of the contribution which such firms are rendering to the enemy. It is felt that if the instructions over-emphasize the need for a statistical report on the effect of post-war listing practical action may be deferred; further, that if by confining the threat to countries within the European blockade area it proves possible to avoid any disadvantages in the Western Hemisphere, that only net gain can result from the program and for that reason there is no need to measure advantages versus disadvantages. Therefore, Embassy proposes the following revised paragraph (*f*) to conclude the instruction:

(*f*) To assist the Department in giving consideration to such supplemental measures as may seem practical for the purpose of en-

<sup>34</sup> *Foreign Relations*, 1942, vol. v, p. 299.

hancing the fear of post-war listed status, please report briefly, with copy to London, your general comments regarding the extent to which firms in the country to which you are accredited are trading substantially with the enemy and what proportion of this group would be particularly susceptible to the post-war effect of economic controls. If possible, it would be appreciated if you will give some indication of the nature and extent of the benefit to the enemy which is at present being rendered by firms which you consider to be susceptible to the threat of post-war.

If the Department concurs in the foregoing instruction to include paragraph (f), as amended, cabled advice is requested. MEW has drafted similar instructions to its representatives in Switzerland, Sweden, Spain, and Portugal, to which it is proposed to attach copy of the instruction being received by the American representative. Accordingly, Department's approval of the proposed American instructions is requested as soon as feasible.

WINANT

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740.00112A European War, 1939/35861 : Telegram

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

WASHINGTON, September 29, 1943—11 p. m.

6016. Reference your telegram no. 5845 of September 3 concerning possibility of creating uncertainty relative to post-war employment of Proclaimed and Statutory Lists.

Department has discussed with interested agencies and British and Canadian representatives on Interdepartmental Committee on Proclaimed List the proposal outlined in the Department's A-775 of June 3, 1943, with the amendments suggested in your telegram under reference. The Department is desirous that any situation requiring a public or official statement at this time, here or in London, on the post-war status of the List be avoided. While Treasury and OEW<sup>35</sup> continue to favor a public statement at this time, all are agreed on the desirability of proceeding with the program outlined in the Department's A-775 of June 3, 1943 as amended by the telegram under reference. Accordingly, you are authorized to instruct the Missions in Bern, Stockholm, Madrid, and Lisbon to proceed to carry out this plan, making every effort, consistent with effective operations under the plan, to prevent a situation from arising which would call for an immediate public statement.

It does not appear to be feasible to formulate at this time the exact statement which would be issued if circumstances should require one. Such a statement could undoubtedly be worked out and agreed to at

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<sup>35</sup> Office of Economic Warfare.

such time as it might have to be made. The views of the Department and interested agencies here would, however, probably be based largely upon the statement contained in your telegram no. 5845. It is assumed, of course, that no statement would be made on this subject by either the British or American Governments without prior consultation with the other.

BERLE

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740.00112A E. W. 1939/36135: Telegram

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

LONDON, October 7, 1943—3 p. m.

[Received October 7—2:07 p. m.]

6772. For Department and OEW. Reference Department's 6016, September 29. In accordance with Department's telegram, Embassy has transmitted to Madrid as A-59,<sup>36</sup> to Lisbon as A-50, and to Stockholm as A-26 of October 7.<sup>37</sup> and to Bern as Embassy's telegram 201 of October 6 substance of sections *a* and *e* of paragraph No. 5 of Department's airgram A-775 June 3, 1943 with amendment of section *f* as proposed in Embassy's 5845, September 3.

These instructions emphasized Department's desire that any situation requiring a public or official statement at this time in London or Washington on the post-war status of the lists should be avoided. In carrying out these instructions the Missions were requested to make every effort consistent with effective operations under the plan to prevent a situation from arising which would call for an immediate public statement.

MEW is simultaneously issuing similar instructions to British Missions in Bern, Madrid, Stockholm and Lisbon. MEW has informed Embassy that a copy of its instruction to British Missions is being transmitted to British Embassy Washington. Embassy is also transmitting copy of it to Department under cover of airmail despatch.<sup>38</sup>

WINANT

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<sup>36</sup> Despatch No. 1836, January 5, 1944, from Madrid, indicated that the authority to conduct a selective word-of-mouth campaign was regarded by the Embassy as a "welcome and useful weapon in strengthening the prestige of the Lists in Spanish communities." (740.00112A E.W. 1939/36377)

<sup>37</sup> The Legation in Stockholm indicated in an enclosure to despatch No. 2669, January 10, 1944, that from its experience in issuing warnings it felt reasonably certain "that at the present time a post-armistice warning, whether made openly or in a veiled fashion, will be sufficiently effective in Sweden for inducing firms not to enter into undesirable transactions." (740.00112A E.W. 1939/36462)

<sup>38</sup> Despatch No. 11545, October 7, 1943, not printed.

740.00112A E. W. 1939/36136 : Telegram

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

LONDON, October 7, 1943.

[Received October 7—6:11 p. m.]

6798. For Department and OEW from Riefler. Reference Department's 6016, September 29. MEW has been informed that Department considers it not feasible to formulate at present an exact statement which would be issued by both the British and American Governments if at a later date such a statement proved necessary. It is noted, nevertheless, that the Department and interested agencies in drafting any final statement would probably base this statement largely on the one contained in Embassy's 5845.

Because of procedures in the House of Commons it is rather difficult for the British to agree to any long delay in the formulation of the statement should one be necessary. Following excerpt from Foot's<sup>39</sup> note to Riefler October 5 is self-explanatory.

"There remains the question of a public statement. As you know we also are anxious to avoid having to make such a statement and are so instructing our missions. We certainly shall say nothing in public if we can help it and if a statement becomes unavoidable we shall, of course, do our best to hold it up until a form of words has been agreed with your Government. But we still feel that it would be a wise precaution to prepare an agreed draft now for use in case of necessity. What I have particularly in mind is the possibility of the matter being raised in the House of Commons, either at question time or during a debate. Under our procedure any Member is entitled to put down a question for oral answer at 2 days' notice although in practice we generally have 4 or 5 days' notice of a question addressed to this Ministry. Members can sometimes be persuaded to postpone or withdraw their questions but not always. If we were to give a vague or temporising reply we should obviously be weakening the effect of the whispering campaign and of the warning given to selected neutral firms.

Another possibility is that the matter might be raised in a general debate on the war situation or on the work of the Foreign Office or the Ministry of Economic Warfare. Some Member of Parliament with business connections in a neutral country might raise it in the course of his speech. The Minister who winds up the debate would be expected to give a reply then and there and would be in a position of some embarrassment if he could not do so.

If these circumstances were to arise and we could not delay a public statement we would use the draft already submitted which has been cleared with all the interested Departments in the British Government.

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<sup>39</sup> Dingle Foot, Parliamentary Secretary of the British Ministry of Economic Warfare.



I gather that your Government does not object to the substance. I should be most grateful if you could ascertain what are the points which give them some difficulty."

In Acheson's letter to Riefler of June 19, 1943, page 3, it was stated, "It would be necessary to work out very carefully in advance the tenor of any statement which circumstances might require." Pursuant to this instruction in the Embassy's extended negotiations with MEW and other interested British agencies effort was made in drafting the statement contained in telegram 5845 to protect the Department from any repercussions which might arise in the other American Republics should it prove necessary to issue a statement. Agreement in advance in the near future regarding points to be included in a joint statement therefore seems very important as a protective measure. Accordingly the Embassy urges and hopes that the Department can agree shortly to points to be included in any statement (subject to minor revision as circumstances may require) and in the meantime if an inescapable obligation for a statement in the House of Commons happens to arise prior to the receipt of the draft approved by the Department we are informing MEW that the draft contained in telegram 5845 should be used as suggested in the last paragraph of Foot's letter quoted above.

Foot's letter also raised question of sending the instructions which have gone forward to Lisbon, Madrid, Stockholm and Bern, to the Missions at Tangier, Ankara, Baghdad and Tehran as well. With regard to this point his letter states:

"It appears that we are now agreed on the action to be taken in Switzerland, Sweden, Spain and Portugal, namely, that warnings are to be given in suitable cases to neutral firms and individuals and that there is to be a whispering campaign on this subject. We are, therefore, sending instructions forthwith to the four Missions concerned. We had intended, however, to send similar instructions to His Majesty's representatives at Tangier, Ankara, Baghdad and Tehran. I observe that your memorandum makes no reference to these capitals. I shall be grateful if you will let me know what the State Department intends to do in these cases."

An early expression of your views in this respect also would be appreciated. [Riefler.]

WINANT

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740.00112A European War 1939/36136 : Telegram

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

WASHINGTON, November 4, 1943.

6923. The form of the statement to be made by the United States and British Governments with respect to post-war listing in the event such a statement becomes necessary has been discussed further by the

Department with the other interested agencies in view of your telegram 6798 of October 7. The following form has been agreed upon:

"It is not possible at the present time to predict precisely when it may prove to be possible and expedient to withdraw the published lists. The United States and the United Kingdom do not consider the Proclaimed and Statutory Lists as appropriate parts of the type of normal peace-time trade policies which they hope eventually will be established. It is recognized, however, that there will inevitably be a transition period from war to peace-time conditions. In view of the total character of the present conflict and its vast impact upon commerce, it will necessarily take time to effect adjustments of economic warfare controls following the cessation of hostilities. Such adjustments will be carried out with due regard to specific circumstances. The problem of eliminating economic warfare controls and in particular the Proclaimed and Statutory Lists is believed in general to be capable of prompt solution in regions far removed from the scene of conflict. The elimination of such controls may be expected to be slower with respect to areas adjacent to the scene of conflict and particularly with respect to nationals of or residents in neutral countries, who have engaged actively in equipping or servicing the military machine of the enemy—which the Allied governments are determined to destroy—or who have continued to render other important aid to the economy of the enemy."

The reasons for the changes will undoubtedly be apparent. If MEW has any question concerning any part of this proposed form of statement we shall, of course, be glad to consider further changes.

Department's 6016 referred to Bern, Stockholm, Madrid and Lisbon as those were the missions referred to in your 5845 of September 3 as the ones agreed upon by you and MEW. Department sees no objection to extending the program to Ankara, and also to Tangier, Baghdad and Tehran if there are firms in the latter three countries that could profitably be approached.

STETTINIUS

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740.00112A E.W. 1939/36251 : Telegram

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

LONDON, November 29, 1943.

[Received November 29—7:27 p. m.]

8338. For limited distribution only. For WT.<sup>40</sup> Reference paragraph 7 Embassy's 8076, November 19.<sup>41</sup> The following is an excerpt from the text of a letter dated November 26 from Mr. Foot, Parliamentary Secretary of MEW, concerning the draft statement with respect to post-armistice listing contained in the Department's 6923,

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<sup>40</sup> Division of World Trade Intelligence.

<sup>41</sup> Not printed.

November 4. It is to be noted that further amendments may be suggested by other interested Departments of the British Government:

"Subject to the views of the other Departments concerned, to whom I am circulating copies, this statement is quite acceptable to us. I would, however, like to suggest, for your consideration, the following minor amendments to the sentence which reads: 'In view of the total character of the present conflict and its vast impact upon commerce, it will necessarily take time to effect adjustments of economic warfare controls following the cessation of hostilities; such adjustments will be carried out with due regard to specific circumstances'.

"In the first place, I suggest that after the words 'cessation of hostilities', we should add 'in any theatre of war'. I think this would make the meaning clearer. Secondly, we are not quite certain what significance attaches to the words 'such adjustments will be carried out with due regard to specific circumstances'. On the whole we do not think they add very much, and they might give rise to misunderstanding. However, if your Government think that these words are important, we will not press the objection.

"We should like to urge one further amendment in the last sentence. This refers to 'nationals of, or residents in neutral countries (deletion marks) who have continued to render other important aid to the economy of the enemy'. We should prefer this to read 'who have rendered other important aid to the enemy'. We do not see why the word 'continued' is necessary. Moreover, it has occurred to us since the last draft statement was sent to Washington that the limitation to 'aid to the economy of the enemy' might be held to rule out those whose services to the enemy took another form, for example propaganda."

WINANT

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740.00112A European War 1939/36251 : Telegram

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

WASHINGTON, December 11, 1943.

7842. Reference Embassy's 8338, November 29.

1. The desirability of adding the phrase "in any theater of war" depends upon the nature of the plans for withdrawing economic controls. It seems to the Department, however, that the insertion of this phrase would tend to weaken the statement as a whole bearing in mind the purpose for which it would be issued. The phrase implies that adjustments in economic warfare controls would be made in Europe as soon as hostilities had ended there regardless of the continuation of hostilities in the Far East. Without expressing an opinion upon the desirability or likelihood of such a development, the Department believes that the indication of such a possibility to Proclaimed List firms in Europe would weaken the deterrent effect of the program in connection with which the statement is being issued.

2. The sentence "such adjustments will be carried out with due regard to specific circumstances" was inserted with an eye toward Argentina and is designed to remove any basis for a belief in Argentina that the relaxation of controls would necessarily take place equally with respect to all countries regardless of the "specific circumstances".

3. The word "continued" was inserted because of the applicability of the present program to firms which have been exporting to the Axis in the past but whom we are now requesting to discontinue their previous rate of exports.

4. The reference to "aid to the economy of the enemy" seems to us appropriate bearing in mind the purpose of the statement to impress those firms who are now exporting substantially to Axis countries. The statement does not purport to be a statement of general listing policy.

The Department does not feel at all strongly about any of the points raised in your 8338 and the foregoing comments are being sent to you now only that you may have them in mind in discussing the statement with the British authorities. The Department will await your further report after the other interested departments of the British Government have indicated their views.

HULL

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740.00112A European War 1939/36297a : Circular airgram

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

WASHINGTON, December 16, 1943—7 p. m.

Reference is made to the Department's circular airgram of October 11, 1943,<sup>42</sup> requesting reports by the missions on the effect of recent events in Italy<sup>43</sup> upon the political sentiments of local Italians.

The current policy to be pursued by this government with respect to Italian firms on the Proclaimed List has two aspects:

1. The policy with respect to the deletion of firms or persons located in the other American republics who have been included because of pro-Axis activities or sympathies;

2. The policy with respect to the deletion of firms which have been included because they are subsidiaries of firms located in Italy or because one or more of the owners are located in Italy.

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<sup>42</sup> Not printed.

<sup>43</sup> On September 8, 1943, General Eisenhower had announced the unconditional surrender of Italy (armistice had been signed on September 3, 1943). For correspondence on the overthrow of the Fascist regime in Italy, Italian surrender, and recognition as co-belligerent, see vol. II, pp. 314 ff.

I. With respect to the first category it should be borne in mind that the inclusion of such firms and persons in the Proclaimed List has been made exclusively on the basis of pro-Axis activities. In no case has a person located in a country to which the Proclaimed List applies been included solely on the basis of German or Italian nationality. Developments to date with respect to Italy, therefore, cannot be regarded as requiring any automatic change of status of any Proclaimed List national. The Interdepartmental Committee, in passing upon requests for deletion by Italian firms located in the other American republics will be guided by the following considerations:

1. Any Italian firm or person that has been prominently and actively identified with the local Fascist organization and has engaged in political or propaganda activities designed to aid the Axis should not be deleted.

2. Any Italian firm or person that has engaged in activities involving the violation of United Nations' wartime controls should not be deleted merely because of Italian nationality.

3. The Committee will take into consideration the effect which the deletion of an Italian firm or person would have on any important pro-Allied Italian sections of the local community and on persons of local nationality. In this connection the Committee is desirous that no general impression should be created through the deletion of any Italian firms that listing policies and enforcement as a whole are being relaxed.

4. The Committee believes that there may be a few cases of Italian Proclaimed List nationals which may be considered for deletion at the present time. These would include principally those firms or individuals of Italian nationality who have not actively assisted the Axis but who have been inactive members of local Fascist organizations or have otherwise made known their allegiance to the Italian cause under the Fascist party, but who are in a position now to give evidence of a bona fide allegiance to the cause of the United Nations. Undoubtedly a large number of Italian firms on the Proclaimed List will endeavor to demonstrate a change in their political convictions. Recommendations by the missions for deletion should be confined to those cases where the history of the firm or individual enables it to make such professions in good faith.

II. With respect to the second category previously referred to, i.e., firms which have been listed because they are subsidiaries of firms located in Italy or because one or more of the owners are located in Italy, the Interdepartmental Committee's policy is as follows:

1. Any firm which is on the Proclaimed List because of ownership or control by a firm or person in enemy-occupied Italy should continue on the List.

2. No firm should be deleted automatically because of the occupation by the Allied armies of the territory in which the main firm or owner is located.

3. Following occupation and the establishment of controls in sections of Italy by Allied authorities, deletion recommendations relating

to firms controlled from such territory will be considered on a case-by-case basis. The nature of the action taken will depend upon the extent of the controls applied at the particular time to firms in the particular section and upon the issuance of any declaration by the Allied governments with respect to the continuance of Italy as enemy territory.

The missions are requested to report to the Department any special questions that arise locally in the application of these policies.

HULL

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740.58112A/63: Telegram

*The Minister in Sweden (Johnson) to the Secretary of State*

STOCKHOLM, December 29, 1943—7 p. m.  
[Received 7:10 p. m.]

4171. Proclaimed and Statutory Lists printed in Sweden now being distributed. British and American Legations in agreement that lists should be distributed to leading newspapers and trade union papers. It is realized, however, that this will probably result in request for statement by one or both Legations concerning maintenance of lists.

Legations propose identical statements be issued should such request arise. Statements would be elaboration of text set forth on cover of list as distributed. Both Legations recommend including in statement reference to Mr. Dingle Foot's remarks in House of Commons<sup>44</sup> as previously reported in Stockholm press under London dateline November 9 wherein he stated that after war we would not forget those firms and businessmen in neutral countries who have chosen to help the enemy. It is proposed to point out that while there has been no official statement concerning continuation of published list after war, it is interesting to speculate whether Mr. Dingle Foot's remarks refer to post-armistice maintenance of war trade list and that this would be one way of putting his statement into effect.

In view procedure set forth London's A-26, October 7, 3 p. m.<sup>45</sup>

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<sup>44</sup> The Parliamentary Secretary for the Ministry of Economic Warfare on November 9, 1943, made a written reply to the question by Capt. L. F. Plugge as to whether he would "give an assurance that after the war assistance given to the enemy by firms in neutral countries will, so far as British trade is concerned, be taken into account in international dealings." Mr. Foot's reply was as follows: "I can hardly give an assurance in the precise form suggested. But I should like to make it clear that firms and traders in European neutral countries should not too hastily assume that, when the Armistice is signed, we will at once forget those who have elected to assist our enemies." (*Parliamentary Debates*, House of Commons, 5th series, vol. 393, cols. 1114-1115)

<sup>45</sup> Not printed; it transmitted sections *a* through *e* of paragraph 5 in airgram No. A-775, June 3, to London, p. 329, and amendment of section *f* as proposed in telegram No. 5845, September 3, from London, p. 336. Similar airgrams were sent by Embassy at London to the American Missions at Bern, Lisbon, and Madrid. For comment, see telegram No. 6772, October 7, 3 p. m., from London, p. 340.

concerning issuance post-armistice warning, Legation requesting Department's and London's approval to inclusion above in such statement prior to release. However, in view current distribution Legation should appreciate early reply.

This message repeated to London as my 846.

JOHNSON

## BOUNDARY DISPUTES

### ECUADOR AND PERU

[For previous documentation on this subject, see *Foreign Relations*, 1941, volume VI, pages 212 ff. For protocol between Ecuador and Peru regarding peace, friendship, and boundaries (signed also by representatives of the United States, Argentina, Brazil, and Chile), signed at Rio de Janeiro, January 29, 1942, see Department of State Executive Agreement Series No. 288, or 56 Stat. (pt. 2) 1818. Documentation for 1943 regarding border incidents, the work of the Mixed Demarcation Commission, and the Brazilian initiative in attempting to bring about a solution of differences as to the demarcation of the boundary line is not published.]

### HONDURAS AND NICARAGUA <sup>1</sup>

715.1715/1624b

*The Secretary of State to the Honduran Minister for Foreign Affairs*  
(Aguirre)<sup>2</sup>

WASHINGTON, February 24, 1943.

EXCELLENCY: I have the honor to refer to Your Excellency's note of October 7, 1941,<sup>3</sup> the fundamental points of which, I am informed, have been communicated to the Governments of Venezuela and Costa Rica, as well as to this Government, in connection with the mission which was confided to them in October 1937 by the Governments of Honduras and Nicaragua to mediate their boundary controversy.<sup>4</sup> Because of the special significance which, in the fulfillment of this delicate task, the views of the Honduran Government as set forth in Your Excellency's note entail for the Governments of the United States of America, Venezuela and Costa Rica, and because of their desire that nothing shall disturb the harmony which happily prevails in this Hemisphere at the present tragic moment of universal war,

<sup>1</sup> Continued from *Foreign Relations*, 1941, vol. vi, pp. 254-267.

<sup>2</sup> Transmitted to the Minister in Honduras in instruction No. 1147, February 24, 1943, and presented to the Honduran Minister for Foreign Affairs on March 9.

<sup>3</sup> *Foreign Relations*, 1941, vol. vi, p. 262.

<sup>4</sup> The Government of the United States, in association with the Governments of Costa Rica and Venezuela, tendered its good offices to the Governments of Honduras and Nicaragua on October 21. This offer of mediation was formally accepted by Honduras and Nicaragua the following day. See *Foreign Relations*, 1937, vol. v, pp. 92-95.



which affects so profoundly all the nations of the American continent, it was considered indispensable to study Your Excellency's note in consultation between the respective chancelleries. The result of this study is embodied in the present reply, as an expression of the thought and feeling of the three mediating Governments.

In answering previous communications from the chancelleries of the three mediating Governments, Your Excellency concludes by reiterating the previously expressed decision of the Government of Honduras to consider ended the work of the Mediation Commission,<sup>5</sup> upon which are representatives of the Governments of the United States of America, Venezuela, and Costa Rica, who act in accordance with the instructions of those Governments.

The preoccupation is emphasized in Your Excellency's note that the Mediation Commission has diverged, in its delicate functions, from the juridical position assumed by the Honduran Government with respect to the Award of the King of Spain.<sup>6</sup> To clarify this point, it must be explained that in the instructions of the mediating Governments and the minutes and documents of the Mediation Commission, no basis appears to exist for this preoccupation, in as much as the juridical position assumed by the Government of Honduras with regard to the Award of the King of Spain has always been taken into consideration in connection with possible measures of conciliation which might be suggested. Any proposal of conciliation would have to be previously discussed with the delegates of Honduras and Nicaragua named for the purpose of arriving at a formula acceptable to both Governments, as provided in the last part of the Agreement of Mediation, and in conformity with the procedure of individual consultations with each of them, which was established as the norm by the Mediation Commission when it so happily arrived at the Pact of Mutual Offers of December 10, 1937.<sup>7</sup> The mediating Governments and their representatives on the Commission would under no circumstances adopt a procedure distinct from the above.

The length of time that has elapsed without the termination of the delicate mission of the Mediation Commission is also emphasized in Your Excellency's note. With regard to this point the mediating Governments believe that, gratifying as it would have been to arrive quickly at a satisfactory termination of the mission which was en-

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<sup>5</sup> The labors of the Mediation Commission dated back to November 9, 1937, when the Commission convened formally in San José.

<sup>6</sup> The King of Spain, on December 23, 1906, rendered an arbitral Award designating the boundary line between the Republics of Honduras and Nicaragua from the Atlantic to the Pass of Teotecacinte (the remainder of the boundary from the Pass to the Gulf of Fonseca having been definitely accepted by both Governments). For text of the Award, see *British and Foreign State Papers*, vol. c, p. 1096.

<sup>7</sup> Signed at San José; for text, see *Foreign Relations*, 1937, vol. v, p. 112.

trusted to them, it cannot be affirmed that the delay has exclusively benefited or prejudiced either Honduras or Nicaragua, in as much as the passage of time since the inception of the mediation appears to have worked to the benefit of both of them by engendering an atmosphere of conciliation more favorable to the pacific solution of the dispute.

Notwithstanding the decision of the Government of Honduras reiterated in Your Excellency's note, the mediating Governments have not adopted immediately the official attitude that their mission is ended, and have not communicated with the Government of Nicaragua, being motivated in this by their keen desire to find an appropriate formula to forestall the feeling of uneasiness which that unilateral decision would inevitably cause in all the nations of the American continent and the repercussions that might result in the Republic of Nicaragua.

The mediating Governments are vividly aware of the need of preserving the most perfect harmony among all the nations of the Western Hemisphere, so that nothing may weaken the position which they have jointly maintained up to the present time with regard to the existing war emergency. The circumstance that the Republics of Honduras and Nicaragua and the mediating nations are cooperating closely in the defense of the continent makes more imperative the maintenance in regard to them of this harmony, and it emphasizes the duty of the Mediating Governments to make a new effort of such a nature that, by virtue of a formula acceptable to the Governments of Honduras and Nicaragua, the conciliatory atmosphere achieved by the mediation shall not be altered.

With such well-justified purposes, which also imply a unity of interest, the Governments of the United States of America, Venezuela, and Costa Rica, conscious in their function as mediators of their great responsibilities to the nations of the American continent, cordially propose, in common agreement, to the Government of Honduras that it reconsider its decision set forth in the note of Your Excellency, in order to make possible the maintenance of the mediation agreed upon between Honduras and Nicaragua on the understanding that for the duration of the present war the Mediation Commission shall only continue the study of the boundary problem and shall abstain from presenting to the Governments of Honduras and Nicaragua in plenary sessions suggestions looking to a definitive settlement of the controversy as envisaged by the terms of the mediation agreement. The Mediation Commission would continue to consider, as it has done in representation of its Governments, any frontier incidents that might arise between Honduras and Nicaragua in contravention of the still

valid provisions of the Pact of Mutual Offers, signed on December 10, 1937 at San José, Costa Rica.

In taking this step the mediating Governments are pleased to invoke the spirit of continental solidarity, of which the Government of Honduras has given so many proofs, as well as the promptings of good will for the greater and more assured harmony of the American nations, which are vitally affected by the world war against the aggressor powers.

If the present step of the mediating Governments should come to merit the acceptance of the Government of Honduras, it would be immediately submitted in consultation to the Government of Nicaragua, with confidence that it would be favorably received, in view of the high conciliatory purposes which inspire it.<sup>8</sup>

On this further occasion it is a great pleasure to reiterate etc.

CORDELL HULL

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817.6176/22 : Telegram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, July 30, 1943—7 p. m.

[Received July 31—11:19 a. m.]

440. The Embassy has been informed that there has appeared on the Coco River<sup>9</sup> near San Carlos a Señor Enrique López who is planning to establish rubber collection camps and commissaries on the north bank. He represents the Honduran contractor for Rubber Development.<sup>10</sup> As the Department is aware from the Embassy's despatch No. 327 of September 29, 1942,<sup>11</sup> this is in violation of the informal arrangement with Chicle Development.<sup>12</sup> The Embassy has already prepared a despatch on the subject and arranged for Rubber Development to order López out of this disputed region immediately.

Formal report of the presence of López accompanied by a Honduran Colonel Cabrera and four other men has reached President Somoza who had the Foreign Minister<sup>13</sup> call on me this afternoon. Dr.

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<sup>8</sup> In despatch No. 2777, March 9, 1943, the Minister in Honduras informed the Department that the Honduran Foreign Minister anticipated that a study would be made on the subject of this note. The Minister concluded with the advice that the Department should not expect an early reply on this matter. (715.1715/1624)

<sup>9</sup> The Coco River, sometimes referred to as the Segovia or Wanks River, formed a considerable stretch of the Honduran-Nicaraguan boundary.

<sup>10</sup> The Chicle Development Corporation was the rubber procurement contractor in Honduras for the Rubber Development Corporation which was established in February 1943 to take over the United States Government's program for the development and procurement of rubber.

<sup>11</sup> Not printed.

<sup>12</sup> By this arrangement, Chicle Development Corporation was to limit its operations in Honduras to the Patuca River and was to do no buying along the Coco.

<sup>13</sup> Mariano Argüello Vargas.

Argüello declared that Nicaragua had no objection to the collection of rubber in this region for the United States but that he felt that the presence of a group operating under Honduran auspices and authority reopened the question of title to this region which has been administered in fact by Nicaragua for many years. He stated that he was telephoning his Ambassador in Washington<sup>14</sup> to communicate with the Department and would instruct his Minister in Honduras<sup>15</sup> to investigate the situation quietly without making any protest. Dr. Argüello emphasized that Nicaragua was most anxious to avoid reopening the border dispute and would cooperate fully to prevent such a development.

The situation clearly has serious possibilities and I had contemplated telegraphing Corson<sup>16</sup> of Rubber Development who is now in Guatemala requesting him to take every practicable step to see that López is ordered out of this region immediately thus removing the source of irritation until the basic issue can be settled (however, if the Honduran colonel represents the Honduran Government the solution may not be so easy). I then realized however that it would take Corson days if not a week to communicate with López through Tegucigalpa. I discussed this situation with Apodaca<sup>17</sup> with the idea of having him as the official representative of Rubber Development telegraph López urgently that his operations were interfering with those of Wrigley<sup>18</sup> south of Coco River and were in violation of instructions given Chicle Development and consequently until his instructions from Tegucigalpa could be clarified he should immediately return to his base of operation. Apodaca pointed out that such a telegram could only be delivered through the communications system maintained by Wrigley and that López might simply laugh at such a message claiming it was only a rival's trick to remove his competition. In consequence, arrangements are now being made to send Waterhouse<sup>19</sup> or Reynolds<sup>20</sup> of Rubber Development to San Carlos by special plane tomorrow carrying a formal letter from Apodaca instructing López for the above reasons to return to base. In this way, the orders are based on interference with Wrigley's operations wholly within undisputed Nicaraguan territory and should neither

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<sup>14</sup> Guillermo Sevilla-Sacasa.

<sup>15</sup> Fernando Gonzáles S.

<sup>16</sup> Harland J. Corson, Chief of the Mexico and Central America Section, Rubber Development Corporation.

<sup>17</sup> Joseph L. Apodaca, representative in Nicaragua of the Rubber Development Corporation.

<sup>18</sup> William Wrigley, Jr., Company, rubber contractors in Nicaragua for Rubber Development Corporation.

<sup>19</sup> Russell V. Waterhouse, local representative in Nicaragua.

<sup>20</sup> T. E. Reynolds, field technician.

embarrass nor involve any of the governments concerned. It is hoped that this action to remove immediately a source of irritation of great potential seriousness will meet with the Department's approval.

Repeated to Tegucigalpa.

STEWART

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715.1715/1634

*Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)*

[WASHINGTON,] July 31, 1943.

The Nicaraguan Ambassador came in at his request. He stated that his Government had been informed that a group of Honduran citizens accompanied by Honduran law enforcement officials had recently proceeded to a point known as San Carlos on the north bank of the Segovia or Coco River for the purpose of tapping wild rubber trees in accordance with a contract which the Ambassador understands was concluded with our Rubber Development Corporation. The Ambassador wanted me to know that his Government wishes to interpose no objection whatever to the extraction of rubber which is so vitally needed in our war effort. However, the point in question is located on territory to which Nicaragua has a claim which is, in fact, involved in a procedure whereby the United States, Venezuela, and Costa Rica have offered friendly offices to Honduras and Nicaragua. The Nicaraguan Government does not propose to take any formal action in this matter but it does wish the Department to know that it does not consider that its failure to protest can be held as in any way improving the Honduran claim to the territory in question. The thought of the Nicaraguan Government apparently is that this uncontested rubber operation might later be advanced by the Hondurans as indicating an act of occupation on their part in this territory.

The Ambassador left no written communication with me. I gathered from what he said that the Nicaraguan representative in Tegucigalpa, Señor Gonzáles, had been instructed to make some wholly informal observations to the Hondurans. The Ambassador was under the impression, although he had no definite information, that the foreign offices of Costa Rica and Venezuela would also be approached by the Nicaraguan Government in the same manner as he had approached the Department.

PHILIP W. BONSALE

817.6176/21 : Telegram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, July 31, 1943—6 p. m.

[Received August 1—2 a. m.]

442. With further reference to my telegram No. 440, of July 30, 7 p.m., I called upon the Foreign Minister at noon today. I informed him that Mr. Michael Brown, representative of Wrigley, had received a telegram from his subcontractor at San Carlos complaining of the confusion and interference which would result from the establishment of another set of rubber purchasing camps and commissaries along the Coco River; that Mr. Brown appealed to Mr. Apodaca of Rubber Development; that the latter organization recognized the undesirability of having two rubber groups working in the same region and that in fact there had even been an arrangement to avoid such conflicts. I then informed the Foreign Minister that Apodaca after consulting Corson and Holt,<sup>21</sup> both of whom are in Guatemala, had today dispatched Mr. Reynolds by special chartered airplane to the Coco River; that he was accompanied by Mr. Donnelly who is López' immediate superior in Honduras and who fortunately happened to be in Managua; that they would have to make the trip up the river by boat but that they expected to reach López tomorrow morning; and that they bore a letter from Apodaca instructing López in Corson's name to close all his commissaries and rubber camps between the Pator [*Patuca*] and Coco Rivers immediately and to proceed to Tegucigalpa for further orders.<sup>22</sup>

The Foreign Minister was extremely pleased. Upon my departure he thanked me in his own name and in that of the Nicaraguan Government, indicated his belief that this would close the incident and expressed relief since he had feared that the situation would be much more complicated. The incident would thus appear to be well on the way to a satisfactory conclusion purely on the basis of interference with Wrigley's operations south of the Coco River and without directly involving the Governments concerned.

Repeated to Tegucigalpa.

STEWART

<sup>21</sup> Ernest G. Holt, special representative in Honduras of the Rubber Development Corporation.

<sup>22</sup> The plan, as carried out and described by Ambassador Stewart in his despatch No. 1389 of August 11, 1943, was altered by Reynolds and Donnelly with Embassy approval so that the order to close the rubber camps was not given by letter but issued orally to López by Donnelly, as his immediate superior in the Chicle Development Corporation, without explanation on his part and without involving the Rubber Development Corporation (817.6176/28).

817.6176/25 : Telegram

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

MANAGUA, August 3, 1943—10 p. m.

[Received August 4—12:55 a. m.]

452. Reference my telegram No. 442, of July 31, 6 p. m. I have just received a telegram from Reynolds who was delayed in reaching San Carlos. He informs me that López is discontinuing his activities between Patuca and Coco Rivers. Thus the problem appears to be solved.

STEWART

817.6176/25

*The Secretary of State to the Ambassador in Nicaragua (Stewart)*

No. 814

WASHINGTON, August 19, 1943.

SIR: With reference to your telegram no. 452 of August 3, 10 p. m., the Department encloses herewith a copy of a letter<sup>23</sup> which the Rubber Development Corporation is forwarding to Mr. Apodaca with regard to procurement of rubber in the area between the Patuca and Coco Rivers.

The Department hopes that it will be possible to reach an arrangement for rubber procurement in this area satisfactory to the Rubber Development Corporation and to the Nicaraguan and Honduran Governments, and desires you to take whatever discreet steps you deem appropriate to this end.

The Department believes that you may wish Mr. Apodaca to make the first approach to the Nicaraguan authorities, in order that you may have a preliminary indication of their attitude before you approach them. Mr. Corson's suggestions outlined in the enclosed letter are satisfactory to the Department. The Department wishes to emphasize, however, that it has no strong views as to the type of agreement which should be reached. It is confident that the two Governments will be willing to accept an arrangement which will facilitate the extraction from this area of important quantities of rubber vitally needed by the war effort which they are jointly making with the United States.

A similar instruction<sup>24</sup> is being sent by the Department to the Embassy in Tegucigalpa, and a similar letter by the Rubber Develop-

<sup>23</sup> Not printed: this letter dated August 17, 1943, from Mr. H. J. Corson, suggested that no fixed operations such as commissaries, warehouses, etc., be established in the disputed area, but instead that the Rubber Development Corporation, with the consent of the Honduran and Nicaraguan Governments, make contractual arrangements with producers from both countries to operate in clearly defined sections of that area and treat the rubber thus produced as "free" rubber.

<sup>24</sup> No. 1384, August 19, 1943.

ment Corporation to Mr. Holt. It is believed that you may wish to consult with them before presenting any concrete proposal to the Nicaraguan authorities.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

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817.6176/32

*The Ambassador in Nicaragua (Stewart) to the Secretary of State*

No. 1536

MANAGUA, September 23, 1943.

[Received October 1.]

SIR: I have the honor to refer to the Department's instruction no. 814 of August 19, 1943, enclosing a copy of a letter dated August 17, 1943, from Mr. H. J. Corson, Chief of the Mexico and Central American Section of Rubber Development Corporation, to his special representatives in Honduras and Nicaragua, with regard to rubber development activities in the region in dispute between the two countries along the Coco, Wanks or Segovia River; and to other correspondence on the above subject.

Mr. John B. Faust, Second Secretary of the American Embassy in Tegucigalpa, accompanied by Mr. Ernest G. Holt, Special Representative of Rubber Development Corporation in Honduras, arrived in Managua yesterday afternoon. Dr. J. L. Apodaca, Special Representative of Rubber Development Corporation for Nicaragua, was also in Managua, and met with the above two men in my office, with Mr. Cochran<sup>25</sup> of my staff. After an extensive discussion both yesterday and today, Messrs. Holt and Apodaca decided to reply to Mr. Corson's letter in the terms of the two communications enclosed.<sup>26</sup> From these, the Department will observe that there is no attempt to decide where the boundary lies, as between the two countries; but that Mr. Holt will confine his operations to the north of the watershed between the Patuca and Coco Rivers, from a point near Teotecacinte, and as he nears the coast, to the Mocorrón River; and Dr. Apodaca will continue to confine his formal operations to the south bank of the Coco River, but will continue to purchase (and to encourage the collection of) rubber produced on the north watershed of that river.

It is believed that these limitations on the operations of Rubber Development Corporation and its contractors, will serve to maintain a safety zone between the two groups of operations, and to avoid any clash or other difficulty which might raise once more the question of

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<sup>25</sup> William P. Cochran, Consul and Second Secretary of Embassy.

<sup>26</sup> Letter from Mr. Apodaca, September 23, 1943, addressed to Rubber Development Corporation, attention Mr. Corson, and letter from Mr. Holt on the same date to the Rubber Development Corporation; neither printed.



the actual boundary, which is in dispute between the two countries. It is hoped that this arrangement will meet with the approval of the Department and of Rubber Development Corporation.<sup>27</sup>

Respectfully yours,

JAMES B. STEWART

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817.6176/32 : Airgram

*The Secretary of State to the Ambassador in Nicaragua (Stewart)*

WASHINGTON, October 12, 1943—6:30 p. m.

A-582. Embassy's despatch No. 1536, September 23. The limitations on the operations of the Honduran and Nicaraguan organizations and contractors of Rubber Development Corporation, as outlined in the despatch, meet with the Department's full approval. The Washington office of the Corporation has also expressed to the Department its approval.

The solution is of course to be considered as a scheme of procurement operations only, and not as an indication of any opinion on or recognition of border claims by any Government.

Sent to Managua and to Tegucigalpa.

HULL

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<sup>27</sup> Ambassador Erwin in Honduras received a copy of this despatch and informed the Department in his despatch No. 420, September 28, 1943, that he fully approved of the arrangement outlined by Ambassador Stewart (817.6176/34).

## EFFORTS OF THE UNITED STATES TO IMPROVE RELATIONS BETWEEN THE DOMINICAN REPUBLIC AND HAITI

738.39/497

*The Ambassador in Haiti (White) to Mr. Willard F. Barber of the  
Division of the American Republics*

PORT-AU-PRINCE, August 18, 1943.

DEAR MR. BARBER: When I went to see President Lescot yesterday after his week's holiday at Furcy, which has been of benefit to him, he produced quite a repertory of Dominicana for my edification.

In my letter to you of August 11th,<sup>1</sup> third paragraph on the first page and first paragraph on the second page, I mentioned the postage stamp episode.<sup>2</sup> This has been made the subject of a Dominican official note. As Chevalier<sup>3</sup> is on leave here, my colleague, Rodriguez,<sup>4</sup> is now used as the transmitter of these messages,—I do not for a moment believe he originates them.

Another note referred to poaching by Haitian fishermen (see paragraph 2 of my letter to you of August 11th, first page). The Haitian Government was invited to stop Haitian poachers, which the President said was difficult, as they start off in little cockle shell boats to catch, as he expressed it, "a few sardines".

Rather more serious potentially was a third note informing the Haitian Government that a certain sum had been appropriated by the Dominican Government for repairing the frontier posts (on the Haitian-Dominican frontier); which, it is stated, were becoming dirty or overgrown. The Haitian Government was requested not to interfere with the work of the laborers employed for rehabilitating these posts. Now the objectionable features about this are that a revamping of frontier posts should be presumably done, if not with the collaboration, at least certainly with the consent of the two governments

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<sup>1</sup> Not printed.

<sup>2</sup> The Dominican Government had been endeavoring, since 1937, to induce the Haitian Government to retire from circulation an issue of postal stamps which showed a map of Hispaniola with Haiti alone named and no indication of the frontier or any allusion to Dominican territory. The episode referred to here was a recent indication that despite repeated Haitian promises, the stamp was evidently still in circulation.

<sup>3</sup> Plinio B. Pina Chevalier, Commercial Counselor in the Dominican Legation, Washington.

<sup>4</sup> José Ramón Rodríguez, Dominican Minister to Haiti.

and the note was not couched in such a way as to ask the Haitian Government's consent. In the second place, it was thought that the reference to not interfering with the labor which the Dominican Government might employ may represent an attempt to get round the Haitian decree forbidding labor going out of the country without a special inter-governmental agreement, as the President anticipates that the Dominicans would use Haitian labor for the purpose. The idea that this cleaning is a pretext, is heightened in my mind, by the recollection of the very clean posts, which I saw along the "international highway" section of the frontier.

I asked for copies of all these notes and the replies thereto, which I have no doubt will be forthcoming in due course and with which I will supply you.<sup>5</sup>

The President said that he was considering denouncing the Haitian-Dominican Trade Convention<sup>6</sup> adopted in the early part of his administration to meet with the wishes of the Dominicans. Mr. Pearson<sup>7</sup> has apparently been called upon for a study of the situation in this respect. Pearson tells me that his own view is that the policy of Dominicanization of the frontier is directly opposed to the idea at the back of the Commercial Agreement, so that it might be as well to denounce the latter. I urged the President not to denounce the Agreement off-hand, but to write a note explaining the situation to the Dominican Government and asking it if there were any good reasons why the Agreement should be continued in force; my idea being to avoid putting Haiti in a position of being the provoker, which is what the Dominicans are trying to do.

The President said that he thought probably the best way to put a stop to this whole policy of pinpricks would be to withdraw his diplomatic and consular representation in the Dominican Republic and turn over Haitian interests to the U.S.A. He authorized me to get a reaction from Washington on this possibility. Personally, I think the idea has merit, because, if Trujillo<sup>8</sup> were to start raising postage stamp episodes through Warren<sup>9</sup> and myself, one way or another the idea could be politely conveyed to him that his complaints

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<sup>5</sup> Copies transmitted to the Department by the Ambassador in Haiti in his despatch No. 2165, August 24, 1943; none printed.

<sup>6</sup> Signed at Port-au-Prince August 26, 1941; for text, see *British and Foreign State Papers*, vol. cXLIV, p. 754. For correspondence concerning this Convention, see *Foreign Relations*, 1941, vol. VII, pp. 350 ff.

<sup>7</sup> Thomas Pearson, vice president of the Banque de la République d'Haiti.

<sup>8</sup> Rafael L. Trujillo Molina, President of the Dominican Republic.

<sup>9</sup> Avra M. Warren, American Ambassador in the Dominican Republic.

were ridiculous, or, at any rate, inappropriate to the present world crisis. Trujillo, however, might reduce the value of the plan (*a*) by continuing his diplomatic representation here, even if the Haitians withdrew theirs, or more likely (*b*) by getting some other American country,—let us say Mexico,—to take care of Dominican interests here instead of ourselves.

If the Department has any definite opinions as to the desirability or not of such a step, I would be obliged if you would discreetly let me know.

Whether the Haitian Government will get rid of the Dominican Consuls in Cayes and Jérémie, I do not know. The President seems a little chary of taking action. Personally, I think that if he were to do this, it would have a salutary effect upon the Dominicans.

Sincerely yours,

J. C. WHITE

738.39/497

*The Chief of the Division of the American Republics (Bonsal) to the Ambassador in Haiti (White)*

[Extract]

WASHINGTON, August 24, 1943.

DEAR JACK:

May I also reply to your other letter of August 18<sup>10</sup> in which you referred to the President's informal desire to have our impressions regarding the withdrawing of representation to the neighboring Republic. Frankly, I am inclined to think that at this juncture in international affairs it would be highly undesirable for there to be a rupture in diplomatic relations between any of the United Nation[s], and even more unfortunate for there to be a break between two of our good neighbors. I am certain that you will be able to convey this general notion to the President without giving him any cause to think that we have espoused the cause of his opposite number, while at the same time retaining that very friendly and helpful atmosphere in which you appear to work in Port-au-Prince wherein the President feels free to inform you at any moment of his hopes and of his perplexities.

With kind personal regards,

Sincerely yours,

PHILIP W. BONSAI

<sup>10</sup> *Supra*.

738.39/498

*Memorandum of Conversation, by Mr. Willard F. Barber of the  
Division of the American Republics*

[WASHINGTON,] August 31, 1943.

Participants: Ambassador Liautaud of Haiti,  
RA <sup>11</sup>—Mr. Bonsal and Mr. Barber

Ambassador Liautaud called at the Department at his request under instructions from President Lescot and related a number of little incidents which had recently marked Haitian-Dominican relations and which President Lescot wished to be brought to the attention of the Department. The most recent incident was a note sent to the Haitian Foreign Office by the Dominican Minister at Port-au-Prince which referred back to earlier exchanges of correspondence in 1937 and 1938 regarding the issuance by the Haitian Government of postage stamps. The stamps in question displayed a map of Hispaniola which was called Haiti. The Dominican Minister's note had concluded by saying that the failure of the Haitian Government to stop the use of the stamps indicated its hostility.

Ambassador Liautaud then went on to refer to other equally stiff notes from the Dominican Government which had protested against the use of a certain luggage sticker by a Port-au-Prince hotel, et cetera. Ambassador Liautaud also showed a copy of the Dominican newspaper *La Opinion* which contained some vulgar and horrible illustrations which are obviously anti-Haitian.

The Ambassador deplored these unfortunate incidents which he said really were quite ridiculous for the subject of official governmental communications. However, a study of the exchanges of correspondence he said would show that throughout these various exchanges the attitude and tone of the Dominican Government had been consistently stiff and demanding whereas the Haitian Government had been equally consistent in making replies that were reasonable and conciliatory.

Mr. Bonsal said that he was very sorry to learn of this matter, particularly at this time when the international situation required friendly cooperation amongst all the members of the United Nations. He hoped that the Haitian Government would continue to follow a policy of patience and forbearance. In reply to Mr. Bonsal's question, Ambassador Liautaud said that he was unable to explain why the Dominican Government should have taken such an attitude. (Later Ambassador Liautaud told Mr. Barber that he thought the cause of the Dominican hostility might be based on racial considerations.)

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<sup>11</sup> Division of the American Republics.

Ambassador Liautaud concluded by giving it as his own opinion that President Lescot might wish to mention this subject during his contemplated visit to Washington in a conversation with President Roosevelt.

WILLARD F. BARBER

738.39/515

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] September 17, 1943.

The Ambassador of the Dominican Republic<sup>12</sup> called at his request. He said that for the first time for a considerable period he was obliged to bring disagreeable news which related to the relations between his country and Haiti. He said that more or less small incidents and acrimonious talk have brought about strained relations between the two countries with the result that Haiti has given notice that the bilateral trade treaty<sup>13</sup> existing between the two countries will be denounced.

The Ambassador then launched into a series of statements about how Haiti was giving offense to the Dominican Republic. Each of these was a very small matter in itself. One related to the printing of stamps and the like showing only Haiti on the Island; the others were purely minor. At any rate the upshot of the matter was the present strained relations. The Ambassador finally said that President Trujillo would not in any event violate the spirit of Pan American solidarity and of cooperation to keep the peace, et cetera.

I paid President Trujillo a high compliment for his elevated and high-toned attitude and position. I said only big men can do big things. I then expressed regret all along the line about the occurrences which he had detailed. I said I did not know whether anything in particular could be done about the treaty matter, that I was under the impression that in any event the treaty abolition would not make much difference in the volume of trade between the two countries. The Ambassador had a different view from this.

The Ambassador then referred to the fact that the President of Haiti was supposed to be coming to Washington during the coming weeks and for that reason he was acquainting me with the existing situation. I again expressed regret about these relations and said that if there was anything that I could say later as a mutual friend of both countries that might be helpful in clearing up these disagreeable incidents, I would be only too glad to do so. This seemed to satisfy him for the present.

C[ORDELL] H[ULL]

<sup>12</sup> Jesús M. Troncoso.

<sup>13</sup> The Haitian-Dominican Trade Convention of 1941.

738.39/530: Telegram

*The Ambassador in the Dominican Republic (Warren) to the  
Secretary of State*

CIUDAD TRUJILLO, October 28, 1943—11 a. m.

[Received 4:43 p. m.]

316. In the course of conversations with President Trujillo and the Secretary of State for Foreign Affairs, Peña Batlle, they mentioned the visit of President Lescot of Haiti to the United States<sup>14</sup> and expressed some surprise at the cordiality of Lescot's reception. I told them that the higher officials of the Department of State were concerned over the deterioration of Dominican-Haitian relations and there was a disposition to place the major part of blame on Dominican officials and through them directly upon President Trujillo himself.

I informed them that Ambassador White and I had been given the privilege of endeavoring to improve the relations.

They replied that they were disposed to cooperate to this end. President Trujillo said that care would be taken during the Centenary celebration<sup>15</sup> to avoid any adverse reference to Haiti and that as evidence of his good will he was prepared to invite President Lescot to attend the celebration as the guest of the Dominican Government.

WARREN

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<sup>14</sup> President Lescot visited the United States in October 1943.

<sup>15</sup> A celebration planned for 1944 in honor of the founding of Santo Domingo.

## ARGENTINA

### DISCUSSIONS LEADING TO THE RECOGNITION OF THE GOVERNMENT OF GENERAL PEDRO P. RAMIREZ

835.00/1418 : Telegram

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

BUENOS AIRES, June 1, 1943—3 p. m.

[Received 3:42 p. m.]

1144. We are in another period of alarms and revolutionary rumors, this time centering around General Ramírez, the Minister of War. Ramírez and a group of active officers in the army and navy have been worried for months at Argentina's inability to obtain arms to keep up with the arming of her neighbors. They were reliably reported some months ago to have vainly asked the President to alter the country's foreign policy in order to make it possible to acquire arms through Lend-Lease. Their alarm appears now to have grown to such proportions that they are reported to be contemplating even an army revolution. We are told that this group of generals approached the Radicals inquiring whether they would have that major political party's support in the event they tried a *coup d'état*. Our informant, a Radical Deputy, says that he has been a member of the Radical group which has held exploratory conversations in this sense with representatives of the Armed Forces. He confesses that the situation is still confused. The army does not like Patrón Costas<sup>1</sup> but will probably refrain from violence if he commits himself to a change in foreign policy in line with the wishes of this group.

Another rumor accounted for Ramírez's activities on the ground that he is preparing a nucleus in the army and navy to resist any position adopted by Nationalist[s] to block Patrón Costas' candidacy for the Presidency. Rumors are so rife that he was forced to publish a statement in this morning's press denying that he is engaged in any activities other than those connected with his capacity as a soldier and a Minister of State.

ARMOUR

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<sup>1</sup> Vice President of Argentina.



835.00/1450 : Telegram

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

BUENOS AIRES, June 5, 1943—3 p. m.

[Received 3 :27 p. m.]

1207. The President <sup>2</sup> has arrived in Buenos Aires and resigned. The Minister of the Interior has been arrested and taken to military headquarters. Nothing is known of the whereabouts of the Minister of the Navy.

The Ministers of Foreign Affairs, Justice and Public Instruction, and Agriculture have just arrived by plane from Montevideo. The last named was immediately arrested and taken to police headquarters.

The Paraguayan First Secretary,<sup>3</sup> who is close to Rawson <sup>4</sup> and has, therefore, been designated by the American Chiefs of Mission as liaison man with the revolutionaries, has just been to the Casa Rosada and after talking with Rawson and Ramírez has informed us that there will be no junta, but that Rawson at Ramírez's wish will be chief of the Government, that Ramírez and Benito, not Saba, Sueyro will hold the portfolios of War and the Navy; and that the new Government's foreign policy will be compliance with international obligations and a total change in foreign policy.

The country is reported all quiet.

ARMOUR

835.00/1452 : Telegram

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

BUENOS AIRES, June 5, 1943.

[Received June 5—8:45 p. m.]

1213. Constitution of Government just announced as follows:

President General Arturo Rawson; Vice President Rear Admiral Saba H. Sueyro; Foreign Minister General Domingo Martínez; Navy Vice Admiral Benito Sueyro; Finance Dr. José María Rosa; Interior Vice Admiral Segundo Storni; War General Pedro P. Ramírez; Public Works General Juan Pistarini; Justice and Education Dr. Horacio Calderón; Agriculture General Diego Mason.

ARMOUR

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<sup>2</sup> Ramón Castillo.

<sup>3</sup> E. Tombeur.

<sup>4</sup> Gen. Arturo Rawson.

835.00/1454 : Telegram

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

BUENOS AIRES, June 6, 1943—1 a. m.

[Received 6:05 a. m.]

1215. Cabinet as reported in telegram No. 1213 is extremely disappointing to say the least as it includes several persons who have hitherto been known as holding Nationalist or even pro-Axis sentiments. Our information indicates that the following fall into foregoing category: Rawson, Ramírez, Martínez, Saba Sueyro, Benito Sueyro, Pistarini, Rosa. General Mason considered politically neutral. Vice Admiral Storni retired in 1935 after 38 years service in navy. No information yet available on his political views. Dr. Calderón, 73 years office [*old?*], lawyer, educator and businessman, has had distinguished public and professional career. He is not believed to have any pronounced political opinions. Rosa is a well known Nationalist, identified with formation of several anti-Democratic organizations, and is owner of "Editorial Argentina" which is on Proclaimed List as publishers of *El Pampero* and other pro-Axis publications. General Martínez was Chief of Police under Castillo. His uncooperative and apparently hostile attitude in connection with police investigation of Nazi subversive activities following presentation of our memoranda to Argentine Government last November<sup>5</sup> has been frequently mentioned in Embassy's reports on that subject.

The composition of this Government, following upon signed proclamation of General Rawson reported in telegram No. 1202,<sup>6</sup> tends to dissipate hopeful impression created by first proclamation widely disseminated at beginning of revolutionary movement on June 4, reported in telegram No. 1184.<sup>7</sup>

Please refer in this same connection to Embassy's telegrams Nos. 1214<sup>8</sup> and 1216.<sup>9</sup>

ARMOUR

835.00/1453 : Telegram

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

BUENOS AIRES, June 6, 1943—1 a. m.

[Received 6:35 a. m.]

1214. Following is the substance of a statement made to Tombeur, the Paraguayan Secretary acting as liaison between the American

<sup>5</sup> See *Foreign Relations*, 1942, vol. v, pp. 217 ff., *passim*.

<sup>6</sup> Dated June 4, not printed.

<sup>7</sup> Not printed.

<sup>8</sup> *Infra*.

<sup>9</sup> Dated June 6, p. 369.

Chiefs of Mission and the revolutionary chiefs this evening by Rawson in a private conversation he and Ramírez had with Tombeur.

"With regard to internal policy we have declared from the beginning and maintain, that we are resolved to fulfill our words with facts, that is that we are soldiers of the Constitution and of the laws for the violated sanctity of which we have gone into action. This is a clearly Argentine situation which manifests itself by means of the Armed Forces. We are not and cannot be Fascists nor Leftists. We are clearly democratic and are resolved to limit ourselves entirely to the mandates of our political charter."

(There follows a list of the new Government.)

"With respect to foreign policy we are convinced and resolved that we shall extend the generous and frank hand to the inter-countries of America in an ample gesture of solidarity and fraternity. We shall fulfill the international pacts *rineb* [*sic*] (emphatic) and also those of Rio de Janeiro<sup>10</sup> which have not been respected either in their spirit or their letter. You can say that any other information is apocryphal and frankly tendentious, which is criminal, and as a result damages the reputation of this Government and the country. For the rest, I cannot be denying everyone of the irresponsible pieces of information that are carried to the foreign Embassies. What we have said, General Ramírez and I myself, last night does not change in 24 hours. Civilians may make speeches and sign treaties and then not fulfill them. We know what we want and as it seems have other ethics.

The first part of this statement (referring to the sheet carrying the alleged statement of the Casa Rosada Secretary to the press that closest relations were desired with the American countries but that the foreign policy would not be changed) interprets clearly what I am repeating but without the special mention of the United States since I respect equally all the sister peoples of America. As for the second part, you can see it does not jibe with the first. How can it be exact if we are reacting precisely against that (isolationism). Naturally we shall not adopt an extreme measure at once, since many are the interests engaged. Furthermore neither Washington nor Rio de Janeiro seeks that we embark on that now (Tombeur uncertain whether this alludes to breaking relations). But it is certain that it is this Government's decision to stop past errors and strengthen our solidarity with America more and more. We are not disposed to continue this policy of incomprehension, the policy of isolation. Have the goodness once again to make very clear and in definite form, what I have just said.[""]

At this moment the General terminated the conversation and took up the telephone for a call from Washington from a person whose identity Tombeur said he did not know (around 6:30 p. m. Washington time).

The impression Tombeur gave of the two Generals' position is that they feel they must go slowly at first so as not to offend elements

<sup>10</sup> For the resolutions of the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-23, 1942, see Department of State *Bulletin*, February 7, 1942, pp. 117 ff.; for correspondence concerning this meeting, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

among their supporters who may not be in accord with their projected foreign policy i.e. Nationalists unfriendly to the United States or United Nations, but that when they become firmly established they will be able to impose their will.

ARMOUR

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835.00/1455 : Telegram

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

BUENOS AIRES, June 6, 1943—2 a. m.

[Received 6:15 a. m.]

1216. At the third meeting of American colleagues this evening it was the unanimous opinion that recognition of the new Government, if and when accorded, should be as nearly simultaneous as possible. The Brazilian, Chilean and Paraguayan Ambassadors stated they had already received authorization to accord recognition once the customary notice had been received that the new Government had been constituted and was prepared to carry out international obligations etc.

The colleagues felt that with the resignation of Castillo and cessation of all resistance there would no longer appear to be any valid reason for withholding recognition particularly in view of categorical statements of Pan American solidarity and intention to carry out Rio agreements made by Rawson and Ramírez to First Secretary of Paraguayan Embassy for communication to American Diplomatic Corps. (See Embassy's telegram 1214, June 6, 1 a. m.)

It was decided so to recommend to our respective Governments. This decision, however, was reached before full composition of new Government was known and I have not been able to discuss situation since except with Cuban Minister. He and I feel that, while we could not perhaps insist on specific assurances in writing from new Government that they intend to carry out Rio commitments, we might properly request that to usual statement regarding intention to carry out international agreements should be added "including all continental agreements" or words to that effect.

The Cabinet is undoubtedly a bad one. (See Embassy's telegram 1215 of June 6, 1 a. m.) How far our feelings regarding the nature and composition of the Government should influence us on deciding upon recognition is hard to say. I still feel that one, if not the prime motive, in the movement was to put the Armed Forces in a position to obtain war material and they know that to accomplish this a condition precedent is the severance of relations with the Axis. In other words they are probably in earnest when they state they intend to carry out the Rio commitments and, of course, for the future of

American relations this is very important. On the other hand it will mean our having to deal notably in foreign affairs and finance with men whose past records do not inspire confidence to say the least.

There is to be another meeting of the colleagues tomorrow afternoon. It would be helpful if I could have Department's views. If Department feels that uniform action by all Republics is important and we are not prepared to grant prompt recognition Department may wish so to advise other Governments particularly Brazil, Chile and Paraguay.

ARMOUR

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835.00/1455 : Telegram

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

WASHINGTON, June 6, 1943—2 p. m.

838. Your 1216, June 6. 2 a. m. We are fully in accord with the unanimous opinion of your American colleagues that "recognition of the new Government, if and when accorded, should be as nearly simultaneous as possible". In order that all the American governments may arrive at a common decision and take simultaneous action it is obviously necessary that there be the fullest exchange of information and consultation between the several governments regarding developments in Argentina. We feel confident that your colleagues will be ready to go along in the exchange of information and consultation so that their governments may have complete information before them at the time decision is made with regard to recognition.

For your guidance we believe that action upon recognition should be postponed so that all the governing facts can be more fully developed and understood for the benefit of each Government, including those favoring the Estrada Doctrine.<sup>11</sup> We feel the need of further information particularly respecting the effect of the Cabinet appointments upon popular support for the new regime and with regard to the precise intentions of the Government with respect to foreign policy.

A telegram quoting the first paragraph of this message is being sent to all of our Missions for guidance in the event that the governments to which they are accredited consult with regard to the attitude on recognition of this Government.

HULL

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<sup>11</sup> Doctrine set forth by the Mexican Minister for Foreign Affairs in 1930; see Supplement to the *American Journal of International Law*, vol. 25 (1931), p. 203.

835.00/1457 : Telegram

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

BUENOS AIRES, June 6, 1943—9 p. m.

[Received 11:11 p. m.]

1218. At the meeting of American colleagues this evening I outlined our Government's position in accordance with my telephone conversation today with Duggan.<sup>12</sup> It was decided that the Uruguayan Ambassador<sup>13</sup> as Dean would request his Government's permission to call informally on General Rawson and to thank him for his expressions of solidarity transmitted through the First Secretary of the Paraguayan Embassy and particularly his reference to the Government's intention to carry out the Rio resolutions. It was agreed that this procedure would probably elicit from Rawson confirmation of statements already made to the Paraguayan which I pointed out was important to have as Rawson's previous declarations had been made prior to the formation of the Cabinet.

If Rawson confirms these statements to the Uruguayan Ambassador it was the opinion of the colleagues that this should furnish us all the assurances we could reasonably expect. I pointed out very clearly to them that it was not my Government's intention or desire to bargain with the new Government or to impose a break in relations with the Axis as a condition precedent to recognition: that we merely felt that some more definite knowledge of the Government's intentions regarding foreign policy was desirable particularly because of the presence in the new Cabinet of certain officials of doubtful sentiments. While the colleagues all agreed that the inclusion of certain persons in the Cabinet was unfortunate, those who know Rawson well are convinced that he will dominate the Cabinet and that any assurances we can secure from him will be carried out.

We are to meet tomorrow at noon to hear the result of the Uruguayan Ambassador's visit which it is presumed his Government will authorize. It was further agreed that no action towards recognition would be taken by any one of us without consultation with the entire body. In view of the Uruguayan Ambassador's call on Rawson tomorrow my colleagues decided not to communicate with their respective Governments tonight the information I gave them regarding our Government's position on the question of recognition.

ARMOUR

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<sup>12</sup> Laurence Duggan, Adviser on Political Relations; memorandum of conversation not printed.

<sup>13</sup> Eugenio Martínez Thedy.

835.00/1461 : Telegram

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

BUENOS AIRES, June 7, 1943—4 a. m.

[Received 4:23 a. m.]

1222. Embassy's 1221, June 7, 3 a. m.<sup>14</sup> At 3:40 this morning General Rawson resigned as President of the Provisional Government, "in view of the impossibility of reaching an agreement on the constitution of the Cabinet." General Ramírez has issued proclamation to the Armed Forces and the people of the Republic announcing his assumption of the Government and command of the Armed Forces of the nation. The Cabinet is continuing in session.

ARMOUR

835.00/1456 : Telegram

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

BUENOS AIRES, June 7, 1943—6 p. m.

[Received 6:24 p. m.]

1217. The situation is outwardly quiet with Sunday activities proceeding normally. There is widespread anxiety viewed over several appointments in the Cabinet and it is understood protests are being received by Rawson even from members of the Armed Forces including colonels in active command of key units. There is a feeling that a struggle between Nationalists and democratic forces within the successful revolutionary movement is going on in the Casa Rosada and that on the outcome of this depends the future complexion of the Provisional Government.

Ahead the Radicals are the only major political party that has expressed any opinion on the revolution. Their national committee yesterday before composition of Cabinet was announced issued a statement approving the revolution and expressing faith in its purposes. They now profess keen disappointment.

The two members of the former Cabinet who had not yet returned to Argentina, the Ministers of Finance and Public Works, arrived by night boat this morning.

ARMOUR

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<sup>14</sup> Not printed.

835.00/1492 : Telegram

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

BUENOS AIRES, June 8, 1943.

[Received June 8—8:10 p. m.]

1255. Note dated today just received from Foreign Office reads in translation as follows:

"I have the honor to address Your Excellency bringing to your notice that as a consequence of the events which are of public knowledge Major General Pedro P. Ramírez has assumed the Provisional Presidency of the nation, designating Rear Admiral Saba H. Sueyro to discharge the Vice Presidency and Messrs. (Here follows the list of the new Cabinet.) Permit me on this occasion to express to Your Excellency the friendly intentions which animate the new Government for the continuance of the good and traditional relations which it maintains with the country which Your Excellency so worthily represents among us. Therefore I present to Your Excellency the assurances of my highest and most distinguished consideration." Signed Segundo R. Storni, Minister for Foreign Affairs and Worship.

ARMOUR

835.00/1501 : Telegram

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

BUENOS AIRES, June 9, 1943—2 a. m.

[Received 4:50 a. m.]

1260. In reply to your question this morning regarding public reaction to present Government it is a fact that general sentiment in this country is opposed to military government of dictatorship. The difficulties which Uriburu<sup>15</sup> met with increasingly until he called elections late in 1931 are evidence of this feeling. In present instance the public will react favorably only if convinced that the military phase is temporary and that the Government intends to return the country to a constitutional regime.

The Radical group which was in contact with Ramírez before the revolution (telegram 1144 of June 1, 3 p. m.) and which represents a good majority since it comprises several factions is not yet clear as to Ramírez's future plans. According to one of the leading Radicals in contact with him past assurances they have received make them hopeful that he will before long call the country to general elections. The alternative is a military dictatorship of at least several years

<sup>15</sup> José Evaristo Uriburu, President of Argentina from September 8, 1930, to February 20, 1932.



duration. The Radicals expect before the end of the week to ascertain Ramírez's position. At the same time they admit they must prove to him their responsibility and solidarity as a party holding out to him the attractive prospect of making him their candidate which in free elections would almost certainly result in his being President with the backing of a large part of the country. If negotiations result favorably to them they will probably issue another manifesto supporting the Ramírez government. If such a declaration from the Radical Party should precede our recognition this would undoubtedly be preferable but this may require some days. On the other hand certain of my colleagues notably of the neighboring countries are insistent that recognition should be as soon as possible. Their argument is that the Supreme Court has given its official recognition; that we have received informal but they consider satisfactory assurances from Ramírez and Storni that he intends in due time to break relations; and delay in recognition will work in favor of our enemies who are already attempting to create difficulties by spreading rumors to effect that Brazil and Paraguay are mobilizing on their frontiers and showing an unfriendly attitude to the Provisional Government. These rumors have been officially denied by the Brazilian and Paraguayan Ambassadors. The Government's notification of its constitution has been received. The American Chiefs of mission will hold a full meeting tomorrow at 10 a. m.

I shall then know the sentiments of my colleagues. I should like the opinion to prevail that we should not be precipitate and I very much hope that they can be persuaded individually to withhold recognition at least until the end of the week or Friday morning at the earliest. In 1930 the first recognition came 7 days after the revolution and although conditions are never the same twice, a delay of at the most 3 or 4 days should not be considered an unfriendly attitude by the Provisional Government. However, should the sentiment be as I think it may be in favor of immediate recognition with the threat of individual initiative by several of the neighboring countries then in the interests of American solidarity I think we should be best advised to agree. A number of the small countries will undoubtedly follow our lead (two at least have already received instructions to do so). And if we appear instrumental in having them withhold recognition while others grant it we should get off to a bad start with the Government. However, after conversation this morning with the above-mentioned Radical I have the impression that his group feels that the withholding of recognition by all American nations for a short time may incline Ramírez to be fully cooperative with them. This

frankly would have the beneficial result of making the President's position more solid among Liberal elements among whom are many friends of the United States and of leading to an early return of the country to a constitutional regime.

With regard to foreign policy our informant of this morning feels Ramírez is bent on the fullest collaboration with the United States a position he has reflected to the Radicals since the beginning. This, however, he does not feel will be immediate in view of division in the army on the subject.

ARMOUR

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835.00/1492 : Telegram

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

WASHINGTON, June 9, 1943—4 p. m.

851. Your telegram no. 1255 of June 8. On the understanding that the diplomatic representatives of the other American republics do likewise, you are authorized on or after noon Friday, June 11, to deliver a note to the new Argentine Government acknowledging its communication of June 8, taking note of the friendly intentions which animate that Government and stating this Government's desire to maintain cordial relations with the new Government.

At the meeting with the chiefs of mission of the other American republics to decide upon final action regarding recognition, and at your first interview with the Foreign Minister, please make an oral statement along the following lines:

The Government of the United States has been glad to join with the other American governments in entering upon official relations with the new Government of Argentina. It has read with satisfaction the public declarations of the new Argentine Government affirming a policy of friendship and loyal cooperation with the nations of America in accordance with the agreements in force, and that this policy will be implemented by acts. This assurance is especially welcome in view of the fact that these agreements were designed to protect the safety of all American nations which now is gravely threatened by the lawless aggressors. In the light of these important declarations of basic policy, this Government in entering into relations with the new Argentine Government has the hope and belief that Argentina will collaborate in the same spirit and measure as the other American republics for the fulfillment of inter-American solidarity in all its aspects and for the attainment of those general conditions of world order to which all free peoples aspire.

HULL

835.01/66 : Telegram

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

BUENOS AIRES, June 9, 1943—6 p. m.

[Received 8:52 p. m.]

1269. Brazilian Ambassador sent his First Secretary to me at 4:30 this afternoon to inform me as follows:

The Brazilian Ambassador had received definite and categorical instructions to recognize the Argentine Government today which instructions had been sent him by Aranha<sup>16</sup> after consulting with Vargas;<sup>17</sup> that both the Department and Caffery<sup>18</sup> had been informed of this unalterable decision; that the Ambassador would call on Storni this afternoon and present note extending recognition but that Rodriguez Alves<sup>19</sup> would request Storni to defer making recognition public until tomorrow.

I said that up to the time of the meeting this morning I had had no word from my Government that it had been advised of this decision on the part of the Brazilian Government and must therefore assume that Brazil's decision had been communicated later. I further asked the Brazilian Secretary to express to his Ambassador my regret at this break in what I and, I felt sure from the sentiments expressed at the meeting, most of my other colleagues had hoped would be a united front.

In view of Brazilian decision other bordering countries have stampeded and Chile, Bolivia, Paraguay and probably Uruguay will recognize tomorrow. Nicaragua, Ecuador, Cuba and Mexico have expressed desire to follow us and await Friday what should be our decision. Others not yet heard from except Peruvian who also willing to stand by this morning's agreement but feels united front so important at this time we would be well advised to advance time to tomorrow in order that recognition may carry same date as others. While I have not yet received Department's telegram referred to by Duggan, I feel we should rest on decision for Friday unless developments tomorrow make earlier recognition advisable.

ARMOUR

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<sup>16</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>17</sup> Getulio Vargas, President of Brazil.

<sup>18</sup> Jefferson Caffery, American Ambassador in Brazil.

<sup>19</sup> Brazilian Ambassador in Argentina.

835.01/65 : Telegram

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

BUENOS AIRES, June 9, 1943—8 p. m.

[Received 8:02 p. m.]

1272. Embassy's telegram No. 1269, June 9, 6 p. m. Have just been informed Chile, Paraguay and Bolivia gave their recognition this evening. I understand Uruguay will probably follow tonight.

ARMOUR

724.25/104 : Telegram

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

BUENOS AIRES, June 10, 1943—11 a. m.

[Received 11:14 a. m.]

1275. It is not intended to have another meeting of the American colleagues and in view of the hard feelings engendered among them because of precipitate action of Brazil resulting in independent action by other bordering countries, I consider it would be most undesirable to attempt to call them together in order to make the statement contained in Department's 851, June 9, 4 p. m. I, therefore, propose to make the statement as instructed to the Foreign Minister tomorrow and to my American colleagues individually.

ARMOUR

835.00/1531 : Telegram

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

BUENOS AIRES, June 11, 1943—5 p. m.

[Received 8 p. m.]

1300. Embassy's telegram 1296, June 11.<sup>20</sup> Foreign Minister received me less than an hour [after?] presentation of note of recognition. Interview which lasted some 20 minutes was cordial and I received an excellent impression. Minister opened conversation by saying he would like to speak to me as a man and not a Minister. He was of Swiss descent, the spirit of independence was in his veins and anything to do with dictatorship was abhorrent to him. At the time of Neibuhr incident<sup>21</sup> he had been firmly of opinion that Government should not only have broken relations but declared war.

<sup>20</sup> This message read as follows: "Recognition note delivered 12:01 p. m." (835.01/87)

<sup>21</sup> For correspondence concerning Axis espionage activities in Argentina, see *Foreign Relations*, 1942, vol. v, pp. 201-261, *passim*.

When this was not done he had retired to his corner and stayed there. He had never been connected with any revolutionary movement and was in the country at the time he had been requested to join present Government. The movement was he could assure me entirely democratic in its principles.

Speaking as Minister he asked me what he could do to be of assistance. I first communicated to him the declaration contained in Department's telegram 851, June 9, 4 p. m. which he received with interest and apparent approval. He told me he could assure me these were the sentiments animating his Government. I said I felt sure my Government would receive with satisfaction the news of decree issued last night prohibiting international radio messages in code.<sup>23</sup> He said this would be strictly applied and as an additional precaution he had ordered strict application of decree which had not been applied by previous government regulating entrance of visitors to ports and prohibiting photographs within port area.

He said he had two practical matters to take up with me :

(1) Petroleum negotiations.<sup>24</sup> He felt that it was important that this matter should be settled as soon as possible as it would be a forward step in continental collaboration. I told him I would be glad to present this to my Government.

(2) In speaking with Macedo Soares yesterday, latter had informed him a large Brazilian army was being trained (he mentioned 150,000 men) to be sent to United States for further training before going to Europe. He had told this to Cabinet colleagues and asked them whether the role of Argentina, descendants of San Martín who crossed the Andes in the fight for independence, was to be one of sitting with crossed arms selling grain, or whether they were to take their proper role in present world struggle. He mentioned this to me only because any information I could give him in confirmation of this report would be of assistance as an argument with his colleagues. The line of his reasoning was obvious.

In conclusion he said he felt sure we would understand they would have to proceed somewhat carefully at first; the average Argentine was essentially a Gaucho and liked to reach his decisions independently and not under pressure. I told him we entirely understood this and he could count on our Government's cooperation in refraining from anything that could be interpreted as pressure. We naturally looked forward to the time when we would find Argentina joined with us in the common cause but of course the decision would have to be reached by them and in their own way.

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<sup>23</sup> For correspondence on the United States efforts to control communications with the Axis, see pp. 512 ff.

<sup>24</sup> For correspondence on this subject, see pp. 379 ff.

In a prior conversation with Gache,<sup>25</sup> I communicated to him declaration, referred to above, leaving a copy on understanding it was oral communication. Gache confirmed that radio decree would be strictly applied to all diplomatic missions on incoming as well as outgoing messages. Gache said that reference in German recognition note to previous note dated June 4 as reported in press must have been a mistake in data [*date?*] as only previous communication Foreign Office had received from them since revolution had been acknowledgment of Foreign Office note of June 8 informing them of constitution of Government.

Repeated to Rio.

ARMOUR

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AGREEMENT CONTINUING IN EFFECT THE AGREEMENT OF JUNE 29, 1940, AS RENEWED ON MAY 23 AND JUNE 3, 1941, PROVIDING FOR THE SENDING FROM THE UNITED STATES OF MILITARY AVIATION INSTRUCTORS TO ARGENTINA, EFFECTED BY AN EXCHANGE OF NOTES, SIGNED JUNE 23 AND SEPTEMBER 2, 1943

[For text of the Agreement, signed at Washington, see Department of State Executive Agreement Series No. 340, or 57 Stat. (pt. 2) 1068.]

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NEGOTIATIONS BETWEEN THE UNITED STATES AND ARGENTINA CONCERNING PETROLEUM AND PETROLEUM PRODUCTS <sup>26</sup>

800.6363/1088

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

No. 8230

BUENOS AIRES, January 18, 1943.

[Received January 26.]

Subject: Negotiations with Argentine authorities regarding tanker pool and other petroleum matters

SIR: I have the honor to refer to the Embassy's previous despatches on this subject:

No. 6464—September 5, 1942

No. 6753—September 25, 1942

No. 7621—December 7, 1942 <sup>27</sup>

The last despatch, No. 7621, transmitted a copy of the Embassy memorandum which informed the Foreign Office that Merwin L.

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<sup>25</sup> Roberto Gache, Argentine Under Secretary for Foreign Affairs.

<sup>26</sup> For discussions in 1942 concerning the problems of shipping petroleum, see *Foreign Relations*, 1942, vol. v, pp. 400 ff, *passim*.

<sup>27</sup> These communications, not printed, dealt with the preliminary efforts to balance the Argentine need for equipment from the United States for its oil industry against the need of the United States and other American Republics for Argentine oil (811.20 (D) Regulations/8634; 800.6363/931, 1042½).

Bohan, Counselor for Economic Affairs, and Philip Clover, Technical Adviser, had been appointed to act with the Commission designated to conduct the negotiations.

On December 2 the first conversations were held between the representatives of the Embassy and the Foreign Office, and at this meeting it was decided that the first question to be discussed was the quantity of oil industry material needed. Mr. Clover has had several meetings with Sr. Villa (General Manager of the Y. P. F.<sup>28</sup>) which established that about 30,000 tons of oil industry material, including tubular goods, are reported by the operating companies as required to equip producing fields and prospective areas already geologized, excluding absolute wildcats. This information was presented to the Commission at a meeting attended by the Embassy representatives, at which time we brought out the fact that this estimate was based upon restricting the use of the material to producing fields. Therefore Ultramar<sup>29</sup> would not receive any material, as they do not have production, and Standard<sup>30</sup> would receive very little.

After some discussion, the Commission requested Mr. Clover to take a geologist from each oil company to Mr. Villa's office, to explain to him as a technical member of the Commission just what producing and prospective oil properties were held, and thus show more exactly the use which could be made of any drilling material received. This was done and the companies were requested to submit their statements in writing.

Respectfully yours,

For the Ambassador:  
MERWIN L. BOHAN  
*Counselor for Economic Affairs*

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800.6363/1114 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, March 5, 1943—midnight.

[Received March 5—10 :22 p. m.]

514. For Thornburg<sup>31</sup> from Clover. . . .

Embassy's telegram No. 487, March 2,<sup>32</sup> informed the Department of Dodero's<sup>33</sup> desire to acquire the evidently dama[ged] tanker from the Italian esadereo [*sic*]. If the transfer to the Argentine flag is approved it would greatly assist in closing the petroleum negotia-

<sup>28</sup> Yacimientos Petrolíferos Fiscales.

<sup>29</sup> An Argentine petroleum firm.

<sup>30</sup> Standard Oil Company, S. A., Argentina.

<sup>31</sup> Max W. Thornburg, Special Assistant to the Under Secretary of State and Petroleum Adviser.

<sup>32</sup> Not printed.

<sup>33</sup> A. A. Dodero, member of Cía. Argentina de Navegación Mihanovich, L. D. A.

tions if the Embassy could handle the final release and thus use the transfer as an additional incentive. It is contemplated that Argentina will export 300,000 to 350,000 tons of petroleum and thus save the time of say five or [six?] tankers. Their ships remain at their disposal but this will give almost the same operating result as if Argentina formally joined the tanker pool. Conversations will begin on this phase just as soon as the quantity of drilling material is determined and at that time it will be almost essential to have the Department's indication that the material is really available in order to counteract rumors that it never will be released.

Please inform Bohan. [Clover.]

REED

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810.6363/193a : Telegram

*The Acting Secretary of State to the Diplomatic Representatives in the American Republics Except Argentina, Chile, and Mexico*

WASHINGTON, March 6, 1943—11 a. m.

The Department, in consultation with other United Nations governments, is endeavoring to have most complete knowledge and maintain complete observation of the movements of petroleum products from and within this hemisphere. The operation of the petroleum supply pool for Latin America and the close contact maintained by this Department with its operations has proved to be an effective means of keeping the Department appropriately informed in so far as members of that pool operation are concerned. This does not apply, however, in the case of Argentina which is not a member of that pool and American oil suppliers are therefore being requested not to load oil products into any tanker under Argentine flag or charter nor to supply bunkers to any tanker or cargo vessel under Argentine flag or charter, at any port in the Western hemisphere outside the United States and its possessions, without the previous approval of this Department in each individual case. The company which contemplates loading a cargo or furnishing products except bunkers should request the Department's approval by letter or telegram.

You will understand that bunkers also are not to be supplied without previous clearance but it is not necessary to refer each request for bunkers to the Department as such requests will continue to be cleared through bunker control officer as at present and nothing in these instructions is intended to alter the present bunker control procedure.

The several oil companies have been requested to transmit this intelligence to their interested branches, agencies and sub-agencies in this hemisphere.



It has further been suggested to the oil companies that as the Department's approval might conceivably be withheld, it would be advisable for them to acquaint the Department with the facts concerning any contractual agreement which they might contemplate entering into which would call for those deliveries to Argentine vessels above described. The Department has also suggested to the companies that it would be interested in learning the details of any such contracts now in effect.

WELLES

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800.6363/1114 : Telegram

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

WASHINGTON, March 15, 1943—8 p. m.

377. Embassy's 514, March 5, 1943. Twelve thousand seven hundred and forty three tons carbon steel and 219 tons alloy steel totaling 12,962 tons are now available for a limited time under third quarter 1943 allocation for the Argentine Petroleum industry. From present indications it seems probable that an approximate similar amount will be available for the fourth quarter. Meanwhile keep the Department fully informed regarding the progress of your negotiations with the Argentine Government so that prompt action on the materials question can be taken at this end with other Government agencies in the event of a successful conclusion of your negotiations. As materials are becoming increasingly scarce daily it is advisable the Department receive as much advance notice as possible to permit release of same when a satisfactory agreement is reached.

HULL

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800.6363/1133

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

No. 9421

BUENOS AIRES, March 20, 1943.

[Received March 29.]

SIR:

The lists of material attached to the Commission's report contain the items considered necessary by Y. P. F. for the equipping of all of the companies operating in Argentina. It may be noted that the Standard Oil Company is listed as needing 3,000 tons, and that nothing is included for Ultramar. This is because the Argentines took the position originally that material should be used only in fields now actually producing.

If our informal advices are correct, the negotiations of the private companies with the Minister of Agriculture will give them access to areas for which Standard Oil will need an additional 2,000 tons of material and Ultramar will need about 12,000. This will bring the total petroleum industry requirements over the next twelve months to some 64,000 metric tons. This quantity is considered by Argentina to be a fair *quid pro quo*, and not subject to reduction. In any final agreement, it is contemplated by the Embassy that monthly minimum releases of this material will be made coincident with the export of petroleum. For instance, if the ratio is 6.5 to 1, 5,000 tons monthly of material would be counterbalanced by 32,500 cubic meters of petroleum, say 204,000 barrels, or a saving of 3 to 4 average tanker cargoes per month. It will not be feasible to use more than half of the industrial material before the end of 1943, and therefore the Department's telegram No. 377 of March 15 which indicated that some 26,000 tons of steel would be available in the last six months of 1943 shows that the material requirements and the steel supplies available are reasonably in agreement.

If the negotiation is concluded as expected,

(1) the United States will be saved the time of probably six tank steamers, which may be diverted from supplying Uruguay, Paraguay and southern Brazil.

(2) The United States-owned oil companies will be given a commercially acceptable chance to develop sufficient production to take care of their share of the Argentine market, and thus protect their very considerable investments in Argentina.

At this moment the Embassy does not consider it feasible to comment further, first, upon the likelihood of the negotiations being concluded to our satisfaction, and second, upon the real value of the arrangement to the United States.

The Department will receive further advices and the Embassy's views, in due course.

Respectfully yours,

For the Ambassador:

HUGH MILLARD

*First Secretary of Embassy*

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800.6363/1153 : Telegram

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

WASHINGTON, April 30, 1943—9 p. m.

628. Your 895, April 24, 3 p. m.<sup>34</sup> From the Under Secretary.<sup>35</sup> The file on these negotiations has been reviewed. It indicates that the

<sup>34</sup> Not printed.

<sup>35</sup> Sumner Welles.

Ministry of Foreign Relations and the Ministry of Agriculture seem to prefer an immediate agreement with regard to Argentina's collaboration to insure the maximum supply of petroleum to the other American republics using the limited facilities now available. . . .

. . . . .

It is now over 9 months since the negotiations were opened in order to bring about Argentina's full participation in the Pool. As the Department stated in its telegram no. 1699 of November 10, 1942,<sup>35a</sup> its "primary objective in present negotiations is to secure effective collaboration of Argentina in the joint effort among republics to insure maximum supply of oil to all republics with limited facilities now available". This has been and still is the primary objective in these negotiations. The reading of the file indicates that it is possible immediately to close a satisfactory arrangement with regard to the utilization of Argentine tankers in the Pool. If in your judgment the present scope of the negotiations . . . is likely to involve any further delay in arriving at an agreement on tankers you are requested to inform the Department immediately by telegram as to the best terms upon which Argentina will agree to make the tankers available . . . In appraising such terms the Department will bear in mind (a) that the other American republics are and will continue to be supplied with oil regardless of Argentina's action, (b) that tankers are rapidly being built in the United States at an expenditure of approximately 5,000 tons of steel per single 16,000-ton tanker, and (c) that this Government has no intention of depriving American ship-builders or other producers of essential war material of fabricated steel equipment and diverting it to Argentina in a manner which will work a further hardship on other American interests there without very definite assurance that the war effort can be served better by this course than by any other which is open.

. . . . .

Please let me know your decision. I will appreciate your keeping the Department fully advised by telegram of the day-to-day developments of the negotiations. [Welles.]

HULL

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<sup>35a</sup> *Foreign Relations*, 1942, vol. v, p. 423.

800.6363/1185 : Telegram

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

BUENOS AIRES, May 29, 1943—6 p. m.

[Received 6:34 p. m.]

1136. Reference Embassy's telegram 1078, May 21.<sup>36</sup> Petroleum negotiations are completed in principle and final details are expected to be submitted to the Department for consideration about June 1. Probably 36,000 tons of petroleum industry material mainly for use in extending existing fields to maintain current production will be expected in exchange for 320,000 cubic meters of petroleum delivered Uruguay and Paraguay only.

Except for army reserve of 58 drums, YPF are without ethyl fluid. If it is United States policy that there is no objection to aviation gasoline if currently consumed, about 150 drums of ethyl fluid over 12 months would seem justified and adequate; its release as part of the current negotiation would be very helpful but not essential.

Embassy's telegram 1113 of May 27<sup>36</sup> refers to this same situation so indication of Department's basic policy by telegram is urgently requested.

ARMOUR

800.6363/1191 : Telegram

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

BUENOS AIRES, June 2, 1943—6 p. m.

[Received 10:10 p. m.]

1165. Embassy's 1136, May 29, 6 p. m. Department's authorization requested to conclude with Argentine Government agreement substantially as follows:

1. The United States to make available to Argentina over the next 12 months f.o.b. New Orleans or other North American port to be named by Argentina, 36,000 metric tons of petroleum industry equipment at the minimum rate of 3,000 tons a month.

This material to be divided among the petroleum companies operating in Argentina approximately as follows (figures in tons) :

Cía. Ferrocarrilera de Petroleo 1210.

Cía. Argentina "Astra" 1330.

Ultramar 1490.

Diadema Argentina, S. A. 1970.

Standard Oil Company 3,000.

YPF 24,000.

Undivided 3,000.

Total for 12 months 36,000.

<sup>36</sup> Not printed.

2. Argentina to place at the disposal of the Petroleum Supply Committee for Latin America approximately 327,000 cubic meters of crude oil, or products if preferred by the buyer, c.i.f. Uruguay, Paraguay and Southern Brazil river or rail entry ports, at minimum rate of 30,000 cubic meters a month. For each ton of material made available by United States, Argentina to deliver ten cubic meters of petroleum.

3. Petroleum exported by Argentina to be paid for in accordance with sales contracts to be negotiated by the petroleum business entities in Argentina and in the purchasing countries. Prices paid to lie between present supply cost to purchasers and present prices received by Argentine suppliers for comparable sales to local consumers.

YPF desires 12 drums ethyl fluid per month and also one plant to produce monthly 250 cubic meters of iso-octane and another for a reforming or catalytic process to produce monthly 800 cubic meters of aviation base gasoline. If this equipment is made available the export of petroleum will be continued to a total of 360,000 cubic meters. The Embassy feels that if the ethyl fluid is forthcoming immediately the agreement can be written for 360,000 cubic meters, with the understanding that the other equipment for making aviation gasoline will be released if found to be available, at some future time.

The 36,000 tons of material to be supplied under agreement will include items most urgently needed from the lists submitted in despatch 9421, March 20, with proviso that steel is principal material and other materials will be included if and when available.

Embassy considers it highly desirable that any commitment undertaken by United States be carried out promptly to the letter in order to justify Embassy's insistence upon similar performance by Argentina. Therefore if Department authorizes the agreement Embassy will understand it to mean that all Government Departments concerned will cooperate to ensure scheduled delivery of oil industry materials.

Petroleum deliveries by Argentina cannot commence immediately at full rate without serious disruption of existing economy therefore tentative plan is 5,000 cubic meters in July, 10,000 in August, and 5,000 monthly increments to 30,000 in December and 30,000 thereafter.

Petroleum industry material to be made available 1,000 tons July, 2,000 August, 3,000 September, and 3,000 monthly thereafter as minimum but larger quantities if convenient to supplier.

Embassy suggests that allocation of petroleum be handled by Maxwell Merritt as local representative of American Pool Committee in consultation with Embassy. It would seem expedient to schedule delivery of 10,000 cubic meters to Paraguay and 317,000 to Uruguay, and supply 33,000 to Brazil river areas if additional quantity is available. Department's approval of this slight increase over present pool allotment to those countries is requested.

Probably Uruguay will receive only crude oil which may necessitate adjustments in Ancap<sup>37</sup> Refinery. Paraguay will also purchase crude but it will be refined by Standard and Shell in Argentina since these companies now divide the distribution in Paraguay. All crude will probably be supplied by YPF who thus make attractive profit although purchasers make approximately equal saving over their present costs.

In accordance with Department's telegram 1699, November 10,<sup>38</sup> paragraph 2*b*, if found necessary Argentina may wish to request one or more cargoes of short products in pool tankers which would take away equal quantities of other petroleum products. This movement would be outside of agreement quantities.

ARMOUR

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800.6363/1191 : Telegram

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

WASHINGTON, June 9, 1943—10 p. m.

854. Your telegram no. 1165, June 2. We are considering the contents of your telegram under reference both within the Department and, on a confidential basis, with the other Government agencies concerned. However, we assume that you will give us further comment on or evaluation of the proposal after clarification of the Argentine political situation.<sup>39</sup>

HULL

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800.6363/1199 : Telegram

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

BUENOS AIRES, June 11, 1943—9 p. m.

[Received June 11—8:16 p. m.]

1308. Department's telegram 854, June 9, 10 p. m. The Embassy would prefer to take the attitude vis-à-vis the Ministry of Foreign Affairs that the agreement concluded informally and submitted to the Department for consideration in the Embassy's telegram 1165, June 2, 6 p. m., is acceptable to both Governments and therefore

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<sup>37</sup> Administración Nacional Combustibles "Alcohol Portland", the Uruguayan state petroleum monopoly.

<sup>38</sup> *Foreign Relations*, 1942, vol. v, p. 423.

<sup>39</sup> This refers to the overturn of the Castillo government and the assumption of the presidency first by Gen. Arturo Rawson and then by Gen. Pedro P. Ramírez; see pp. 365 ff.

should be concluded formally without further delay. The Department's concurrence would make this approach possible.

Should it appear that the present Argentine authorities have other ideas the situation will be developed in accordance with the necessities of the case, but without a definite expression from the Department regarding the agreement as proposed, the Embassy considers it inexpedient to discuss the matter with the Argentines.

Had the political change not occurred, and had the Department so authorized, the next step in the procedure would be the Embassy's notification to the Ministry of Foreign Affairs that the proposed agreement could be formally concluded.

Refer my 1300, June 11, 5 p.m.<sup>40</sup>

ARMOUR

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800.6363/1204 : Telegram

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

BUENOS AIRES, June 14, 1943—6 p. m.

[Received 7:05 p. m.]

1329. Embassy's telegram No. 1308, June 11, 9 p. m. American press correspondents have informed the Embassy that today Minister of Foreign Affairs Storni announced in press conference that the petroleum negotiation with the United States was concluded subject to confirmation from Washington that the material would be available, on the basis that 36,000 tons of petroleum industry material would be made available by the United States and 360,000 cubic meters of petroleum would be exported by Argentina to Uruguay, Paraguay and Southern Brazil. He said that Argentina was prepared to begin exporting just as soon as the agreement was signed.

ARMOUR

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800.6363/1204 : Telegram

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

WASHINGTON, June 16, 1943—4 p. m.

878. Your telegrams 1165, June 2; 1308, June 11; and 1329, June 14. As indicated in our 854 of June 9, we have considered the proposed agreement with the other Government agencies concerned. The consensus is that the terms of the Argentine proposal as set forth in your telegram under reference, considered completely on its merits, are unsatisfactory.

A study is being made of the materials which this country would be called upon to supply, but it can be stated now that it would be ex-

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<sup>40</sup> *Ante*, p. 377.

tremely difficult to supply the amount requested, even with an improved *quid pro quo*.

The situation today affecting oil equipment, including both steel and fabricated materials, is very tight and there is difficulty in obtaining a sufficient quantity of such equipment for the direct war needs of the United States and the other United Nations. In this connection, it is noted that the over-all material requirements for the oil industry in 15 other American republics, not including Argentina, amount to 13,420 tons for the fourth quarter of 1943. Comparing this with a quarter of the 36,000 tons desired by Argentina during the next 12-month period, it is quite apparent that Argentina is asking for an amount of critical materials equivalent to approximately 68% of the entire over-all material for the other countries referred to.

Under the proposed agreement approximately four or five supply pool tankers would be released from supplying Argentina's neighbors. This saving in tankers would not be fully realized for several months. Although the tanker situation is very serious at the present time, for your confidential information it is anticipated that the tanker-building program will have reached such a stage that in a period of from 4 to 6 months from now the release of the 4 or 5 tankers would be of no great assistance. The tanker saving under the proposed agreement today has little appeal to us, whatever it might have had 6 months or a year ago.

While it is recognized that the new Argentine authorities may have gained the impression from the previous Government that the agreement was on the point of being approved by the Department, in view of the foregoing, the Department does not feel justified in authorizing you to conclude the proposed agreement.

It is believed that the best procedure in the circumstances is for you to inform the Foreign Minister quite frankly that this Government had not from the moment the proposal was submitted on June 2 considered it a satisfactory one. This Government would like to conclude a mutually satisfactory agreement of course, but any such agreement would have to provide only a part of the materials and equipment requested by the Argentine authorities. Obviously this Government cannot enter into an agreement which would provide more favorable treatment to Argentina than to the other American republics, which freely entered into the supply pool arrangement at its inception and have cooperated fully since in that arrangement.

You should advise the Foreign Minister that your Government will send you for submission to him a counter-proposal as soon as possible. In preparing this counter-proposal, the Department desires urgently from you a reduced list of minimum equipment and materials necessary to maintain present Argentine production and meet needs of



Uruguay, Paraguay and Southern Brazil. This list should give clearly (1) the total tonnage of steel and other controlled materials, and (2) the approximate dollar valuation of fabricated materials.

With further reference to material requirements, those of the oil industry in Peru, which as regards output is roughly comparable to Argentina's, are estimated at 2,200 tons per quarter.

HULL

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800.6363/1207 : Telegram

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

BUENOS AIRES, June 16, 1943—4 p. m.

[Received 5:45 p. m.]

1344. Embassy's 1329, June 14, 6 p. m. Storni's premature announcement has upset Uruguayans who are naturally concerned if Argentine crude must be handled by Ancap Refinery. Clover suggested to Dwyre today by telephone that Uruguayan worry is premature, as the agreement is not yet completed, and that in due course Ancap will receive all necessary consideration.

A Washington story fortunately killed by local UP manager who has been kept informed by the Embassy enlarged upon theme "unofficial observers consider it unlikely that the United States would be in a position to allot Argentina 36,000 tons of equipment". Story plays up Mexican, Brazilian and Venezuelan requirements as being sure to have preference and that these countries are short.

In view of all of this and also the Argentine situation the Embassy considers it highly desirable to receive at the Department's earliest convenience a reply to Embassy's telegram 1165, June 2, 6 p. m. There is no doubt in my mind that if we should refuse—or even show reluctance—to do as much for the present Government as we were prepared to do for the former Government this would cause a most unfortunate impression.

ARMOUR

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800.6363/1208 : Telegram

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

BUENOS AIRES, June 18, 1943—1 p. m.

[Received 5:54 p. m.]

1367. Department's 878, June 16, 4 p. m. It is my feeling that the Embassy will be placed in a position very detrimental to the success of our other negotiations with the Argentine Government if the Minister for Foreign Affairs is informed that the Department has not considered the petroleum proposal a satisfactory one from the

moment it was submitted on June 2.<sup>41</sup> The proposal was submitted in draft form to the Foreign Office and agreed to in principle by them before it was referred to the Department. The proposal as such cannot be described to the Foreign Minister as unsatisfactory to the Department without admitting by direct inference that the Embassy has been conducting unauthorized negotiations and has offered an arrangement without even having an approval in principle from Washington. It would be only natural for the Argentine Government to question my authority to negotiate on other subjects.

To be asked to tell the Foreign Minister that the United States wishes to conclude an agreement mutually satisfactory but under which a smaller quantity of material is to be made available leaves me at a loss to know just what is desired by the Department, in view of the instructions previously received. Particular reference is made to the following:

*a.* Department's telegram number 377, March 15, 8 p. m., which stated that 12,962 tons of steel were available for the Argentine petroleum industry in the third quarter and that probably an approximately equivalent amount would be available in the fourth. Note: The third quarter, steel allotment received from the Department list \$2,905,627 worth of material for Petroleum Company programs.

*b.* Embassy's telegram 666, March 27, 6 p. m.,<sup>42</sup> which outlined the terms of a proposed agreement, similar to the final proposal except that 64,000 tons of material and 390,000 cubic meters of oil were stated. Note: This quantity of steel is needed for a complete program.

*c.* Department's telegram 628, April 30, 9 p. m., from the Under Secretary for the Ambassador which instructed that a separate agreement regarding tankers be proposed and submitted to the Department and independent negotiations be continued with the aim of developing increased oil production by both YPF and the United States companies using material furnished by the United States in addition to that to be made available in accordance with the petroleum export agreement. Note: This appeared to make it certain that material was available.

*d.* Embassy's telegram 1136, May 29, 6 p. m., indicating that probably the expected quantity of material would be reduced to 36,000 tons, in exchange for the delivery of 320,000 cubic meters of petroleum delivered to neighboring countries. Note: The quantity of petroleum was that estimated to cover the rationed needs of Uruguay and Paraguay. The final agreement was expected to include an additional 10,000 cubic meters for Uruguay and 30,000 for Southern Brazil, total 360,000. The quantity of oil industry material was estimated to be just sufficient to maintain Argentine production and refine it.

Since no intimation was received from the Department after receipt of Embassy's telegram 1136 that this reduced quantity of material would not be made available by our Government, and furthermore

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<sup>41</sup> See telegram No. 1165, June 2, 6 p. m., from the Ambassador in Argentina, p. 385.

<sup>42</sup> Not printed.

that the quantity of petroleum to be exported by Argentina was considered inadequate, I felt secure in making this proposal to the Foreign Office subject as always to final decision by the Department that the material could be made available.

In regard to this agreement giving more favorable treatment to Argentina than to the other American Republics which entered freely into the supply pool arrangement, please consider that the petroleum importing republics entered into the supply pool in order to receive more petroleum than they could secure through their own resources if outside of the pool. Argentina's entrance would have deprived her of facilities to her decided detriment and therefore her remaining outside was dictated by the same self-interest which actuated the others and cannot fairly be considered as political non-cooperation. There is apparently genuine belief here that the Argentine tankers would have been sunk by now if at the disposal of the pool managers. The proposed agreement in effect gives four or five tankers to the pool and in so doing Argentina gives up about 10% of her petroleum production in the face of an existing 35% shortage which is a very real contribution to the general Pan American interest even though Argentina feels repaid through the making available to her of petroleum industry material. Even though 36,000 tons of material over the next 12 months may be more than another South American country receives, Argentina's contribution to the petroleum supply pool is also greater. Moreover since April 1942, almost no petroleum industry material has been received here and therefore the quantity expected over 12 months may be compared with what other countries will have received over the 27 months ending with June 1944.

It is my considered opinion that while conclusion of the petroleum agreement in accordance with the terms proposed will not necessarily ensure further successful negotiations in other fields, withdrawal of the proposal will unquestionably create such suspicion regarding sincerity of our intentions as to discourage present Government from co-operating further in perhaps even more important aspects of continental solidarity and defense.

ARMOUR

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800.6363/1211 : Telegram

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

BUENOS AIRES, June 18, 1943—5 p. m.

[Received 6:13 p. m.]

1369. For the Under Secretary. I should appreciate your giving your personal attention to matter dealt with my telegram 1367, June 18. I cannot overemphasize the serious effect on our relations

with the new Government and especially with Storni should Department insist on position set forth its telegram 878, June 16, 4 p. m. How can we expect this Government to cooperate with us in the bigger things we look for if we are not willing to go along with them on a proposal which the Embassy was clearly given to understand we had virtually decided to conclude with the previous Government.

ARMOUR

800.6363/1211 : Telegram

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

WASHINGTON, June 23, 1943—midnight.

922. Personal for the Ambassador from the Under Secretary. Your 1369 June 18, 5 p. m. The Argentine petroleum proposal outlined in your 1165, June 2, 6 p. m., is unfortunately one which cannot be approved since (1) it would give Argentina far more favorable treatment than that extended to countries which have cooperated thoroughly with us and (2) it would divert critical material from the war effort without any comparable *quid pro quo*. In a separate telegram,<sup>43</sup> you are being informed of the lines along which the Department feels that an equitable petroleum arrangement can be reached.

For your own information, I may say that we consider it desirable to delay action for 2 months or so in order to await developments in both Argentina and Brazil. [Welles.]

HULL

800.6363/1208 : Telegram

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

WASHINGTON, June 23, 1943—11 p. m.

920. Your 1367, June 18, 1 p. m. Any agreement involving the allocation of strategic materials under present conditions must be compatible with the determination of this Government that its facilities and resources are to be used first of all for the prosecution of the war. Consistent with this, the Government is prepared to share the strategic resources at its disposal with other countries of like determination. No other consideration takes priority. This was clearly pointed out in the Department's 628, April 30, 6 [9] p. m.

As applied to the oil negotiations which you have been conducting, this Government is prepared to supply material of strategic importance in return for Argentina's collaboration in oil supply only under

<sup>43</sup> *Infra*.

conditions which will not be prejudicial either to the war effort or to this Government's obligations to assist other nations which have cooperated with it.

This means that strategic material will be supplied to Argentina only in return for tanker transportation savings which are at least equal to the new tankers which otherwise would be built with the same material in this country. For your information tanker construction here is now limited by the availability of material closely similar to that for which Argentina has expressed a need.

Whether Argentina makes such transportation saving possible by hauling Argentine oil to areas now supplied by pool tankers thus releasing them for other service, or by making supplies of oil available in Argentina for pool tankers to pick up and deliver with a shorter haul than from the Caribbean, is a minor matter. Similarly, whether oil supplies for the pool be made available in Argentina by reduction in consumption there, or by increasing production, is not in itself important. The essential requirement is that at least as much additional tanker transportation be made available as would otherwise become available through using that material in the shipyards here.

Furthermore, in making this evaluation we are not concerned, except for purposes of calculation, with the ports or countries to which either Argentine tankers or Argentine oil would move. This is because this Government intends in any case, as in the past, to supply all the other republics with their essential oil requirements. All that concerns this Government at the present moment is the net additional tanker tonnage which would become available for its purposes, assuming the level of oil supply to all the republics, excepting Argentina, to remain the same as at present. Such tonnage would then be utilized either for direct war purposes or for increasing the pool supply as circumstances warrant.

The Department requests that in the light of the foregoing you review the proposal which you now have under consideration and submit to the Department some modification of it which will satisfy the requirements described. The evidence supporting the modified proposal, to be convincing, must disclose in practical terms how the saving in transportation is to be effected. Moreover, there must be evidence that the material requested would be necessary to bring about this saving in transportation and the amount requested should be fully justified for this purpose.

. . . . .

The Department believes that your own analysis of this situation will convince you that a solution not in accord with the reasoning outlined here would in fact result in a burden rather than a benefit upon both the war effort and the oil supply pool. For example, the 36,000

tons of steel and equipment mentioned in Embassy's 1165 of June 2, 6 p. m., would provide seven modern tankers which according to our calculations could accomplish approximately twice the improvement in oil supply contemplated in your proposal.

You may inform the Foreign Minister frankly of the substance of the foregoing, explaining to him the reasons why the Department is unable to approve the proposal now before it and the bases on which it can consider furnishing petroleum equipment to Argentina. In this connection, you should point out that the circumstances determining this Government's decisions are subject to rapid change, due to the prosecution of the war. It is for this reason that these negotiations must be kept on an *ad referendum* basis.

HULL

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800.6363/1220 : Telegram

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

BUENOS AIRES, June 26, 1943—8 p. m.

[Received 11 :25 p. m.]

1439. Department's telegram 920, June 23, 11 p. m. and instruction 4457 June 18, 1943.<sup>44</sup> These communications make it obvious that the petroleum negotiations designed to secure from Argentina all the petroleum needed by the River Plate countries and thus release the pool tankers now used in this service, are no longer of interest to the Department. It is to be regretted that this conclusion was not communicated or at least suggested to the Embassy after receipt by the Department of some of the Embassy's telegrams which detailed in advance the steps in the negotiations contemplated by the Embassy. Particular reference is made to the Embassy's 1078 May 21, 9 p. m.,<sup>45</sup> 1136 May 29, 6 p. m. and 1165 June 2, 6 p. m., since the Department's decision appears to have been taken early in May.

It has been clear to the Embassy from the beginning of the negotiations telegram 920 June 23, 11 p. m. would govern the situation, and the several exchanges with the Foreign Office have always stressed the fact that the saving in tanker tonnage was the justification for the diversion of any steel from the direct war effort, and that final approval by the Department was always dependent upon the availability of the steel.

Until the installation of the new Government<sup>46</sup> the Embassy could have withdrawn from the discussions gracefully, and without damage to any existing situation. Conditions today are very different. The

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<sup>44</sup> Latter not printed.

<sup>45</sup> Not printed.

<sup>46</sup> For correspondence on the recognition of the new Government, see pp. 365 ff.

Embassy's telegram 1329 June 14, 6 p. m. informed the Department of Storni's premature announcement that an agreement was about to be signed. This was instantly given favorable publicity by the press in Argentina as well as in Brazil and Uruguay and the general tenor of the comment was approval of this positive step by Argentina's new Government toward closer Pan-American cooperation and in particular a closer approach to the United States which might lead to more important cooperative steps later.

The Embassy's judgment of the situation was expressed in telegram 1367, June 18, 1 p. m. and it continues to be the Embassy's recommendation that an agreement be concluded, in accordance with the terms outlined in the Embassy's telegram 1165 June 2, 6 p. m.

At the beginning, the maximum quantity of petroleum justifiably available for export was considered by the Embassy to be that which could be imported in seagoing Argentine flag tankers not required for coastwise movement. This indicated approximately 400,000 cubic meters in 12 months. Since Uruguay and Paraguay on a rationed basis required perhaps 327,000 cubic meters this latter quantity was chosen for presentation in the Embassy's original note in order to find out whether the matter was of interest to the Argentine Government. An unnamed additional quantity was included by Argentina for Brazil, apparently because they expected to secure some advantages thereby from the Brazilian Government. The Embassy later translated this to mean a total of 360,000 cubic meters of petroleum to be placed at the disposal of the Petroleum Supply Committee for Latin America c.i.f. Uruguayan and Paraguayan entry ports. The tankers thus saved for the pool would be the number needed to deliver that quantity of oil at Montevideo within 12 months, from present sources.

The quantity of oil industry material was considered from two angles: (1) How little Argentina would accept as a *quid pro quo* for the petroleum exported, and (2) how much the United States could afford to make available.

The Argentine minimum appeared to be the quantity estimated as necessary to maintain existing Argentine production, and this was established in round numbers as 36,000 tons in 12 months.

Whether or not this quantity could be spared by the United States was not for the Embassy to decide, and therefore the Department was kept fully informed in advance of each step in the negotiations. From the Department's communications it would appear that the direct physical benefits to the United States are just about offset by the material made available to Argentina. An exact determination either way can hardly be made, because too many factors must be estimated, but in the Embassy's opinion the potential political

repercussions if the agreement is not made would be such as to outweigh the other considerations.

For the Department's further consideration, the Embassy desires to point out certain features of the proposed arrangement.

The memorandum of April 30<sup>47</sup> attached to instruction 4457 is argued principally from the mistaken premise that Argentine tankers of questionable worth are to be turned over to the pool to be operated for the general interest. Of course the plan really is that Argentina will continue to operate her ships as at present, but will also deliver c.i.f. Uruguay, Paraguay and riparian Southern Brazil 360,000 cubic meters of petroleum, which is sufficient for the rationed requirements of those areas. This will release for other Allied work the pool tankers now used in that service.

Evidently at least five tankers will thus be saved. They can be scheduled almost immediately for new duty, because with the Argentine oil just across the river, there is no need to maintain in Montevideo the reserve stock now found desirable, and existing supplies in Uruguay can bridge any gap. Requirements for Paraguay are planned to be shipped currently from Buenos Aires refineries, as was customary before the war.

The quantities contemplated will permit slightly increased consumption, which will have a beneficial effect upon the economy of the countries concerned out of all proportion to the comparatively small extra supply. It is the difference made by running passenger busses on normal schedules, and increasing freight train loadings because higher steam pressures can be held in the oil burning engines than now, when converted to wood.

As far as concerns publicity it could be made clear that under the terms of the agreement Argentina will receive during 1943 an average of 1250 tons of petroleum industry material per month, and in return is delivering the entire rationed petroleum requirements of Uruguay, Paraguay and Southern Brazil.

ARMOUR

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800.6363/1220 : Telegram

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

WASHINGTON, July 6, 1943—7 p. m.

988. Your 1439, June 26, 8 p. m. The Department has given careful study to the considerations advanced by you in support of the proposed petroleum agreement outlined in your 1165, June 2, 6 p. m.,

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<sup>47</sup> Not attached to file copy.



but continues to consider it unacceptable from the viewpoint of this Government.

If you have not already done so, you should consequently inform the Foreign Minister at once that this Government regrets that it cannot approve the proposal, explaining the reasons in accordance with the instructions contained in the Department's 920, June 23, 11 p. m. You should state that this Government will prepare a counter-proposal and submit it through you in due course. It should be made clear in your conversations with the Foreign Minister that we are searching for an equitable agreement and will be glad to receive any modified suggestions his Government may care to make.

The need for promptly informing the Argentine Government of this Government's position is stressed by the receipt by the Argentine Ambassador here of a telegram from his Foreign Office indicating that, while it has not yet received a reply from you in regard to the petroleum proposal, it anticipates a favorable reply. In this connection he was requested on behalf of the War Ministry to undertake immediate discussions with the Department looking toward obtaining a quantity of ethyl fluid.

As has been pointed out to you before, the figure of 36,000 tons of material which has been proposed is far out of line with the amounts which have proven necessary to maintain production in other situations comparable to the Argentine one and the Department believes it to be excessive. It therefore desires that Clover make a thorough independent survey of the bare essential Argentine needs to keep Argentine production on the 1942 level to substitute for the list of materials submitted by the YPF and forwarded under cover of your despatch 9421 of March 20. This list should be detailed and supported by full explanations. It should give the tonnage of steel and other controlled materials and the approximate dollar value of fabricated materials instead of being purely on a tonnage basis in order that it may be fitted into the allocation system and furnish a better comparison with amounts made available to other countries under similar conditions. If Clover desires technical assistance in preparing the study we will endeavor to obtain the temporary services of a qualified engineer if you will indicate his needs in this regard. The Department also desires fuller information covering the amount of Argentine tanker shipping which would be used in transporting petroleum to neighboring countries under the proposal summarized in your 1165 and the total tonnage of Argentine tankers which would be utilized for other purposes and details as to how this would be used. With this information in hand, the Department will be in a position to prepare a counter-proposal meeting so far as possible the original objective of the petroleum negotiations, namely to obtain the equivalent of full Argentine participation in the tanker pool in return for the allocation

of material which would maintain Argentine production of crude at recent levels.

With regard to the request for ethyl fluid, a separate telegram is being prepared.

HULL

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800.6363/1242 : Telegram

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

WASHINGTON, July 24, 1943—7 p. m.

1103. Your 1622, July 20, 7 p. m.<sup>48</sup> The Department assumes that the Embassy is preparing the information requested in the penultimate paragraph of the Department's 988 of July 6, 7 p. m. and that no technical assistance from here is considered necessary. Please advise the Department when you estimate the data will be ready.

It is extremely important for the Department to know exactly how equipment to cover essential Argentine needs would be used and how long you believe this could maintain Argentine production at present levels. In this connection, the best figures available here indicate total Argentine production of crude in 1942 was approximately 3,770,000 cubic meters as compared with 3,500,000 cubic meters in 1941. Please include accurate consumption figures for 1941 and 1942 and consumption and production figures for available months of 1943 in your analysis so that proper comparison may be made with situation in other American republics.

HULL

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800.6363/1251 : Telegram

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

BUENOS AIRES, July 27, 1943—5 p. m.

[Received 10:58 p. m.]

1688. Department's telegram 1103, July 24, 7 p. m. apparently sent before receipt of Embassy's despatch 10960 July 13,<sup>48</sup> please refer particularly to discussion covering point 2 commencing page 3. Is it clear to the Department that the negotiations have been concluded, so far as bargaining is concerned and that a reduction in the quantity of material can be made if the expressed quantity is unavailable, but not otherwise unless the Embassy's basis for the whole petroleum negotiations is declared to be mistaken? The bargaining was based on the quantity of material to be made available, if Argentina would supply the rationed needs of the neighboring countries. To determine a reasonable quantity, each operating company reported its

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<sup>48</sup> Not printed.

requirements to maintain production for 12 months. The total was finally reduced by bargaining to 36,000 tons, determined as explained in despatch 10960. The 36,000 tons was subject to confirmation by the Department not in principle but only as to physical availability. The Department may reduce the quantity to the extent desired without affecting the validity of the Embassy's negotiations, if handled as above. But if new considerations are now injected, such as using a new estimate of Argentina's rock bottom necessities as the basis for determining the quantity of material to be made available, the Embassy's previous negotiations are thereby discarded, and it would seem necessary to begin again from the beginning.

Therefore, before reopening the question of materials with the authorities, which is a prerequisite to approaching the YPF, the Embassy requests an instruction from the Department as to the scope of the new negotiations. When the previous negotiations are discarded the Argentine Government will probably require a written proposal of some sort before entering into new negotiations. Presumably, they will make it possible to determine the minimum quantity of material required to maintain production, but will wish to know the purpose of the survey, since so many have already been made, at the cost to YPF of very considerable time and effort, without the securing of any tangible results. If the Department has any doubt about the advisability of carrying through a new proposal which might be made the Embassy believes that it would be highly preferable to postpone indefinitely any further petroleum discussions, rather than risk a repetition of the present situation.

The Embassy's recommended solution is contained in telegram 1622, July 20, 7 p. m.<sup>49</sup> An alternative would be to retain the 12-month period, but reduce the quantity of material. This might or might not affect Argentina's willingness to export the entire quantity of petroleum. Once the total quantity of material is named by the Department, the makeup could be developed here to accord with most urgent needs, and tonnage and value then reported in detail to the Department.

ARMOUR

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800.6363/1251 : Telegram

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

WASHINGTON, August 5, 1943—midnight.

1169. Your 1688, July 27, 5 p. m. The Department feels that it is best to delay any decision on the petroleum question until after your

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<sup>49</sup> Not printed; this telegram indicated that the basis for agreement transmitted in telegram No. 1165, June 2, from the Ambassador in Argentina (p. 385), be again used with the condition that delivery of materials be made subject to supply conditions in the United States (800.6363/1242).

arrival here and there has been a full opportunity to discuss the matter with you and obtain your personal advice on this and other problems. It is in complete sympathy with the suggestions made in your telegram.

The Petroleum Administration for War is making a survey at the Department's request of the amount of petroleum equipment which might be made available to Argentina, bearing in mind the serious supply shortage of such equipment and steel in general. This should be completed by the time of your arrival.

HULL

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835.6363/701 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, September 10, 1943—8 p. m.

[Received September 11—1:40 p. m.]

2100. Department's telegram 1270, August 23, 7 p. m.<sup>50</sup> For the Embassy's guidance in considering certificates of necessity for ethyl aviation fluid and aviation lubricating oil, an instruction is requested, to cover the following points:

1. Are the quantities of aviation ethyl fluid and aviation lubricating oil consumed by the Argentine Armed Forces in normal operations considered to be maintenance items? If so the Embassy will approve certificates of necessity covering reasonable quantities of these two materials, on the basis of limiting the amounts sufficiently to prevent the accumulation of stocks.

2. If the Department authorizes the inclusion of aviation lubricating oil as a maintenance item, is the oil to be supplied by the usual suppliers, in this case, Intava,<sup>51</sup> or is Shell<sup>52</sup> to be permitted to participate, or is the Embassy merely to approve certificates presented by any reputable supplier without regard to the total quantity approved and leave to the proper authorities in Washington the allocation of the quantities to the several suppliers who may have requested export licenses? It is the Embassy's recommendation that export licenses be granted only to the usual American suppliers.

3. In considering the question of aviation supplies to the Argentine Armed Forces, the Department will undoubtedly give consideration to the fact that the U. S. Air Mission is handicapped in training pilots because of the Army's reluctance to use up their reserve of ethyl fluid which on September 1 is reported to have been 42 drums. From the point of view of the Air Mission, it would be most desirable that aviation ethyl fluid and aviation lubricating oil be made available to Argentina. The Air Mission has already recommended the export to Argentina of a considerable quantity of spare parts, and they are no more essential than lubricants and ethyl fluid.

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<sup>50</sup> Not printed.

<sup>51</sup> International Aviation Associates.

<sup>52</sup> Shell Oil Company.

The Military Attaché<sup>53</sup> informs the Embassy that the Argentine Army is planning a series of goodwill flights to neighboring countries, the next on schedule being to Santiago, Chile. It may appear to the Department, as it does to the Military Attaché and to the Embassy, that these flights are not to the interest of the United States, and therefore should be discouraged to the extent which might occur if no supplies of aviation ethyl fluid and aviation lubricants be made available to the Argentine Armed Forces.

It is obvious that a basic policy decision is involved, and as this matter is very urgent, a telegraphic reply will be appreciated.

REED

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835.6363/701 : Telegram

*The Secretary of State to the Chargé in Argentina (Reed)*

WASHINGTON, September 21, 1943—10 p. m.

1470. Embassy's 2100, September 10, 8 p. m. Quantities for minimum normal operations of Argentine armed forces may be considered maintenance items with respect to aviation ethyl fluid and aviation lubricating oil.

Regarding suppliers, it is felt that approval of Certificates of Necessity for aviation lubrication oil should be limited to usual suppliers.

In estimating quantities of fluid and oil required, quantities for good will flights should be omitted as such flights could not be considered within minimum normal operations. If substantial amounts of fluid and oil should be consumed in such flights, the question of supplying them to Argentina might have to be reconsidered.

HULL

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835.6363/646

*The Secretary of State to the Chargé in Argentina (Reed)*

No. 5009

WASHINGTON, October 8, 1943.

The Secretary of State informs the Embassy, after consultation with the Office of Economic Warfare, that since the first part of July the Office of Economic Warfare has received a number of export license applications with Certificates of Necessity approved by the Embassy under dates ranging from June 2 to August 3. These applications called for lubricating oils, greases, mineral oil and petrolatum for various purposes and have totalled to date about 700 metric tons.

While very few applications conformed to the approved end uses

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<sup>53</sup> Col. John W. Lang.

mentioned in Department's A-1140 of July 2,<sup>54</sup> namely, railroad and packing plant requirements and mining companies whose products are being taken by the War Production Board, it was assumed that this was due to a misunderstanding of the actual situation with respect to petroleum products, probably caused by the Department's telegram 822 of June 4, 8 p. m.<sup>54</sup>

In order to dispel whatever confusion may exist, the Embassy is advised that petroleum products are under allocation and so issuance of Certificates of Necessity and licenses for them come under paragraph two (e) of the memorandum of August 26 on economic policy toward Argentina.<sup>55</sup>

The approved end uses therefore will be those specified in the Department's airgram 1140 and in addition the supplemental uses included in paragraph two (e) of the memorandum cited. The supplemental uses will be carefully scrutinized and considered individually by the Office of Economic Warfare. Therefore, license applications coming under these categories should give detailed breakdowns of the end uses to insure that none of the product will be consumed in improper uses.

With specific reference to refined paraffin wax which is in critical supply and to crude scale which is only somewhat less so, they will not be available at all for the present.

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#### DISCUSSIONS CONCERNING THE PROBLEM OF SUPPLYING ARGENTINE NEWSPAPERS WITH NEWSPRINT<sup>56</sup>

800.8830/2129b

##### *The Department of State to the Argentine Embassy*

#### MEMORANDUM

Reference is made to discussions held with members of the Argentine Embassy concerning the importation of fruits from Argentina. Arrangements are being made to facilitate the importation of a small initial shipment of fruits.

At this time the Department would like to call to the attention of the Argentine Embassy the difficulties in connection with the movement of newsprint from United States ports to Argentina. In order to maintain even minimum requirements of newsprint in Argentina and to relieve to some extent the burden which has fallen on ships controlled by the United States, it would be appreciated if the Argentine Government would give sympathetic consideration to

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<sup>54</sup> Not printed.

<sup>55</sup> This part of the memorandum not printed; for the remainder, see p. 492.

<sup>56</sup> For previous correspondence, see *Foreign Relations*, 1942, vol. v, pp. 400 ff., *passim*.

moving at least 2,500 or 3,000 tons of newsprint monthly to Argentina from the United States on vessels of the Argentine State Merchant Marine.

WASHINGTON, January 5, 1943.

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800.8830/2140 : Telegram

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

WASHINGTON, January 14, 1943—10 p. m.

68. If the Embassy perceives no objection it will please transmit to *El Mundo* the following message from the Under Secretary which is in reply to one received by him from that newspaper.<sup>57</sup>

"You may be assured that this Government is making every effort to maintain supplies of newsprint to *El Mundo* as well as other Argentine newspapers, and I have accordingly requested the Embassy to make available to you certain details regarding these efforts."

The details are as follows:

1. The Embassy is fully informed concerning the necessity that importer make arrangements with La Flota<sup>58</sup> and Doderó<sup>59</sup> in Buenos Aires to instruct their agents in the United States to accept newsprint shipments.

2. The Canadian Shipping Priority Committee has appointed Mr. Irving Baldwin to act as Coordinator of Shipping in New York. This assists in obtaining actual shipping space for all users of Canadian newsprint. (*La Prensa* not using Canadian newsprint is not included.) The Department has requested Mr. Baldwin to do everything compatible with his position to give special consideration to *El Mundo* and *Crítica*.

3. 1000 tons of newsprint consigned to *El Mundo* will arrive in February on the following steamers: *Río Salado*, *Río Gallagos*, *Río Gualeyaque* and SS *Buenos Aires*.

The Department is following carefully the recommendations of the Embassy as indicated in despatch 1523 of November 23, 1942<sup>60</sup> with respect to monthly allocations of newsprint to the consumers mentioned.

HULL

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<sup>57</sup> Not printed.

<sup>58</sup> La Flota Mercante del Estado (Argentine State Merchant Marine).

<sup>59</sup> A. A. Doderó was a member of the Cía. Argentina de Navegación Mihanovich, L. D. A.

<sup>60</sup> Not printed.

800.8830/2180a : Telegram

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

WASHINGTON, January 26, 1943—5 p. m.

129. Department's instruction no. 3704, January 8, 1943.<sup>61</sup> The Argentine Embassy here states it understands the Foreign Office will discuss this matter with you in Buenos Aires. It is essential that the Flota carry additional newsprint. Please report at once any progress in this matter. This Government will issue no additional licenses for the importation of fruit until some action is taken with respect to newsprint.

HULL

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800.8830/2193 : Telegram

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

BUENOS AIRES, February 11, 1943—3 p. m.

[Received 4:20 p. m.]

333. Reference Department's 129, January 26. To date Embassy has not been approached. Local organizations and individuals have appealed to Government to reply to United States Government proposal and Ollivier is reported to have pressed for a decision but without results. He is reported to have described it "as a delicate political matter to which the President"<sup>62</sup> is giving his personal attention". However Stewart<sup>63</sup> has informed Embassy that he is hopeful of early arrangements which will permit movement of larger tonnage of newsprint.

ARMOUR

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800.8830/2303

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

[WASHINGTON,] February 15, 1943.

MR. DUGGAN: I refer to your memorandum of February 12 to Mr. Corbett regarding the proposed newsprint-fresh fruit deal with Argentina.<sup>64</sup> I had lunch last week with García Arias.<sup>65</sup> He ex-

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<sup>61</sup> Not printed; this instruction transmitted a copy of the memorandum of January 5, 1943, to the Argentine Embassy, p. 403.

<sup>62</sup> Ramón S. Castillo.

<sup>63</sup> Adm. Francisco Stewart, Director of the Argentine State Merchant Marine.

<sup>64</sup> Memorandum not found in Department files. In a memorandum of the same date to Gray (presumably Cecil Wayne Gray) Duggan expressed his opposition to tying together the newsprint export and the fruit import matters (611.356/-210).

<sup>65</sup> Rodolfo García Arias, Argentine Minister in the United States.



pressed the opinion that our attempt to link newsprint with the fresh fruit was a mistake in that it would give nationalist elements in Argentina another weapon with which to fight us. His argument was that, while we were perfectly justified in determining what goods should be imported into the United States, it was almost an invasion of sovereignty for us to endeavor to use our decisions in this respect to secure the admission into Argentina of certain other goods. I said that our whole proposal seemed to me a thoroughly logical one and that opposition thereto would necessitate the assumption by the Argentine Government of a position to the effect that it did not wish newsprint imported into Argentina.

PHILIP W. BONSAI

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800.8830/2203 : Telegram

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

BUENOS AIRES, February 17, 1943—5 p. m.

[Received 5:35 p. m.]

376. Department's 129, January 26, 5 p. m.; and 206, February 12, 7 p. m.<sup>66</sup> Flota Mercante has given Embassy an informal memorandum saying it hopes shortly to increase newsprint tonnage to about 2,100 tons per month. In return it would like to obtain following concessions:

(1) Ship warrant provisions effective January 4 not to be applied to Flota boats in manner to delay or impede operations or port movements, since the aforementioned provisions promulgated October 1 and War Shipping Administration Flota agreement was dated October 16.<sup>67</sup> Land <sup>68</sup> and Stewart had decided that warrants would not be required for Flota boats in the event of agreement.

(2) Permission to carry to the United States certain quantities casein and/or linseed, also larger quantities wool.

(3) Arrangement for transporting Pocohantas coal necessary for bunkering *Río Paraná* for return from Los Angeles, plus special rail freight concession therefor. This request already initialed by Flota's New York agents Boyd Weir and Sewell.

With reference to the Department's telegram 206, Flota memorandum did not mention fresh fruits. Embassy unable to confirm conference between Minister of Agriculture and President, or to find close tie-up in governmental thinking between newsprint and fresh fruit in paragraph 2 its above memorandum.

Flota today informally advised us of decision to take the two 100 tons previously referred to its memorandum, and confirmation of this

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<sup>66</sup> Latter not printed.

<sup>67</sup> Not printed.

<sup>68</sup> Rear Adm. Emory S. Land, War Shipping Administrator.

expected shortly. Bares of Flota confidentially mentioned possibility of increasing to 2,500 tons later.

Embassy suggests Flota memorandum be discussed with Bohan<sup>69</sup> who left for Washington today.

ARMOUR

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800.8830/2234 : Telegram

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

WASHINGTON, February 19, 1943—11 p. m.

247. The agents for the Flota Mercante report the receipt of a telegram stating that the President has approved an increase in newsprint shipments on the Flota to a level of 2100 tons per month. The telegram states that further discussions are in progress and it is hoped that the President will approve the 2500 ton minimum figure specified by the Department.

Please report progress of these discussions. The Argentines have requested a shipping permit for fresh fruits on a refrigerated vessel which is due to leave about the middle of March. Do you recommend the issuance of an interim permit for say a further 300 tons on the strength of the above reported action of the Argentine Government, and pending a final decision on the 2500 tons. This Government is not prepared to accept less than 2500 tons as the final level, and would prefer a 3000 ton figure.

HULL

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800.8830/2213 : Telegram

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

BUENOS AIRES, February 25, 1943—6 p. m.

[Received February 25—5:33 p. m.]

432. My 386, February 17 [18], 4 p. m.<sup>70</sup> Definite policy toward assisting Argentine press in obtaining newsprint must be reached at once as by end of March perhaps one-half Argentine newspapers will be forced to close down if non-arrival Argentine ships from Sweden continues and no additional shipping space is obtainable for importation of newsprint from Canada and United States.

Embassy believes that Argentine press is important factor in supporting Allied cause and as such merits every possible assistance. Therefore strongly recommend that a ship for one trip be allocated to carry newsprint equitably distributed for Argentine newspapers in greatest need. If such an allocation cannot be made immediately,

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<sup>69</sup> Merwin L. Bohan, Counselor of Embassy in Argentina.

<sup>70</sup> Not printed.

Embassy urges that adequate amount of space be granted for newsprint for Argentine press aboard United Nations controlled vessels now carrying goods to Uruguay and Brazil.

It is obvious at present time that Argentine Government will do as little as possible for pro-Allied press here and will do that little subject only to the understanding that the favor be repaid by a pro-Government stand on internal as well as foreign affairs.

In this connection the forthcoming visit of Argentine newspapermen will undoubtedly be utilized by them to bring newsprint issue to a head.

Another consideration is that if no steps are taken to aid the Argentine press and many newspapers are forced to close, the work of the Coordinator's representative<sup>71</sup> here will be greatly handicapped.

Prompt decision essential to meet this critical situation. If shipment not made before March 15, newspapers will begin to close shortly thereafter.

ARMOUR

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800.8830/2242 : Telegram

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

BUENOS AIRES, February 26, 1943—4 p. m.

[Received 6:30 p. m.]

441. For Rockefeller<sup>72</sup> from Wells. The newsprint question in Argentina has reached most critical situation to date. In this connection, please read Embassy's 432, February 25, 6 p. m., with the contents of which we emphatically agree. Our records of content analysis of Argentine press which we have been keeping for over a year show that situation today has improved to a point where now 50% of our material is being used and we are sending you from 500 to 600 clippings weekly of actual use. As respects newsprint Buenos Aires newspapers have been reduced 30% to 40% and those in the interior 40% to 50%. Unless some relief is provided in the immediate future consequences will be:

(1) Some newspapers will go out of business and the remaining ones will be reduced to publishing only spot and local news.

(2) Serious harm to Argentine press which is that group in this country most friendly to our cause.

[Wells]

ARMOUR

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<sup>71</sup> Alfred W. Wells of the Office of the Coordinator of Inter-American Affairs.

<sup>72</sup> Nelson A. Rockefeller, Coordinator of Inter-American Affairs.

800.8830/2263

*Memorandum by the Chief of the American Hemisphere Exports Office (Ravndal) to the Executive Secretary of the Board of Economic Operations (Collado)*

[WASHINGTON,] March 10, 1943.

ARGENTINE NEWSPRINT SITUATION

MR. COLLADO: In accordance with requests from our Embassy in Buenos Aires, newsprint shipments were concentrated on the leading publications, especially *El Mundo* and *Crítica*. *La Nación* had been aided previously through the Department's efforts and *La Prensa* was never short of newsprint on account of its special arrangement with Dodero. All other leading newspapers were otherwise taken care of.

Buenos Aires sent telegram no. 432 on February 25 stating that on account of the non-arrival of Swedish newsprint "perhaps one half Argentine newspapers will be forced to close". A request was sent to Buenos Aires for the names of the papers that were in danger of closing. Our inquiry elicited the information contained in telegram no. 500 of March 4.<sup>73</sup> The complaint now is that only the large papers have been receiving newsprint and that "scores of small papers not indicated for quota" were in danger of closing. The small papers were supplied by distributors who are allegedly short of newsprint.

The question now arises as to whether the Department should continue its policy of concentrating on the important publications or scatter its efforts to include the innumerable small publications. The smaller publications are the ones that print the material distributed by the Coordinator of Inter-American Affairs and it might be suggested to the Coordinator that he purchase sufficient newsprint to care for the requirements of all of the small publications, consigning the newsprint to one distributor.<sup>74</sup>

In the meantime, the Flota has agreed to carry 2,500 tons monthly starting in April when 4,000 tons should move. Flota, Dodero, and an occasional steamer will carry the monthly 5,000 tons required on a restricted basis by Argentina.

C. M. RAVNDAL

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<sup>73</sup> Not printed.

<sup>74</sup> This suggestion does not appear to have been acted upon, as the newsprint situation apparently changed immediately for the better.

800.8830/2310 : Telegram

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

BUENOS AIRES, April 3, 1943—midnight.

[Received April 3—3 : 30 p. m.]

727. Embassy deeply appreciates arrangements made regarding newsprint for importers. *El Mundo* situation is precarious still and it is alleging discrimination on the part Argentine shipping lines.

For the Department's information in case it is approached Embassy is advising all papers that cooperation among themselves would permit of more orderly flow of supplies and avoidance of the many misunderstandings which have arisen in the past.

ARMOUR

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800.8830/2310 : Airgram

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

WASHINGTON, April 8, 1943—3 p. m.

A-828. Your 727, April 3, midnight. The Department appreciates the Embassy's comments concerning the efforts that are being made with respect to the expedition of newsprint.

The Department fails to understand *El Mundo's* position in alleging discrimination. With the exception of *La Prensa* and *La Nación*, *El Mundo* has been shipped the largest amount of newsprint during the first 3 months of 1943. Flota, Dodero steamers and the S/S *Buenos Aires* carried newsprint for *El Mundo*, and of 30 consignees listed for April bookings on La Flota, *El Mundo's* share is 300 tons. The Department is making every effort to see that *El Mundo* receives a continual supply of newsprint.

The Embassy's suggestion to the publications that cooperation among themselves would permit a more orderly flow of supplies is an excellent one. Most of the complaints about newsprint have consisted in charges by one newspaper against the other of receiving preferred treatment. It should be stressed very strongly to the newspapers that they should make honest efforts to conserve their newsprint supplies by really reducing their requirements in order that they may have sufficient stocks on hand against any eventuality.

A report is being prepared for the Embassy detailing actual newsprint shipments by consignees for the first quarter of 1943.

HULL

740.00112a European War, 1939/29263 : Telegram

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

BUENOS AIRES, April 21, 1943—9 p. m.

[Received 9:50 p. m.]

878. Reference Department's telegram 570, April 20, 6 p.m.<sup>75</sup> Embassy believes information contained despatch 7388, November 18<sup>76</sup> sufficient to approach Argentine Ambassador. Situation today approximately same. However, Embassy is attempting to obtain additional information.

*El Pampero*, *Deutsche La Plata Zeitung*, *Editorial Argentina*, *Il Mattino D'Italia* as well as pro-totalitarian *El Momento Argentino* and *Cabildo* are all receiving newsprint from Ministry of Agriculture. This Ministry receives, according best information available, approximately 300 tons locally manufactured newsprint, paying from 65 to 70 centavos per kilo which is below free market price for locally manufactured newsprint, thus in addition to supplying Government grants slight subsidy.

Before making presentation to Argentine Ambassador the Department will undoubtedly take into account the fact that this case is one of the most telling points in report contemplated under section 5 (a) of policy memorandum of March 4.<sup>77</sup> That report should be ready for presentation by June 1.

ARMOUR

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800.8830/2351 : Telegram

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

BUENOS AIRES, May 12, 1943—10 p. m.

[Received May 12—9:01 p. m.]

1027. *La Gaceta*, Tucuman, has obtained 300 tons space for newsprint from Flota but director states United States export permit unobtainable. Since *La Gaceta*, entirely pro-Allied and is at the present time in a critical situation regarding supplies, being forced to borrow 100 tons of newsprint which must be returned to various colleagues and making up amount lacking by using locally manufactured news-

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<sup>75</sup> Not printed; this telegram requested that reply be expedited to Department's telegram No. 437 of March 29, 1943, 3 p. m., which requested information on the distribution to pro-Axis papers of newsprint made from Swedish pulp (740.00112A European War 1939/21092).

<sup>76</sup> Not printed; this despatch reported that the Argentine Minister of Agriculture bought newsprint locally and distributed it to pro-Axis papers (740.00112A European War 1939/21092).

<sup>77</sup> *Post*, p. 471.

print which is of inferior quality Embassy recommends that export permit be granted; that *La Gaceta* may utilize the 300 tons of space.<sup>78</sup>

General newsprint report following.<sup>79</sup>

ARMOUR

800.8830/2424

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

No. 10,693

BUENOS AIRES, June 23, 1943.

[Received July 3.]

SIR: Referring to Embassy's despatch No. 10,692 of June 23, 1943,<sup>80</sup> and in connection with the execution of the quota system therein recommended, I have the honor to report that the Embassy recommends that all information reported to the Department in connection with the distribution of newsprint be considered as confidential and that the responsibility for rationing the Argentine press be held in Washington and Ottawa as rationing by the American Embassy in Buenos Aires would not be acquiesced in by the Argentine Government. The Embassy has been informing all newspapers that the American and Canadian Governments are seeking to treat all newspapers equitably in these abnormal times and are therefore allocating a certain percentage of Canadian newsprint for which shipping space is available to each newspaper in accordance with its past consumption and that the action is taken in Washington and Ottawa.

However, the Embassy recently received a telegram from José W. Agusti, director of *Noticias Graficas* who was at the time in Washington, stating that he had been informed by an official of the American Government that the Embassy had reported that *Noticias Graficas* needed only 200 tons of newsprint monthly. He asked that this "misinformation" be corrected. The position of this Embassy would be much firmer if the interested parties asking information in Washington were informed that the control of the shipments of newsprint was in the hands of the American and Canadian authorities in Washington and Ottawa. In the event that the officials in Washington find it necessary to divulge certain information regarding quota allotments, the interested parties might better be informed that their quota is a percentage of the total newsprint sent to Argentina from the United States, based on past importations and after consultation with local importers, rather than informing that the allotment of a certain

<sup>78</sup> The Department replied in telegram No. 722, May 17, 1943, indicating that the recommendation would be followed (800.8830/2351).

<sup>79</sup> See footnote 80, below.

<sup>80</sup> Not printed; in this despatch a survey of the paper needs was given and quotas recommended for each newspaper based upon a percentage of its normal requirements (800.8830/2423).

newspaper is "x" tons. For example, *La Prensa*, based on past importations, receives 20% of the total shipments sent to Argentina; *El Día* of La Plata gets 1.8%; *Noticias Graficas* 4.6%. Such information, of course, should only be given in cases where it is absolutely necessary to do so and only the figure corresponding to the particular paper in question should be given.

The Embassy would also like to point out to the Department the possibility that information supplied by competitors in an attempt to obtain increased allotments may be fallacious, as for instance, the Embassy was informed that an official in Washington had stated that *El Mundo* was the only newspaper in Argentina which had not co-operated in making economies. Up to and including 1941, *El Mundo* had the largest circulation of any Spanish-language newspaper in the world. When it became evident to the directors of *El Mundo*, when the United States was attacked at Pearl Harbor, that shipping would be diverted to war fronts, *El Mundo* cut its circulation in half by raising its price from 5 centavos to 10 centavos per copy. *El Mundo* reduced its consumption of newsprint by 50% in 1942 and was the first newspaper in Argentina to economize, making greater economies than any other newspaper has made to date.

Another matter which has caused some difficulty is that certain newspapers have been successful, through influence with the Argentine Government, in obtaining extra shipping space aboard the Flota Mercante, apart from the 2500 tons per month which is distributed among the various importers. Several newspapers have stated that the Argentine Government, seeking to ingratiate itself with the press, is disposed to be generous in granting additional space. There has been no concrete evidence, however, of such a disposition. The Embassy recommends that all space that is granted be utilized for shipping of newsprint but in the event that shipments are increased above 5,000 tons per month, that the quota of all newspapers be increased proportionately instead of permitting a favored few to obtain all the additional space. However, the Embassy sees no objection to certain newspapers being allowed to ship slightly higher amounts than their quota for a month or two providing that the difference is made up in ensuing months.

The Embassy believes that if it is possible, it would be advisable to ship the newsprint quota to each newspaper monthly. If, however, any newspaper is unable to receive shipment during any given month, it should be entitled to receive double its quota in the following month.

The Embassy recommends that a monthly allotment of 40 tons of newsprint in sheets, and 55 tons in rolls, be allotted to Serra Hnos., local representatives for American Paper Export, for distribution to numerous small clients; 60 tons of newsprint in rolls be allotted



to J. Wassermann y Cía., local representative for St. Maurice Valley, for distribution among their numerous small clients; 50 tons of newsprint in sheets to be shipped to National Paper & Type; and 30 tons of newsprint in sheets to Stocker & Co. for their small clients in the interior of the country.

In addition to the above allotments, the Department is aware that the Flota Mercante has allotted 250 of the 2500 tons of shipping space to Iturrat. The Embassy receives the cooperation of the above firm and receives a monthly list of all sales made by this company. Iturrat has not been allocated a quota, however, in view of the fact that this company has only recently entered this business.

It would be of inestimable value to this Embassy to receive notification of all shipments of newsprint aboard all ships leaving the United States for Argentina, listing the ultimate consignees aboard each ship. Should shipments of newsprint to Argentina be maintained on the quota system, the Embassy believes that it will do much to solve this very troublesome problem.

The Embassy wishes to express its appreciation for the Department's cooperation and special attention in the matter of the handling of the newsprint situation.

Respectfully yours,

For the Ambassador:

MERWIN L. BOHAN

*Counselor for Economic Affairs*

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800.8830/2424 : Airgram

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

WASHINGTON, July 13, 1943—1:30 p. m.

A-1175. Your despatches 10692<sup>81</sup> and 10693 of June 23, 1943. Please inform the Department whether the 39 additional small publications listed in despatch 10692 import their own newsprint requirements direct or are supplied by local distributors.

The information concerning recommended quotas will be held strictly confidential and Embassy's suggestion will be followed. Mr. Agusti obtained his information from his suppliers and was well versed with respect to the method of allotting shipping space for newsprint before he called on officials of the Department.

Every effort will be made to suggest equitable newsprint distribution for all consignees on Argentine vessels but, as has been previously stated to the Embassy, loadings for Flota steamers are controlled in Buenos Aires.

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<sup>81</sup> See footnote 80, p. 412.

In making monthly reports to the Department of newsprint received by each consignee, please also include newsprint received from Sweden or other foreign countries.

The Department will attempt to keep the Embassy informed of all shipments of newsprint to consignees in Argentina.

Embassy's report 10692 is extremely helpful and is appreciated by the Department.

HULL

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CONCERN OF THE UNITED STATES AT THE FAILURE OF ARGENTINA  
TO SEVER POLITICAL RELATIONS WITH THE AXIS POWERS

835.00/1363 : Telegram

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

BUENOS AIRES, February 18, 1943—11 a. m.

[Received 1:07 p. m.]

384. Military Attaché<sup>82</sup> informed yesterday by friendly high ranking Argentine army officer that Argentine General Staff recently submitted memorandum to Minister of War<sup>83</sup> expressing opinion that Argentina's neutrality policy wrong and dangerous because neighboring countries increasing armament through Lend-Lease<sup>84</sup> and Argentina's military establishment not strong enough to resist aggression therefore recommending change of policy to accord with Rio<sup>85</sup> and other commitments. Minister of War transmitted memo to President<sup>86</sup> whose answer was "the policy will not be changed. If the army is not strong reinforce it." Regional commanders have accordingly been ordered to prepare and submit by March 1st studies for raising 30,000 additional men to reinforce the 40,000 normally conscripted. Informant stated there will not be suitable shelter, clothing, arms, etc., for these additional conscripts.

ARMOUR

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735.00/43 : Airgram

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

BUENOS AIRES, May 5, 1943—4 p. m.

[Received May 11—11 a. m.]

A-332. At the ceremony celebrating the ninetieth anniversary of the Argentine Constitution held on May 1st at Santa Fé in the presence

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<sup>82</sup> Col. John W. Lang.

<sup>83</sup> Gen. Pedro P. Ramírez.

<sup>84</sup> For correspondence on the Argentine Lend-Lease discussions, see *Foreign Relations*, 1941, vol. vi, pp. 323 ff.

<sup>85</sup> For correspondence on the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see *ibid.*, 1942, vol. v, pp. 6 ff.

<sup>86</sup> Ramón Castillo.

of President Castillo and high officials including several Cabinet Ministers, the Foreign Minister<sup>87</sup> spoke for the Government. His academic remarks regarding the Constituent Convention of 1853, the influence on the Argentine Constitution of the American Declaration of Independence and the Bill of Rights, and so forth, will be reported when the Embassy obtains the official Foreign Office copy of the speech. The following points bearing on present and future Argentine policy may be of interest to the Department.

In a discussion of Argentina's representative government, which Dr. Ruiz Guiñazú admitted was not perfect, he made his first public anti-totalitarian pronouncement within the knowledge of the Embassy. Having admitted that Argentina's representative government was not perfect and that political education in the world has not reached the grade of perfection to be desired, he stated flatly that such perfection is likewise not to be found "within the new orientation of the authoritarian states which give to their chiefs extraordinary faculties". Continuing, "In our midst the totalitarian state, which absolutely subordinates the individual and the community to the idea of class, of nation, of race in the normal and juridical order and in that of politics and economy, could never prosper. Essentially pagan and as a consequence incompatible with the spirit of Christianity, it would lead to the omnipotence of the state in a blind and anxious destiny." (At a press conference upon his return, Dr. Ruiz Guiñazú stated that he had welcomed the opportunity at Santa Fé to make it clear that the Argentine Government is not pro-Axis.)

Turning to foreign policy, Dr. Ruiz Guiñazú declared that in his opinion a practical or realistic policy, selfish as it may sound, "which should have as a basis universal economy, is the only one favorable to facilitate the elements of resurrection of that discipline today inoperative in international law, freeing us thus from the error of subordinating political and juridical solutions to the acceptance of utopian ideas impossible to apply in the relations and activities of peoples."

In speaking of this practical policy in the post-war effort the Minister said, "The war will ultimately bring about as the principal result an economic reorganization governing the entire world," in which Argentina will work out its own destiny. He continued, "Every war has reserved to the victor an economic hegemony under the régime of which survive only those who can maintain their independence . . .<sup>1</sup> without restrictions imposed by the will of other nations. Therefore the jealous care necessary in working with the nations whose parallel interests constitute a bond promising success." He added, "We shall

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<sup>87</sup> Enrique Ruiz Guiñazú.

<sup>1</sup> Omissions indicated in the original airgram.

have our place and shall collaborate with the spirit of solidarity of the greatness of America called to give its name to the century in which we live . . . We have the right to a most ample influence in the future and it will be attained by new generations . . .”

Other speeches at the ceremony were by Leopoldo Melo, president of the Commission on the National Monument to the Constituents of 1853, and Joaquín Argonz, Governor of Santa Fé.

ARMOUR

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835.00/1556 : Telegram

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

WASHINGTON, June 18, 1943—10 p. m.

889. Owing to the fact that the Argentine Government has stated its intention to implement with action a policy of close Inter-American collaboration, based upon the obligations it has assumed under Inter-American pacts in force, it is considered highly desirable to recapitulate some of the more important items on which the Argentine Government could take specific steps of a positive nature and which would offer convincing evidence of sincerity. Of course, the Embassy is already fully familiar with our views on the subjects in question, but it might be helpful for the Department to review the following list (which is not an exclusive one) and which might be of convenient use to the Embassy:

- (1) The breaking of relations with the Axis.
- (2) In addition to the step which has already been taken in denying the use of code for radio communications,<sup>2</sup> fully to implement Resolution 40 of the Rio de Janeiro Meeting of Foreign Ministers<sup>3</sup> by breaking all telecommunications connections with the Axis.
- (3) Vigorous and effective control of subversive activities.
- (4) Promulgate an efficient blockade control plan to stop leaks of strategic materials and funds to the Axis.
- (5) Effective control of clandestine radio stations within Argentina.
- (6) Effective control of press and radio propaganda within Argentina, including adequate treatment of newsprint<sup>4</sup> to Axis organs.
- (7) The careful supervision of civil and commercial aviation, as provided for by Resolution 31 of the Rio Meeting.<sup>5</sup>
- (8) Effective foreign funds control (Dresdener Bank case, etc.).<sup>6</sup>
- (9) More effective Proclaimed List cooperation.

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<sup>2</sup> For correspondence relating to United States efforts to control Argentine communications with the Axis, see pp. 512 ff.

<sup>3</sup> January 15–28, 1942; for text of Resolution XL, see Department of State *Bulletin*, February 7, 1942, p. 140.

<sup>4</sup> For correspondence on the newsprint problem, see pp. 403 ff.

<sup>5</sup> Department of State *Bulletin*, February 7, 1942, p. 137.

<sup>6</sup> For correspondence on measures to control financial transactions with the Axis, see pp. 466 ff.

(10) Severance of commercial and financial relations with the Axis, as called for by the Rio de Janeiro and Washington Resolutions.<sup>7</sup>

(11) General shipping cooperation (including the three French ships).

(12) Conclude on an equitable basis the oil negotiations now pending.<sup>8</sup>

(13) Cooperation in such matters as exports of fat and oils and the use, northbound, of Dodero's tankers.

(14) Reducing sharply the 200,000 pesos per month now being made available to operate the Axis Embassies in Argentina (a separate airgram on this subject is being sent).

The Department submits this preliminary list to the Embassy for such use as the Ambassador may care to make of it, as indicating some of the more important matters in which our Government is particularly and vitally interested.

HULL

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735.00/51 : Telegram

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

BUENOS AIRES, June 23, 1943—2 p. m.

[Received 3:58 p. m.]

1402. Reference telegrams numbers 1387, June 21, 4 p. m. and 1401, June 23, 1 p. m.<sup>9</sup> The statements by Ramírez<sup>10</sup> and Storni<sup>11</sup> are further indication of Argentine Government's desire to dispel suspicions and strengthen friendly relations with neighboring countries, particularly Brazil. Foreign Minister told me yesterday that these references to particular ties with Brazil and other neighboring countries were in no wise to be considered as impairing basic concept of American solidarity, repeating his own strong convictions on this point.

Repeated to Rio.

ARMOUR

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<sup>7</sup> Recommendation V of the Third Meeting of the Foreign Ministers at Rio de Janeiro, Department of State *Bulletin*, February 7, 1942, p. 124; and Resolution I of the Inter-American Conference on Systems of Economic and Financial Control, held at Washington, June 30–July 10, 1942, summarized in *Foreign Relations*, 1942, vol. v, pp. 60–62.

<sup>8</sup> For negotiations on the petroleum questions, see pp. 379 ff.

<sup>9</sup> Neither printed.

<sup>10</sup> President Pedro P. Ramírez. For correspondence on the overthrow of the Castillo government and the elevation successively to the Presidency of Gen. Arturo Rawson and Gen. Ramírez, see pp. 365 ff.

<sup>11</sup> Segundo R. Storni, Minister for Foreign Affairs and Worship in the Ramírez government.

851.01/2329 : Telegram

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

BUENOS AIRES, June 23, 1943—4 p. m.

[Received 4:50 p. m.]

1405. Gache <sup>12</sup> informs me his Government has decided to withdraw its Mission from Vichy which will probably be done at an early date. They would then he said, probably be prepared to establish diplomatic relations with the French National Council of Liberation but this would depend upon a settlement of the differences between Giraud and de Gaulle.<sup>13</sup>

Once such relations are established, this would seem to offer favorable opportunity to work out some agreement regarding French ships.

ARMOUR

711.35/184

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

WASHINGTON, June 28, 1943.

DEAR NORMAN: The change of Government in Argentina makes it desirable, I think, to review the objectives of our policy with respect to that country.

Over a decade ago the President announced his policy of the Good Neighbor.<sup>14</sup> Our strict adherence to this policy, demonstrated time after time, convinced the people of the other American republics of the sincerity of our intentions. The spontaneity and sincerity of the popular welcome accorded the President when he visited Buenos Aires in the fall of 1936 <sup>15</sup> was ample testimony of the favorable popular response in Argentina.

As the rise of the Axis forces cast its long shadow over this hemisphere the American Republics almost instinctively drew together for the safeguarding of their mutual interests, namely, their freedom and independence and right to live their lives peacefully within a world governed by law. The Argentine people once again responded favorably and enthusiastically endorsed the efforts to develop the solidarity

<sup>12</sup> Roberto Gache, Under Secretary for Foreign Affairs.

<sup>13</sup> For correspondence on the United States' concern over these differences, see vol. II, pp. 23 ff.

<sup>14</sup> In inaugural address, March 4, 1933, *Congressional Record*, vol. 77, pt. 1, p. 5.

<sup>15</sup> President Roosevelt addressed the opening session of the Inter-American Conference for the Maintenance of Peace, December 1, 1936; for text of address, 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), p. 77.

of the hemisphere on a practical and effective basis. The Argentine Government, after much coddling both at the several inter-American conferences and through the regular channels of inter-governmental contact, did, albeit somewhat reluctantly, go along with the other governments in the development of the plans for the political, economic, and military solidarity of the hemisphere. Indeed, the outbreak of the war in 1939 with Ortiz as President <sup>16</sup> found the Argentine Government analyzing the issues of the war as clearly as those of any other government in this hemisphere.

With the untimely and unfortunate withdrawal of Ortiz from the Presidency on account of his illness, Argentine policy, under Castillo and Ruiz-Guiñazú, took a new orientation. Its first manifestation was the reluctance to accept the arrangements suggested at the Meeting of Foreign Ministers at Habana <sup>17</sup> for taking over the possessions in this hemisphere of European states if these possessions were utilized to threaten the security of the American Republics. From that time until Pearl Harbor it was evident that the policy of the Argentine Government in its attitude towards the world crisis was lagging behind that held generally by the other American governments.

The meeting at Rio de Janeiro brought out very clearly that the Argentine Government did not see in the Axis aggression the same threat to its own independence and freedom as the other American republics did to theirs. Whereas the other countries agreed upon measures of cooperation and put them into effect, Argentina hung back. The other countries as a consequence of these cooperative measures incurred very real risks. Some of these risks, unhappily, materialized—for instance, the sinking of Brazilian and Mexican ships, with consequent loss of considerable life. Whether these risks materialized or not, the fact is that these countries took them because of their belief that issues were at stake which were so important to their independence that no risk was too great.

At the Rio de Janeiro Conference, as you know so well, every effort was made to find a formula regarding break of relations that would enable Argentina to keep in step with the other American republics. This was done even at the expense of weakening the language of the resolution. Argentina accepted this resolution, and in fact all the other important resolutions, without reservation. Nevertheless, the Argentine Government, through its own free choice, did not follow the recommendation at Rio de Janeiro signed by its own Foreign Minister

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<sup>16</sup> Roberto M. Ortiz, President of Argentina from February 20, 1938, to July 4, 1940, when ill health led him to turn over the Government to the Vice President.

<sup>17</sup> See *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940: Report of the Secretary of State* (Washington, Government Printing Office, 1941), or Department of State *Bulletin*, August 24, 1940, pp. 127-148.

regarding break of relations, nor did it apply effectively the other basic resolutions of a mandatory character. It apparently thought that its best interests could be served by going it alone. This attitude was not shared by many millions of Argentines, probably not by a majority of the Argentine people. They were not enabled, however, freely to express their point of view or to take the measures guaranteed them by their Constitution that might have brought about a change of Government policy.

Now a military *coup d'état* has occurred. I judge from your reports that you believe this took place as a necessary step to the procurement of armament by the Argentine Army and Navy. So far as domestic issues are concerned the new Government seems no more inclined, and possibly less, to observe constitutional forms and return to democratic political methods than its predecessor. This probably accounts for the complete public apathy which greeted the new regime. Indeed, one of the reasons which suggest caution in our dealings with the present Argentine Government is the fact that the Argentine people have in no way expressed themselves in regard to it.

Regarding foreign policy the new Government has issued certain declarations which, although of a somewhat two-faced variety, seem to look towards a greater collaboration with the countries of this hemisphere. Indeed, it has taken one measure of very great importance to the United Nations, namely, the prohibition of the transmission by radio of messages in code. Nevertheless, no fair-minded observer of recent Argentine developments could but be uncertain, if not skeptical, about the course of future developments. The appointments of General Rawson, who obviously is still closely identified with the new regime, the designation of General Pertiné,<sup>18</sup> the closure of the *Standard* for an alleged offense committed last February, the dissolution of Congress and the postponement of elections, the measures for control of the press and the radio—all of these add up to create a doubt as to the real intentions of the Argentine Government.

In these circumstances, the wise policy on our part would appear to be to wait and see what happens. The new Argentine Government has stated that its foreign policy will be marked by acts and not words. Let us therefore see what these acts are and observe their nature, and then determine upon what change, if any, should be made in our present policy vis-à-vis Argentina.

I think that it is a fair conclusion that one of the reasons for this military *coup d'état*, if not indeed the most important one, was to secure military assistance. It may be that the military leaders of the regime believe that substantial military assistance will be accorded

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<sup>18</sup> Gen. Basilio Pertiné had been designated Mayor of the Federal Capital of Argentina.



if the Argentine Government now accepts the proposal made in March 1942 that Argentina participate in convoys. What would have been considered in March 1942 as a measure of cooperation for hemisphere defense<sup>19</sup> warranting the diversion of war materials in the light of June 1943 would appear totally inadequate, not only to the people of this country but to our friends in all the other American republics. Clearly, if Argentina expects military assistance today it can only be furnished if Argentina breaks all relations with the Axis powers of whatever type and engages wholeheartedly in activities designed to defend the hemisphere.

It is my opinion that even though Argentina now completely breaks with the Axis this belated action would not be received with cheers on behalf of the other American republics. They took a real risk during the darkest days of the war. Similar Argentine action now involves very little, if any, risk. This is obvious. Inter-American solidarity would receive a severe jolt were Argentina at this late date to be welcomed into the fold like the prodigal son. Although there is no disposition here to be vindictive towards Argentina, nevertheless it would be fatal to the further development of hemisphere solidarity through mutual cooperation if Argentina, in the event of break of relations and real cooperation for hemisphere defense, were to be given treatment that would make the other countries think that Argentina had fared better by not breaking relations in early 1942.

Although a break of relations by Argentina at this time would not constitute the significant contribution to the war effort of action taken immediately after the Rio de Janeiro meeting, nevertheless it would be important in completing the solidarity of the American Republics. With the preparations for the postwar already in full swing it is obviously becoming of increasing importance to Argentina herself to be a party to these deliberations.

I have written you at some length because I believe that the new Argentine regime may try in one way or another to rehabilitate its position either by attempting to negotiate some sort of arrangement regarding action on the Rio Resolutions or as a result of the taking of certain actions it may expect us to tumble all over ourselves in the provision of assistance to Argentina. With regard to the first possibility, we are going to await action before modifying our policy one iota. There is no use in the Argentine Government's telling us what it intends to do; only positive action, under existing circumstances, means anything. Nor is there any use in Argentina's attempting a bargain to find out what rupture is worth to us. With regard to the

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<sup>19</sup> For correspondence on efforts to bring about cooperative defense measures between the United States and Argentina, see *Foreign Relations*, 1942, vol. v, pp. 371 ff.

second alternative, we do not propose to "make up for lost time" in assisting Argentina should it now even break relations and take the other steps stipulated at the Rio de Janeiro meeting. Argentina must not expect, for instance, that because it has not received any goods of a certain type during the last eighteen months it is now going to receive all of this back supply together with a continuing supply calculated on a proportionate basis to that being given to the other American republics.

There is, however, advantage to us in a break of relations by Argentina, although not to the same degree as previously. We should be sympathetic to the steps, however fumbling they may be, of the new Government to find a way to rupture. We should be understanding and accommodating. The greatest advantage of full application of the resolutions of Rio de Janeiro, however, would be to Argentina itself. While Argentina cannot expect now to retrieve the past, such action would open to her a useful and constructive path of cooperation with the other American republics in the future. Moreover, it would enable Argentina to participate as an equal in the deliberations of the United Nations and their associates with regard to the reconstruction of the postwar world.

My judgment is that it would be helpful to General Ramírez, Admiral Storni, and their associates to learn from you the way in which this Government now views Argentina's situation. I should think that they would want to know the general outline of the relationship that might unfold if Argentina breaks diplomatic relations and fully implements the Rio de Janeiro commitments. Our views thus presented would help to orient their thinking on a realistic basis. Otherwise they will be obliged to build up the pattern of our attitude on the basis of our reply to specific initiatives on their part. Moreover, it would seem to me that their knowing now what our opinions are, even though they may not be as favorable as they have hoped, may prevent a sharp repercussion at some future date as the cumulation of a series of negatives on our part.

One basic point which I think you must emphasize in any conversation you have is that the determination of its foreign policy is a matter for the sole determination and decision of the Argentine Government. In such determination this Government has not interfered, does not interfere, and will not interfere. But if the Argentine Government modifies its existing foreign policy so as to comply with the obligations and recommendations entered into at the Conference at Rio de Janeiro and in other existing inter-American agreements so that it joins wholeheartedly, practically, and effectively in the defense of the Western Hemisphere, this Government will of course be prepared to discuss the measures of cooperation which in the judgment

of the United States could be offered to the Argentine Government in the general interest of the security of the New World and of the United Nations war effort.

I realize, of course, that the disclosure of our views to Ramírez and Storni will be a matter of great delicacy both as to timing and as to method of procedure. I therefore leave with you the most ample discretion on this point. Furthermore, if you do not think that any disclosure should be made now or in the near future please write me fully in the premises.

I am afraid that the coming weeks are going to be rather trying ones for you because of my belief that the Government will be feeling you out on all sorts of half-way propositions. Although at this end I will do all I can to make clear our policy, because of Espil's<sup>20</sup> unwillingness to be forthright the major burden will have to rest upon your shoulders. There is no one in whose hands I would rather place the difficult task of presenting our point of view than yours. I have every confidence that you will be able to do so objectively and firmly, bringing out the benefits and responsibilities inherent in inter-American solidarity and at the same time being decently receptive to any real solid indication of desire wholeheartedly to collaborate in the implementation today of that solidarity.

My kindest regards to you [etc.]

SUMNER WELLES

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835.00/1572 : Telegram

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

BUENOS AIRES, June 29, 1943—6 p. m.

[Received 7:28 p. m.]

1450. For the Under Secretary. The report has come from various sources that the Government is planning some important step in its foreign policy to take place in the very near future. American press correspondents who saw Storni last Saturday say that he advised them to keep their eyes open for an event that would occur this week.

In the light of the above a conversation which a member of the Embassy staff had last evening with the Minister of Finance, Jorge Santamarina, is particularly interesting. Santamarina stated:

"The other day when I talked to you I was optimistic. Today I feel 100 percent better than I did then. There will shortly be a break of relations." Santamarina said he was not authorized to make such a statement and that it should be regarded as strictly confidential.

In the same conversation Santamarina went on to say that there are large numbers of pro-Axis and strong nationalistic elements in this

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<sup>20</sup> Felipe A. Espil, Argentine Ambassador in the United States.

country which oppose any change in Argentina's foreign policy and that the Government will have to be in a position to show the people that the break of relations with Axis will benefit Argentina from a practical as well as an ideological standpoint. He indicated that any negotiations would be highly undesirable which might be interpreted in the light of either promises of material or pressure on the part of the United States for the purpose of securing Argentina's break with Axis. His recommendation is that we make a special effort to show our goodwill toward the new Government and our appreciation of each step which it takes to cooperate with us, such appreciation of course to take the form of our treating this country in the same manner as that adopted towards others which have cooperated with us.

I saw Santamarina myself this morning at a service at the cathedral and he told me he was feeling very encouraged.

ARMOUR

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740.0011 Pacific War/3309 : Telegram

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

BUENOS AIRES, June 30, 1943—5 p.m.

[Received 5:40 p. m.]

1451. I have learned that the British Embassy in telegram sent London yesterday attributed to this Embassy the opinion that change in Argentine foreign policy might begin with severance of relations with Japan. By way of explanation I desire to say that about 3 weeks ago, my Brazilian colleague told me that he thought the new Government might well commence with Japan as latter was first to attack an American country and later break with Germany as having attacked Brazil. I recall mentioning this conjecture to Hadow<sup>21</sup> who apparently thought it was based on information received by us from a more authentic source.

There is, of course, possibility Argentine Government might follow some such procedure in case of Japan as there are few Japanese in this country expecting thereby to precipitate a break by the Germans and feeling that by then the Italians might have collapsed.

ARMOUR

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835.00/1556

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

No. 4527

WASHINGTON, July 5, 1943.

The Secretary of State refers to the Department's telegram no. 889 of June 18, 1943. It is hoped that it may be possible at this time to

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<sup>21</sup> Robert Henry Hadow, British Counselor of Embassy in Argentina.

call to the attention of the Argentine Government the kind of collaboration which this Government trusts will be forthcoming in connection with the implementation of the Resolutions adopted at the Inter-American Conference on Systems of Economic and Financial Control held in Washington.

Implementation of these Resolutions would involve, in addition to adequate enforcement of existing Argentine controls, basic economic and financial controls looking toward:

1. Prevention of all trade, financial transactions, and communications between Argentina and Axis, or Axis-dominated, territory. At present Argentine trade with Axis territory is restricted, not by Argentine controls but by the United Nations blockade. Similarly, there is no prohibition against communications with Axis territory. The remittances to the Dresdener Bank in January of this year are illustrative of Argentine financial transactions which benefit the Axis.

2. The prevention of trade and financial transactions between Argentina and neutral countries which might benefit the Axis. Appropriate controls should be directed at achieving the following objectives: (a) that goods exported to neutral territory shall not be re-exported to Axis or Axis-dominated territory; (b) that goods so exported shall not release equivalent goods for export to the Axis; and (c) that goods so exported shall not especially benefit that segment of the neutral country's economy which is being used for the benefit of the Axis war effort.

Controls should be established as well to assure that imports from neutral countries are not of Axis origin, and that no advantage to the Axis accrues from the transaction.

In this connection, all transactions with persons in neutral countries who have aided or are aiding the Axis should be prohibited. This Government would be willing to make available to the Government of Argentina such information as it has relative to such persons and firms.

3. Application of economic and financial controls to the property and transactions of persons within Argentina known to be, or to have been, engaged in activities inimical to the security of this hemisphere. Since such persons or firms may have acquired Argentine citizenship or corporate nationality, the controls adopted should be applied irrespective of citizenship, nationality, residence, or domicile.

Measures necessary to achieve adequate controls would include: (a) adoption of flexible standards for identification of the persons or firms to be brought under control; (b) provision for liquidation, expropriation, or forced sale to acceptable purchasers of enterprises owned or controlled by Axis nationals, or persons friendly to the Axis, with effective blocking of any proceeds; (c) census of assets owned by the person or firms falling within the language of the controls, with emphasis on the discovery of assets beneficially owned by such persons or firms held in the names of other persons; (d) complete blocking of all assets with such safeguards as may be necessary to prevent any benefit accruing to blocked persons or firms from any dealings relative to the frozen assets; (e) elimination of persons deemed dangerous from the point of view of hemispheric security, from positions which might afford opportunities for sabotage, espionage,

age, etc.: (f) establishment of a flexible system of interventorships; (g) appropriate differentiation, particularly in publications, between legitimate expression of opinion and subsidized pro-Axis propaganda; (h) adoption of administrative machinery for direct and effective application of controls.

4. Denial of Argentine facilities to the sale in Argentina, or any movement in the Argentine market, of any securities in which there may be an Axis interest, or as to which there is a probability that at any time since the beginning of the war they were transferred from previous owners by methods of disposition practiced by the Axis Governments. The latter would be, of course, an implementation of Argentina's adherence to the Inter-Allied Declaration on Acts of Dispossession.<sup>22</sup>

Officers of the Embassy may wish to incorporate the substance of the above into a memorandum for submission to the Argentine Government, or to use it as a basis for conversations with members of the Argentine Foreign Office.

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835.00/1580 : Telegram

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

BUENOS AIRES, July 5, 1943—7 p. m.

[Received 9:51 p. m.]

1489. For the Under Secretary. Following the luncheon today at which the Minister for Foreign Affairs made his important speech (for text see Embassy's telegram number 1490<sup>23</sup>) Storni asked me to return with him to the Foreign Office and spoke to me for an hour. He told me his speech had been carefully prepared, one of its main objectives being to smoke out those army men and others opposed to a break. He had warned the President that he intended to "go to the limit" in his speech—that the delay in decision could not continue. All the Cabinet, he said, favors the break except Galíndez, Minister of Public Works, but there is unfortunately a certain group of army officers backing Galíndez and Ramírez is hesitant to act until convinced it will not lead to civil war. Ramírez is, Storni says, determined and intelligent but lacks prestige in the country. Storni has suggested to him the following procedure: A Cabinet meeting shortly at which a vote will, he hopes, be taken to break; then have Ramírez summon a council of notables (Consejo de Notables) as was done

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<sup>22</sup> On January 5, 1943, the Allied Powers issued a warning of their intent to defeat enemy methods of property dispossession; for text, see Department of State *Bulletin*, January 9, 1943, p. 21.

<sup>23</sup> Dated July 5, 1943, not printed; this telegram indicated that Storni eulogized Roosevelt, praised Pan-Americanism, and declared that Argentina would take her place in support of continental solidarity (835.00/1581).

twice by President Roca and once by Saenz Peña in similar crises. Storni has already presented the President with a list of 150 names—largely I judge civilians, he mentioned Leopoldo Melo<sup>24</sup> and Ramón Carcano.<sup>25</sup> If, as he is convinced they will, the majority favors a break, the Government would then act.

I asked him how long he thought this would take. He said it could be done in a week but in any case he had told the President the situation must be cleared up this month. If a break does not occur Storni intends to resign.

Storni said the President wishes to see me tomorrow or Wednesday. In the meantime he wished Storni to ask me what I thought our Government could do for them in the way of material if and when the break came. I said we could make no promises; that as he probably knew, our position in this respect had been made clear to Chile in similar circumstances and he must realize that a lot had happened even since last January. I then took off the gloves and stated our position to him very frankly and unequivocally. He appeared to understand and it was agreed that I would speak with equal frankness to the President when I see him. Storni feels that much will depend on this talk.

Storni's idea is that if they break, the Government should use their destroyers for convoy, sending them four at a time to New Orleans and return. If their ships are attacked, then they should declare war at once. He hopes that if they break, we will at least be able to furnish them some of the oil machinery, also perhaps help in reconditioning such of their war vessels as need it, although the destroyers are in pretty good condition.

Storni hopes as a result of his speech today to see mass demonstrations by democratic groups in favor of a break, admitting that these may be inspired if he can persuade the police not to break them up. I gather he also hopes to have the democratic press permitted to comment favorably on his declarations at luncheon today—the stumbling block however being Colonel González, the President's secretary who handles the press and censorship.

Storni said the Argentine Naval Attaché to London<sup>26</sup> just back who was formerly in the other camp, now favors a break. This officer has told Storni and will so inform Ramírez that the British Government is solidly with us and that Argentina can expect no help from the British unless or until they come over to our side.

ARMOUR

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<sup>24</sup> Member of the Club del Plata which cooperated closely with the G.O.U., a group of young army officers among whom was Col. Juan Perón.

<sup>25</sup> Former Argentine Ambassador to France.

<sup>26</sup> J. S. Zuloaga.

835.00/1585 : Telegram

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

BUENOS AIRES, July 6, 1943—9 p. m.

[Received 10:12 p. m.]

1506. For the Under Secretary. Reference my 1489, July 5, 7 p. m. I had a long talk with the President this afternoon at his house. He said that he wished us to understand the position of his Government and the difficulties confronting them, particularly why it had not been possible to proceed immediately to a break in relations. He said that for this important step the public and particularly the Armed Forces must be prepared, and to accomplish this he still needed a little time. He realized that our Government well might have misunderstood certain things that have happened here and seemed fully cognizant of the bad press they had in the United States. This was, he admitted, due to certain appointments that had been made and clumsy censorship but he was taking steps to remedy this and hoped that the situation would soon improve. The people had become accustomed to ease and plenty and to take such a step out of a clear sky might have serious repercussions. He stated frankly that there were still in the Armed Forces certain elements that he was not sure he could count on. And these must be brought around or at least not be in a position to challenge the Government's decision when taken.

I asked him whether in preparing public opinion it would not seem logical to proceed vigorously against the Nazi subsidized press which was continuing to attack us and at the same time through raising or relaxing the state of siege permit the pro-democratic papers which constitute a great majority of the press to express themselves. He admitted this and said that as soon as the July 9th festivities were over he intended to devote his entire attention to this matter. He also agreed that in preparing public opinion prompt action against the Axis spies with full publicity in the press would be useful.

To my question of how long a preparatory period he felt would be necessary he mentioned a month or 5 weeks (this he repeated several times). He said it might be sooner but he could give me his guarantee that the break would take place not later than August 15. He confirmed Storni's statement to me that once the Cabinet had taken its decisions he proposed to summon a council of notables largely composed of civilians to give him their opinion; it was he felt too serious a step for him or for the Government to take alone. This would be done very shortly.

He expressed concern over the upset in the equilibrium through materials received by neighboring countries. He realized the circumstances under which materials had been sent to these countries



and that it had not been our Government's intention in any way to create difficulties for Argentina but he hoped we would exert our influence to prevent any incident from occurring.

He wished me to assure our Government that when the break came his Government did not intend to ask for material. Their action would be taken without any idea of bargaining. If we could help them with certain things it would be appreciated but this would be for the future and only to the extent that we felt we could spare it.

Ramírez impressed me as nervous and not too sure of himself. He is undoubtedly worried over the strength of the opposition in the army particularly. Axis sympathizers have apparently been busy with the argument that pressure is being exerted by the United States through materials sent to Argentina's neighbors and that a break would be interpreted as giving in to such pressure. I think I was able to disabuse him of the idea of any pressure, merely advancing the usual arguments as to why we felt a break in relations would be to their own advantage as well as to that of the Americas as a whole.

ARMOUR

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740.0011 Pacific War/3327

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

BUENOS AIRES, July 9, 1943—6 p. m.

[Received 6:24 p. m.]

1526. Minister for Foreign Affairs informed my Chilean colleague <sup>27</sup> today that Japanese Ambassador <sup>28</sup> called on him yesterday and was even more menacing than at the time he called to protest against Radio Communications decree. He cautioned the Minister against his Government breaking relations with Japan, saying that they would defeat the United States and would then retaliate against those countries which had taken an unfriendly position. The Minister told him that if Japan proceeded against any American country, Argentina would declare war.

ARMOUR

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835.00/1661

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

No. 10943

BUENOS AIRES, July 13, 1943.

[Received July 21.]

SIR: With reference to the Embassy's airgram No. A-552 of June 21 [26], 5:05 p. m.,<sup>29</sup> I have the honor to report that the policy of the

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<sup>27</sup> Conrado Ríos Gallardo.

<sup>28</sup> Shu Tomii.

<sup>29</sup> Not printed.

Ramírez Government during its first month in office has been confused and at times inconsistent. Observers advance conflicting views on the intentions of the revolutionary leaders and undertake to support them by reference to official acts or pronouncements. Such opinions, although often determined by fear or wishful thinking, reflect the general uncertainty. In illustration, newspapers as widely separated ideologically as the pro-Ally and pro-democratic *El Mundo*, *La Nación*, and *La Prensa* and the pro-Axis advocates of totalitarianism, *El Pampero* and *El Cabildo*, have consistently shown approval and support of the Government, each from its own point of view.

There would seem to be at least three factors contributing to this confusion. First, it is the natural consequence of the errors of commission and omission committed by members of the armed forces inexperienced in policy-making and public administration. Certain untimely acts of the press censorship, for example, which on occasion have been as embarrassing to the President and the Foreign Minister as to the papers themselves, were obviously due to lack of experience and political tact.

Secondly, the influence of the Church in the councils of the new Government seems from all reports to be quite pronounced. A leading clerical adviser has been a Father Wilkinson, former chaplain at the Campo de Mayo military base who was given an office in the Casa Rosada. The policy counseled by Father Wilkinson is believed to have been isolationist and possibly anti-Allied. In this he reflected an attitude often shown in the past by a not inconsiderable body of the Catholic clergy in Argentina, especially among Spanish priests. However, since I was told on July tenth by Lieutenant Colonel Enrique González, secretary of the Presidency, that Father Wilkinson was about to go because his views were not in line with those of the new Government, the present influence of the clergy in the Casa Rosada may not be so strong as at first appeared to be the case.

Thirdly, it is becoming increasingly evident that a struggle for supremacy is going on between democratic and pro-severance-of-relations forces in the Government on the one hand and pro-totalitarian, "neutralist", and anti-American or anti-British groups, likewise in or close to the Government, on the other, with the latter showing considerable strength. General Ramírez hinted at this in my conversation with him on July 6 reported in telegram No. 1506 of July 6, 9 p. m. The existence of this internal struggle may account for the contradictory nature of such measures as suppression of radio-communications in code abroad, which directly favors the United Nations, and the naming of General Pertiné, a known nationalist and pro-Nazi, as Mayor of the Federal Capital; the statement of Lieutenant Colonel Ladvoat on July 2 regarding neutrality (telegram

No. 1470 of July 2, 2 p. m.<sup>30</sup>) and Foreign Minister Storni's Independence Day speech (telegram No. 1490 of July 5<sup>31</sup>); and reversal on July 6 of the Buenos Aires Interventor's earlier decision to reject Matías Sánchez Sorondo's resignation as president of the Bank of the Province of Buenos Aires (telegram No. 1499 of July 6, 6 p. m.<sup>30</sup>).

Until a decision is reached between these two tendencies the direction of the future policy of the Government cannot be foretold and the hesitation and inconsistency will continue. For the present, nevertheless, several encouraging features should be noted. The feeling is general, and extends even to Conservatives, that Ramírez's intentions are good and that he should be supported against any other combination possible under the circumstances (notably the totalitarian-minded in the army). Secondly, after Admiral Storni's Independence Day remarks, which the Department will remember he later that afternoon told me were designed to bring the "other side" into the open, it was Sánchez Sorondo who was forced out of office, not Storni. Also, General Ramírez's statement to me in our conversation of July 6 that after the Ninth of July celebrations he will dedicate himself to preparing opinion for a severance of relations with the Axis is encouraging, since if in this effort he gives free rein to the democratic papers and restricts their opponents, as he apparently plans to do, the result will be a strengthening not only of his own position but of that of the supporters of democracy, as pointed out below. That his prestige among the people has already grown considerably was amply demonstrated by the attitude of the crowds on the Ninth of July. His return from the military review that afternoon was something of a triumphal procession. Likewise, when he inspected the damage done by a great fire that destroyed a large business house in the center of town on the eighth, an apparently spontaneous demonstration took place among the passers-by who witnessed the visit. With these indications of where the people's sympathies lie Ramírez must understand that the democratic support of the country is his if he wants it and if he is willing to assume the obligations accompanying it.

The next few weeks then will be of much importance in the development of the Ramírez Government. It still seems logical to assume that Ramírez would like to become the legally elected president and go down in Argentine history as the man who returned the country to the people. He may therefore be expected to do his utmost to strengthen his position to a point where severance of relations with the Axis and the calling of elections will not precipitate internal disorders. There is at present no way of gauging the extent of the

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<sup>30</sup> Not printed.

<sup>31</sup> See footnote 23, p. 427.

opposition within the armed forces to the latter course. It is probably greater than in the matter of breaking relations. That it is considerable is apparent from some of the appointments made the past month. However, if the President handles the press intelligently and if he is clever enough to take advantage of the democratic sentiment prevailing in the country he should be able so firmly to establish his authority that the opposition within the army will be powerless to prevent fulfillment of his promise that the country will be returned to a constitutional régime. As a matter of fact, it might be difficult for Ramírez himself in the face of the popular enthusiasm thus aroused to prevent matters developing along this line.

This will of course take some time and in the meanwhile the very fact of delay may well create internal difficulties and criticism for the Government as it did during the Uriburu<sup>32</sup> régime. However, there are distinctions between the two cases which are important, the fundamental one being that the Uriburu revolution upset the party of the people while the Ramírez-Rawson movement had, as a first consequence, the dislodging of the Conservatives from their entrenched position of privilege. The people as a whole appreciate and applaud the Government's evident effort to deal with administrative demoralization and corruption in official circles and undoubtedly realize they have benefitted from practical measures such as the lowering of rents and the fixing of maximum prices for a number of basic foodstuffs. In addition, there is disgust even in some Conservative circles at the extent of the graft and inefficiency, now being uncovered, in the régime of the former government and a desire to see this blot removed from the country's escutcheon. It seems unlikely, therefore, that any group would come forward to attempt to restore the former régime and in the absence of a suitable substitute for the present government it is probable that Ramírez's effort will be given a fair trial.

It might be helpful here to recapitulate some of the principal measures the Government has taken since its establishment. The fourteen provinces and the territories have been intervened and army or naval officers, most of them retired officers, named as Interventors. The Department of Posts and Telegraphs, the Yacimientos Petrolíferos Fiscales, the Department of Health, the Department of Labor, the Transport Corporation of the City of Buenos Aires, and the National Commission for the Coordination of Transportation have new presidents, two of whom are distinguished civilians and the rest members of the armed forces. The National Board of Education and the National Lottery Board are operating under interventors. The "Committee of Citizens" which was appointed by the former Government

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<sup>32</sup> José Evaristo Uriburu, President of Argentina from September 8, 1930, to February 20, 1932.

when the President dissolved the Board of Aldermen of the Federal Capital, has been dissolved. General (Ret.) Basilio Pertiné was appointed Mayor of the Federal Capital and subsequently was invested with the attributes of the dissolved Board of Aldermen with certain exceptions having to do with financial matters. The dissolution of Congress by General Rawson was confirmed by the Ramírez Government, as previously reported, but at least four of its special committees, three investigating the lottery, iron, and sunflower-seed scandals and one examining coordination of the country's transportation system, have been specially authorized to continue functioning, under the supervision of Vice President Sabá Sueyro. Some four judges from the Federal Capital and one from the Territory of Chaco have been dismissed and several other members of the judiciary separated from their posts, on the ground of corruption. The Interventor in Buenos Aires Province several days ago suddenly cancelled the rejection of Matías Sánchez Sorondo's resignation as president of the Bank of the Province of Buenos Aires and proceeded to accept the resignation out of hand. The Buenos Aires English-language daily *The Standard* was suspended for one day for an editorial attack on Goebbels published four months previously. Maximum prices lower than those previously prevailing have been fixed on certain basic foodstuffs such as sugar and potatoes. Rents throughout the Republic have been lowered by decree from five to twenty percent. The Minister of War announced several weeks ago that charges leveled against the probity of a number of army officers in active service by the Chamber committee investigating anti-Argentine activities in a report submitted early this year for consideration by the Congress, which was to have met on June 8, should not be considered to affect the honor of the officers concerned. A decree was issued about the same time banning the use of the word "provisional" in connection with the Government. There has been a shakeup in the Buenos Aires provincial police which uncovered irregularities in that body. Special investigations are being carried on of the administrations of the former ministers of agriculture and the interior, while these ex-functionaries remain under arrest. Stern repressive measures have been taken against the Communists. These include among other things the closure of certain war-relief organizations aiding the United Nations, such as the Junta de la Victoria, in which Communistic influence is alleged to exist (telegram No. 1521 of July 8, 7 [8] p. m.<sup>34</sup>).

The future of the political parties will be discussed when the situation becomes clearer.

Respectfully yours,

NORMAN ARMOUR

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<sup>34</sup> Not printed.

835.00/1690

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

No. 10961

BUENOS AIRES, July 13, 1943.

[Received July 21.]

SIR: With reference to the Embassy's despatch no. 10943, of July 13, 1943, I have the honor to submit the following observations for the Department's consideration regarding the policy to be pursued towards the present Government here.

While undoubtedly there is confusion and a lack of definition in the Government's policy, both internal and external, I feel we should not be unduly discouraged. My talks with Storni and the President have brought out clearly that so far as the Government's foreign policy is concerned, they intend within a reasonably short period to break relations with the Axis. If and when this action is taken, I feel that the air will be very much cleared. In fact, I doubt if it is now possible to estimate how great will be the effect of this single act. Logically the Government would then, if not before, have to permit the democratic press to speak out in favor of this step which they have so long advocated, but under the state of siege have been unable to urge in clear and unequivocal language. Once the people, as represented by the democratic press, and in public meeting, which it is hoped may then be permitted, have expressed themselves, it seems possible that General Ramírez, sensitive as he has already shown himself to be to public sentiment, will realize the overwhelmingly democratic feeling in the country and put himself at the head of a movement which will return the Government to constitutional channels at a date earlier than now envisaged. It seems reasonably established that the origin of the movement that resulted in the overthrow of the previous Government lay at least partially in the talks which certain Radical leaders held with General Ramírez. It is true that the military, and particularly the group of colonels who played a prominent role, and still continue to do so, in the movement, have little use for the politician—and are determined to clean up corruption and rid the country of graft and chicanery. These officers, who are apparently sincere in their "crusade", will very possibly attempt to oppose the return of the Government to constitutional channels, at least until they feel that a thorough housecleaning has been made and a lesson given to the "políticos" for some time to come. However, if my reasoning is correct, and the expression of popular sentiment which will greet the Government's action in placing Argentina clearly on the side of the democracies in the present war is what it promises to be, I believe that even the military will be carried by the current, and will see the logic, if not necessity, of transferring the Government back into con-

stitutional channels. In such case, should Ramírez call for free elections and should the various political parties, particularly the Radicals, agree in the national emergency to settle their differences and put forward Ramírez as their candidate, perhaps on a program of national union, the result might well be a new Argentina not only prepared to take its place, admittedly very late, by the side of the other American republics in cooperating wholeheartedly in continental defense but ready to take its part in the even more important problems of the post-war settlement.

If the Department agrees that this forecast presents even a possibility of realization, I feel sure it will also agree that our Government should do everything possible to ease the way, even though it might appear that we are departing from a policy already decided upon. It is, frankly, for this reason that I have expressed myself, perhaps over-emphatically, in favor of reaching an immediate settlement of the petroleum question: of assuring the Government that our offer of spare parts required for American planes now in the possession of the Argentine Army and Navy, still holds good, etc. Anything that will tend to show that we have faith in the good intentions of the new Government, that we are prepared, even before they break relations, to give them the benefit of the doubt and cooperate with them will, I feel, create a feeling of confidence and understanding that no amount of material given, once the step has been taken, would yield.

I realize, of course, that consideration must be given to the sentiment in the other republics, notably Brazil, which have cooperated wholeheartedly with us in the days when cooperation involved a real risk. But I feel that the Department will agree that the future of inter-American solidarity and cooperation is really involved: that if this war were to come to its victorious conclusion without Argentina having come in wholeheartedly on the side of the democracies, continental cooperation in the future would be more difficult.

Whatever may be the motives of those directing the policies of the new Government in advocating a break in the relations, I repeat that if the break occurs, I believe these smaller motives will be swept aside in the powerful liberal forces which such an act will inevitably unleash and that those half-hearted or even antagonistic elements which the Government has for its own good reasons found it necessary to associate with it in one form or another will be forced to join with the current or get out.

It must frankly be admitted that there is some basis for the opinion held by certain observers here that the present Government is following the pattern of Brazil: that in its internal policy the Government will be strongly nationalistic, continuing along dictatorship lines,

although in the international field lining up with the democracies. In other words, that even if the Government breaks relations with the Axis it will continue with press censorship and repression of liberal and pro-democratic organizations within the country.

This is of course a possibility. On the other hand, important distinctions exist between the situation in Brazil and in Argentina. In the first place the more educated and intellectual groups—those holding opinions on national and international questions—are, in Argentina, more concentrated in strategic centers, particularly the federal capital, than is the case in Brazil. Furthermore, I think it must be admitted that the Argentine press, as represented by such outstanding newspapers as *La Prensa* and *La Nación* in the capital, not to mention certain of the provincial organs, wield an influence which the press of Brazil, even in the days when it was allowed greater liberty of expression, never had. In short, it would be more difficult for the Government here to continue to bottle up public opinion and control the press than in the case of Brazil.

Finally, in Brazil the Vargas Government had been well in the saddle for some years prior to the entrance of Brazil into the war, and was in a position to cope with the new situation without reorientating its internal policy, whereas the Government of Argentina has been in office just over a month and is still not entirely sure of itself.

For these reasons I do not feel that the analogy of Brazil necessarily holds true, even though certain surface tendencies exhibit a disquieting similarity to those which showed themselves in Brazil soon after the advent of the present regime in that country.

Respectfully yours,

NORMAN ARMOUR

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835.00/1643 : Telegram

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

BUENOS AIRES, July 15, 1943—10 p. m.

[Received July 16—12:24 a. m.]

1576. I had another long talk with the Foreign Minister this evening and found him discouraged about the general situation both internally and on the question of breaking relations. He says the opposition is deeply rooted and extends further than he had realized. It is centered in the Nationalists both in and out of the army. The opposition elements have even been able to prevent for the time being the calling of the Council of Notables, as they realize that the majority of those in the list he had given the President would favor a break. Storni was baffled as to who constituted the opposition elements as



all officers and other[s] with whom he has spoken claim to be in favor of a prompt break in relations. He was however encouraged by the acceptance of Sánchez Sorondo's resignation (he had apparently not heard the report of his arrest, see Embassy's telegram no. 1574, July 15, 9 p. m.<sup>35</sup>) and said 3 days ago the President called the higher army and naval officers together and gave them instructions to work on the younger officers who are apparently the stumbling block with a view to lining them up. He sees the President every day and hopes to have something more definite for me next week. Storni said both the Germans and Japanese are proceeding cautiously to avoid giving Argentine Government any issue on which to base a break. The Germans would, he felt, be very careful not to attack any Argentine ship and he was convinced would grant the navicert for Argentine tanker in Sweden (see Embassy's telegram 1575, July 15, 10 p. m.<sup>35</sup>). As regards the Japanese he corrected the report I had heard that Japanese Ambassador in his last talk had assumed menacing attitude. On the contrary, he had gone out of his way to be conciliatory and it was he, Storni, who had taken offense by saying that if Japan attacked an American country Argentina would immediately declare war. The Ambassador had replied that Japan had no such intention. Storni sarcastically remarked to me "It isn't a question of their not wanting to but their not being able to".

For these reasons Minister felt they could not count on provocation either by the Germans or the Japanese to base break in relations and Argentine Government's action as he had all along favored would be based on Rio commitments. In fact, he had already had the decrees drafted along these lines.

ARMOUR

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835.00/1653 : Telegram

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

BUENOS AIRES, July 19, 1943—6 p. m.

[Received 11:50 p. m.]

1604. For the Under Secretary. The Minister of Finance, Jorge Santamarina, told me in strict confidence last night that Ramírez has apparently been informed from some source in the United States that our Government is no longer interested in seeing this Government break relations: That we feel it is now too late for such action to be of any use. He asked if I knew whether this was true since the report had not had a good effect on the President. I replied that

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<sup>35</sup> Not printed.

while I had nothing on it I thought he must agree that the psychological moment to have taken this action would have been immediately after the new Government took over. As it would then have confirmed the earlier impression abroad that one of the prime motives of the revolution was to place Argentina squarely on the side of the other American Republics. As it was, in the 6 weeks since June 4 the only action of importance this Government had taken was the radio telecommunications decree, and I felt that opinion was crystallizing in the United States, at least with the press and public, that this Government was more interested in bearing down on pro-democracy organizations on the alleged ground of Communist affiliations than in proceeding vigorously to implement the Rio Resolutions. However, unfortunate as the delay had been I believed that in their own interest they would certainly break with the Axis and I felt this was my Government's view; but it was of course a question solely for determination by the Argentine Government. I pointed out the obvious inconsistency in the President's feeling upset at our reported indifference as to whether they acted or not and the insistence both by the President and Foreign Minister that there must be no evidence of pressure on our part. If the report that had come to the President had any basis in fact then surely this was the best evidence their Government could have that we were not exerting pressure.

Santamarina said Ramírez apparently felt pressure was being exercised through Brazil: That they understood Brazil had 200,000 troops concentrated near the Argentine border (Brazilian Ambassador denies this and tells me he has so informed the Government here). I then reviewed to Santamarina the situation as outlined in your personal letter to me of June 28 which has also been helpful in my talks with Ramírez and Storni. Santamarina claims they fully understood that no war or other critical material will be forthcoming unless they break and confirmed what Ramírez told me that they have no idea of bargaining the break for such material nor do they expect us to make up to them in material for the time they have lost since Rio. Storni also realizes this.

It occurs to me that Ramírez' source in the United States may have been an over-condensed report from Espil following a conversation which your letter of June 28 indicated you expected to have with him. I cannot see any particular harm in their having the impression we are no longer interested but if in my next talk with Storni he raises the question, I shall elaborate our point of view along the lines of your letter, much of which as I say I have already used in a previous talk.

ARMOUR

835.00/1643 : Telegram

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

WASHINGTON, July 20, 1943—5 p. m.

1065. Your 1576, July 15, 10 p. m. The Department has noted with some concern the apparent desire of the Argentine Government to find some sort of a specific issue on which to break relations with the Axis. It seems to the Department that such a policy would not advance the attainment of the stated objective of the present Argentine regime to secure through acts, not words, the greatest possible solidarity with the other American republics and the fulfillment of Inter-American commitments and it hopes that the Argentine Government will see its way clear to basing a break in relations on these grounds as Storni has now indicated to you will be the case.

The linking of the Argentine policy of solidarity with the other American republics to the maintenance of neutrality vis-à-vis non-American countries in pronouncements of the Argentine authorities appears contradictory and the Department feels that the Argentine Government will sooner or later have to come to a clear definition of which policy is to govern. The action of the Argentine Government in closing pro-United Nations organizations on the plea that Communists have infiltrated into them, and particularly the dissolution of Acción Argentina, which has been so thoroughly identified with the United States and British cause, while it has taken no action against pro-Axis organizations with Argentine membership necessarily causes considerable misgiving here as to the true motives and intentions of the Argentine Government.

The Department is placing these considerations before you for your comment and unless you perceive serious objection to the contrary, for guidance in future conversations with Ramírez, Storni and others.

HULL

835.00/1667 : Telegram

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

BUENOS AIRES, July 22, 1943—2 p. m.

[Received July 23—5:40 a. m.]

1636. For the Under Secretary. There are certain elements in the local political situation which I feel should be brought to your attention. In first place there appears to be a serious cleavage in the army both as regards internal and external policy. In the last weeks the elements opposed to a break have been very active. There are well authenticated reports these elements are attempting to have those officers who are working for an immediate break in relations, par-

ticularly the group of colonels, transferred to posts in the interior. I understand also that they are trying to induce General Rawson to accept the Ambassadorship to Brazil as he is pressing the Government to break at once, even threatening if this is not done to head an opposition movement. (From your telegrams I judge you consider Rawson in the other camp based presumably upon his unfortunate Cabinet appointments. Astonishing as it may seem, it appears that Rawson . . . really did not know of Rosa's or Martínez' <sup>37</sup> sentiments or fact that Rosa is on our Proclaimed List. In any case, Rawson is openly pro-Ally and is telling anyone who will listen to him, including the press, that his first act as President had he stayed in would have been to break relations, which was the main reason for his heading the movement.)

Among the reactionary elements opposing the break and who have also egged on the Government units so-called anti-Communist crusade is the church. The bombing of Rome is now being used by them to full advantage, through the Axis subsidized press, as well as the Catholic *El Pueblo*. One strange report, believe it or not, given me by the Chilean Ambassador and confirmed by Agustí,<sup>38</sup> is that this Government justifies its anti-Communist campaign on the ground that United States and British Armies after victory will be used as bulwark against communism in Europe and that Argentina by suppressing communism here is doing its bit for the cause.

In any event, while 2 weeks ago the break was generally expected to come shortly, open doubt is now being expressed in many high quarters. My Chilean colleague has I understand informed his Government he does not think they will break although he has made it clear to this Government, he assures me, that the Chilean Government wishes it. In view of Caranha's [*Aranha's*] <sup>39</sup> assurances to Caffery,<sup>40</sup> I have suggested to the Brazilian Ambassador <sup>41</sup> that he do what he can with Storni and Ramírez and he is seeing Storni today and proposes to ask for an interview with Ramírez. I have told him that he can express the personal opinion that if the break does not take place, in view of the assurances given me, I am planning to request my Government to order me to the Department. Not that I flatter myself this will create any consternation, but it might help to bring the situation to a head.

Repeated to Rio de Janeiro.

ARMOUR

<sup>37</sup> José María Rosa and Gen. Domingo Martínez were the Ministers of Finance and Foreign Affairs, respectively, in the short-lived Rawson regime.

<sup>38</sup> José W. Agustí, Director of *Noticias Gráficas*.

<sup>39</sup> Brazilian Minister for Foreign Affairs.

<sup>40</sup> American Ambassador in Brazil.

<sup>41</sup> José de Paula Rodrigues Alves.

835.00/1668 : Telegram

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

BUENOS AIRES, July 22, 1943—10 p. m.

[Received July 23—8:17 a. m.]

1647. For the Under Secretary. My telegram number 1636, July 22, 2 p. m. Brazilian Ambassador saw Storni and handled the matter very adroitly. He said I had told him I reported to my Government that the break in relations would occur not later than August 15 but Alves did not know what I based this on. In fact he thought I may have got myself out on a limb. Storni said I had the best authority for my statement as it came from the President himself and Alves replied that in that case he hoped they were not going to let me down as it would place me in a difficult position not only here but in Washington. Storni explained that the situation was very uncertain. Ramírez really believed that if he broke relations there was a good possibility of revolution in the army. Storni was not himself convinced of this (he said Ramírez is very tired and nervous) but it was a grave responsibility for him to continue to urge the President to take this course if there were any possibility of such a reaction. Under the circumstances Storni did not feel that he could go much further in pushing the President nor did he feel he could resign as he had planned to do if the Government failed to break as this might well precipitate trouble. Furthermore the President was most anxious he should carry on. Alves agreed that Storni should stay where he is as there was no telling who his successor might be. Storni did not say the Government would not break but seemed less sure than formerly and himself suggested that Alves see Ramírez and talk frankly with him which he plans to do.

Storni told Alves that Adbira Stewart, former head of Merchant Marine, had suggested the Government revoke the decree prohibiting Argentine ships from proceeding into the danger zone and then send one of their ships up to New York. If the ship were attacked this would give them the incident they still seem to feel they need. This proposal had been put up to Ramírez but rejected.

As there have been reports that elements opposed to Storni are trying to get him out by having him elevated to the Vice Presidency, Alves asked him about this. Storni said he had advised Ramírez to leave the post of Vice President vacant. (The Minister of Finance told me some days ago this was the decision he thought the Government would probably reach, that they had the Uriburu government as a precedent. But there are reports the navy is insisting an admiral on the active list should be appointed and the names of Guisasola,

present head of the Merchant Marine, and Verengo Lima are mentioned in this connection.)

Repeated to Rio de Janeiro.

ARMOUR

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835.00/1653 : Telegram

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

WASHINGTON, July 23, 1943—11 p. m.

1092. Your 1604, July 19, 6 p. m. The Department thoroughly approves the line of thought you pursue in your conversation with the Minister of Finance regarding the report that our Government is no longer interested in seeing a break of relations by Argentina. The Department's position remains as set forth in the Under Secretary's letter to you of June 28.

HULL

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835.00/1689a : Telegram

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

WASHINGTON, July 27, 1943—8 p. m.

1113. Personal for the Ambassador. The President and I have become increasingly concerned by the trend of developments in the Argentine situation. Your estimate of the type of regime that seems to be evolving internally holds forth diminishing hopes for a constructive orientation in the foreign policy. We therefore believe it opportune to re-examine the relationships between the two countries as well as those between Argentina and the other American republics and the rest of the world. In order that this re-examination of policy may be as thorough as possible it seems to us that your presence here would be invaluable if indeed not indispensable. We are confronted with a difficult problem which can best be analyzed only through very full discussions. We would appreciate therefore your proceeding to Washington in the relatively near future. You would, of course, use your discretion in the light of local circumstances as to the exact date of your departure from Buenos Aires, but we feel that it should be within the next fortnight.

In connection with your departure at this time I recall that we had the pleasure of seeing you in Washington at about this period last year and the year before so that your trip could be presented as your annual return to the United States for consultation.

It also occurs to me that if the Government really has in mind a break of relations prior to August 15, it might welcome your absence

at the time this step is taken since the argument would be removed that pressure was being exerted through our Ambassador.

May I hear from you with regard to your plans.

HULL

851.01/2588 : Telegram

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

BUENOS AIRES, July 29, 1943—5 p. m.

[Received July 29—4:22 p. m.]

1718. Gache informs me Argentine Ambassador at Vichy is returning to Buenos Aires. This does not mean that they are definitely breaking with the government at Vichy as the office for the time being will remain in custody of a clerk. He said Argentine Government was recently approached by French Committee of National Liberation to ascertain whether they would accept a French North [*sic*] Consul here and be prepared to appoint a representative in North Africa. The Government had replied that they would consider such action once the United States and British Governments had reached their decision regarding official recognition of the Committee.

ARMOUR

740.0011 European War 1939/30429 : Telegram

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

BUENOS AIRES, July 29, 1943—7 p. m.

[Received 11:59 p. m.]

1722. I have had a long talk with Storni. He said Ramírez had decided in view of soundings he had made of sentiment among officers in the Army that he cannot break relations: that such a step would have serious repercussions. In other words the Government's position is as stated by Storni to Brazilian Ambassador last week (see telegram 1647, July 22, 10 p. m.) except that Storni told me he himself feels that Italian situation which has developed since then has now made break with Axis impossible, that it is too late: they have missed the bus. To do it now would be a "cowardly act". Of course, if Japan or Germany committed any overt act of provocation that would change matters. He realizes the seriousness of this decision, particularly for the future, that it means they will not only be excluded from the peace settlement and postwar discussions but as he had told the President their failure to live up to their obligations will not be forgotten by the American Republics for the next 50 years. But he feels they have made their decision and will now have to weather through as best they can.

Storni considers the internal situation bad. Nationalist and pro-Axis sentiment among German-trained officers in the Army is still strong. Ramírez is right in this. Also Storni feels communism is gaining strength and the country is heading for trouble.

I told Storni that you had asked me to come up to Washington for consultation and I expected to leave within 2 weeks, probably about August 9. It was imperative therefore that I have a clear statement of their position preferably in writing before I leave. I reminded him that on July 6 the President had given me his guarantee that the break would take place before August 15. He had now apparently changed his mind. Furthermore, other assurances Ramírez had given me with regard to action he proposed to take against Axis subsidized press and espionage activities had not been put into effect. On the contrary, such action as the Government has since taken had been against pro-Democratic organizations on the alleged ground of Communist affiliations, while the Axis press was continuing its propaganda apparently unhindered.

Storni said he had already told the President that they must give me a clear statement of their position and in view of my forthcoming visit to Washington this would have to be done at once in order that my Government might have it before I arrived. He hoped that it would be ready by the end of the week. I judge it will be sent through Espil but I will be given a copy. It will not, he said, contain all that he would like to put in it as he cannot go on record in criticizing the previous Government nor can he set forth many of the weaknesses in their own internal system. But it will explain the reasons why the Government feels it cannot change its present policy of neutrality.

When I handed Storni an *aide-mémoire* (see Embassy's telegram 1687, July 27 [28], 5 p. m.<sup>42</sup>) announcing our intention of taking steps to make it impossible for certain of the Axis subsidized organs to receive materials from the United States, Storni delivered quite a tirade on our own press which he said was representing the present Government here as Fascist. He contrasted the attitude of our press with that of the British which showed a clearer understanding of Argentine psychology. While cool towards Argentina, the British press had at least refrained from attacking them as our press was doing. I said I understood that several very frank articles criticizing the Argentine Government's attitude had appeared in the British press, but had not been permitted publication here. In any event, I reminded him that Britain had not been a party to the Rio agreements and the feeling in the United States was I felt largely based upon Argentina's failure to live up to these agreements.

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<sup>42</sup> Not printed; this telegram gave notice that certain firms were to be placed on the Proclaimed List (740.00112A European War 1939/34204).



Storni then told me that while as I knew he had planned to resign if the Government did not break relations he now felt that he should continue on for the present. He could, he thought, accomplish more by staying on in an attempt to get things back eventually into constitutional channels. If, however, he found this was not the case he would get out.

I found that Storni had lost much of his earlier fire and enthusiasm. It is apparent that he has been subjected to considerable pressure and is no longer so sure of himself. While he is probably sincere in saying he feels the Italian collapse makes it impossible for them to break, this argument is merely eyewash so far as the rest of the Government is concerned. The decision was taken last week, before Mussolini's fall. The real reason I am convinced is that the Nationalist pro-Axis elements in the Army have now secured control. At the time Ramírez spoke to me on July 6, he was probably sincerely concerned over possible trouble with Paraguay and Brazil. Having now been reassured from these quarters he perhaps feels they can now safely go on as they are in the hope that the war will finish soon and they will then be able to secure matériel from other sources. In the meantime the Government is, I am told, gradually getting rid of the pro-rupture colonels by assigning them to posts in the provinces, while Rawson who has been the strongest single factor favoring a break and who, I am told, had stated he would accept the Ambassadorship to Brazil only after the break took place has now consented to go to Rio without it. Escobar is supposed to be slated for the Vatican.

Repeated to Rio.

ARMOUR

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740.0011 European War 1939/30469 : Telegram

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

BUENOS AIRES, July 31, 1943—3 p. m.

[Received 4:12 p. m.]

1740. Storni last night confirmed to me that he has prepared a letter to the Secretary for presentation through Espil setting forth frankly and in detail the reasons why his Government finds it impossible to break relations with the Axis. This letter is being submitted to Ramírez for approval and Storni hopes it will be ready to be sent to Washington on Monday or Tuesday, probably by special courier. He will give me a copy and I will telegraph text or summary to Department.

Storni told me confidentially that a further factor which had stiffened the elements of the army and navy opposed to breaking had been

a statement made by the Chilean Naval Attaché to certain Argentine officers to the effect that prior to breaking Chile had found itself in the position that had Peru and Bolivia made a move against it in the north, Chile would have been forced to evacuate Arica section and retire to Antofagasta. For this reason they had found it necessary to break relations and be in a position to secure necessary equipment. Chilean Attaché drew parallel to present situation of Argentina vis-à-vis Brazil and Paraguay as argument for Argentine breaking relations. Storni said Chilean Naval Attaché's intentions had probably been good but effect had been to infuriate Argentine officers who said that if they had no other equipment they would fight with knives if the challenge should arise.

Repeated to Santiago.

ARMOUR

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835.00/1746

*The Argentine Minister for Foreign Affairs (Storni) to the Secretary of State*<sup>43</sup>

[Translation]

BUENOS AIRES, August 5, 1943.

MR. SECRETARY OF STATE: Coinciding with Ambassador Armour's trip to the United States, I have thought it desirable to place myself in direct contact with you, in order to set forth confidentially to your friendly Government the situation of the new Argentine Government established as the result of the military movement of June 4, particularly with reference to the international position of this country. I do so with the full approval of the President of the Nation and in the hope that, by this means, his views may also be made known to President Roosevelt.

The military movement which has just overthrown the Government of Señor Castillo assumed power as an inevitable consequence of the atmosphere of corruption that unfortunately had penetrated the political and administrative life of the country. The unanimous approval with which the renovating work of the new Government is being followed, is the best justification of the movement. The Government has complete control of the situation, supported by all sound opinion in the country and fully upheld by the armed forces. But there is one factor which carries decisive weight in the work that it is doing: I refer to the international situation and to the problems of foreign policy with which the Republic is confronted.

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<sup>43</sup> Delivered to the Secretary of State by Ambassador Armour upon his return to the United States, August 14, 1943.

Due to lack of adequate information, or to other causes the origin of which I do not know, there has been created with respect to the situation of neutrality of the Argentine Republic an atmosphere which is prejudicial to good relations with the countries of America and especially with that great friendly nation (the United States). Thus the rumor has spread that General Ramírez, the armed forces and the men who form this new Government profess a markedly totalitarian ideology or, at the least, that we look upon the Axis powers with great sympathy. I can affirm, and I beg that you, Mr. Secretary, accept this affirmation as the word of a man of honor, that such assumptions are absolutely false. The Argentine nation, its armed forces and the men in its Government, base their acts in the firmest democratic convictions. We are men of America: Our historic tradition is very clear and it will not be modified now or in the future by the adoption of dictatorial systems of government that are repugnant to our consciences as free men, as men who, today as in the past, feel indissolubly linked with the other inhabitants of this continent, of profoundly democratic origins.

The situation of neutrality that the Argentine Republic has had to observe up to now, has not been understood. Moreover, it has given rise to suspicious comments. In judging that neutrality it has been forgotten, against all the evidence, that Argentine ships are operating exclusively in the service of the allied nations and particularly of the American countries, extending, by the decision of this new Government, to the very zone of operations proclaimed by Germany. There have also been forgotten the Argentine decrees granting the status of "non belligerency" exclusively to one of the belligerent parties. There have likewise been disregarded the protests made by Germany, Italy and Japan after the secrecy of their official communications with their Embassies here was prohibited, while the other countries continue to have the free use of their cables.

It is difficult to ignore the collaboration that the Argentine Republic is giving to the cause of the allied nations, under the conditions of a neutrality which, more than tolerant, is of an evidently benevolent character. This current of collaboration is even more effective in the field of our exports, placed at the almost exclusive service of the Allied cause and of the American countries, in so doing many times depriving our country of articles necessary for its own defense.

The effort that Argentina is making should be understood. It is not fair to forget that this new Government has sprung from a revolutionary movement which was planned and carried out in order to overthrow a Government that did not understand the reality of internal and foreign policy. But the change, particularly with reference to foreign policy, could not be effected in a violent manner because our

country was not ready for it. In this connection, it should not be forgotten that the Argentine Republic has been living and is still living in an atmosphere of peace, work and comparative abundance—that our people are influenced by the ties of kinship of numerous foreign colonies—that there exists fear of the communist danger, the propagation of which in our country has corrupted even the most genuinely democratic institutions such as *Acción Argentina* and the *Junta de la Victoria*. It should be recalled that, on the other hand, the Government that was overthrown maintained its neutrality even during the most critical period of our relations with the Axis countries, as undoubtedly was the case with the repeated torpedoing of Argentine ships and the Japanese attack against Pearl Harbor.

This situation, Mr. Secretary, cannot be abruptly changed by a revolutionary Government that must reconstruct the country, which is corrupted in its administration and in its educational and social institutions. The changes can be brought about only as rapidly as the internal situation may permit. The spirit in which they have been begun in the international position of the country is clear and evident, and deserves to be noted in a friendly way and without bias by your Government.

Argentine sentiment, eminently American, firmly opposed to totalitarian régimes, is on the side of the United Nations in its material and spiritual action. But you, Mr. Secretary, citizen of a country that venerates freedom of conscience, will acknowledge that it is not possible, without preliminary preparation, to force the Argentine conscience with a view to leading it coldly and without any immediate motive to the breaking of relations with the Axis. The war having reached its present stage, when defeat is inexorably drawing closer to the countries of the Axis, this unexpected rupture would furthermore put Argentine chivalry to a hard test. Let it suffice to recall the judgment which Italy merited when, in a similar situation, it took its position against defeated France.

I cannot fail to point out to you, Mr. Secretary, the concern with which I view future possibilities if, because of the persistence in the present lack of comprehension, Argentina should continue to be denied the materials that it needs in order to increase its production and to arm itself in order to fulfill, should the case arise, its obligations for continental defense. It is of particular interest to recall that some time ago the Argentine Republic offered to increase shipments of fuels and heavy oils to American countries, for which purpose it sought from the United States the shipment of the machinery essential in order to increase its productive capacity. Unfortunately, thus far, this request has not been heeded, no recognition being made of the sacrifice at which our country is extending its assistance to friendly

countries in order to supply them so far as possible with the much coveted fuel. Petroleum production has decreased because of the deterioration of the equipment, and our reserves have diminished considerably. Today, in order to compensate for this shortage, we find it necessary to burn in the boilers of our factories and plants millions of quintals of corn, wheat and linseed. With the aid of the United States, Argentina could burn its own petroleum, keeping that wealth of grain to supply the allied nations and to form a reserve stock that would make it possible to feed the European peoples threatened with hunger.

The Government of General Ramírez will spare no effort to fulfill the obligations contracted. But, as I have already said, it will not be able to do so without a cause to justify it. To act otherwise would afford grounds to believe action is being taken under the pressure or threat of foreign agents, and this would not be tolerated by either the people or the armed forces of the country.

I believe that in this long letter I have explained to you, Mr. Secretary, the real situation of the Argentine Republic with respect to its sentiments of deep friendship and solidarity with the American countries. I do not doubt that in contemplating the situation from the high position that the Government of President Roosevelt occupies in the world, it will be appreciated that it is not just to maintain the attitude of suspicion assumed towards a country such as ours, which has shown unmistakably its feelings of friendship and frank support for the countries that are fighting for freedom. I cannot believe that it is desired to eliminate the action of Argentina within the concert of American nations, on the basis that our neutrality—which is only theoretical—places us in an equivocal position with respect to the rest of the countries of this continent.

I can affirm to you, Mr. Secretary, that the Axis countries have nothing to hope for from our Government and that public opinion is daily more unfavorable to them. But this evolution would be more rapid and effective for the American cause if President Roosevelt should make a gesture of genuine friendship toward our people; such a gesture might be the urgent provision of airplanes, spare parts, armaments and machinery to restore Argentina to the position of equilibrium to which it is entitled with respect to other South American countries.

This general and sincere picture of the Argentine situation will explain to you, Mr. Secretary of State, the obstacles—up to now insurmountable—encountered by this Government in fulfilling the last part of its original objectives. On the basis of the loyal understanding that we reciprocally owe to each other, I wish to rely on the spirit of good will with which we shall be heard, which would be a con-

crete proof of the friendship that this Government is seeking in its present difficult initial period. Moreover, Ambassador Armour, who has penetrated with intelligent and friendly understanding into all the aspects of our complicated internal situation, and who was the confidential recipient of these thoughts, personally expressed by His Excellency the President of the Nation, will be able to convey to you, Mr. Secretary, a more complete personal impression, obtained directly from the present reality of the life of our country.

I am very happy on this occasion [etc.] SEGUNDO R. STORNI

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835.00/1714

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

No. 11348

Buenos Aires, August 7, 1943.

[Received August 16.]

SIR: With reference to recent telegrams sent by the Embassy on developments in the Ramírez Government's policy as they occurred, I have the honor to report that the present prospect for Argentine foreign policy is neutrality and for internal policy paternal dictatorship with clerical influence. The following paragraphs discuss this development and the consequences that may be expected therefrom.

Without entirely ruling out the possibility that Ramírez was insincere in his political negotiations with the Radicals, it appears more likely that he thought he was taking part in a revolution with the two-fold purpose of bringing Argentina into line with the rest of America and of becoming President of the country at the head of a Radical or combined democratic ticket. However, in organizing it he apparently felt impelled to accept the collaboration of the nationalist clique in the Army in order to insure the success of the *coup d'état*. It is this group which has taken control of the Government and whose domination accounts for the great difference in the Government's attitude from that first envisaged.

Whether Ramírez is an unwilling prisoner of the Nazi-nationalist group or whether he has been brought to their way of thinking by their arguments remains to be seen. In the meanwhile, recent developments show the Government to be a full military dictatorship characterized by administrative inexperience, bad judgment, and confusion; the anti-Communist shibboleth; hypersensitive feelings regarding the honor and authority of the military; ill-conceived initiative by underlings such as the censoring of President Roosevelt's speech of July 28;<sup>44</sup> religious spirit at times verging on the

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<sup>44</sup> The text of this radio broadcast to the Nation appears in the Department of State *Bulletin*, July 31, 1943, p. 57.

mystic, as when President Ramírez at the officers' dinner on July 6 defined the Argentine ideal of happiness as "sufficient food and a good home so children can pray for the country"; antipathy to foreign capital already established in Argentina; isolationist neutrality; and what looks like an incipient attempt to create a "southern American" bloc. Examples have been reported as they occurred.

The basic cause for the change mentioned in the first paragraph is the success of the nationalist, anti-American group of officers and civilians whose feelings, although Mussolini has fallen and the conviction is general that Germany has lost the war, remain blindly prototalitarian. The result is receptivity to impressions unfavorable to the United States and the United Nations and imperviousness to the significance of events favorable to the cause for which they are fighting. The favorite themes by which many Argentines have always been easily impressed, such as "Yankee imperialism", "Yankee pressure", and "Argentine sovereignty" are urged by the propagandists in *El Cabildo*, *El Pampero*, and other publications. The atmosphere, colored by these organs of the press, is receptive to interpretations unfavorable to the democratic cause internally and in foreign relations and in this respect seems worse than it was under the Castillo régime. The Embassy believes that the civilian center of this influence may be a university-graduate organization in this city called the "Club del Plata".

Radical hopes of collaboration with Ramírez engendered by their conversations with him before the revolution and shortly thereafter are now, according to Ernesto Boatti, who took part in those conversations, indefinitely in abeyance. The Presidency has informed Boatti and José Luis Cantilo, another participant in the conversations, that press of work prevents General Ramírez granting them audiences. Since they had made no specific request for an interview, Boatti says, they interpret this as an intimation that the President is not interested in pursuing conversations at the present time. In the meanwhile, some Radical leaders suspect that the anti-democratic forces mentioned above are attempting to discredit or at least discourage the political parties with the intention of creating a situation which will leave Ramírez no choice but to turn wholeheartedly to them as the only support available to him.

So long as the pro-Nazis and nationalists maintain the upper hand in the Government Argentina must be written off as a loss to Pan Americanism and cooperation with the enemies of Hitler.

The Government is heading for disaster. It is repeating and intensifying the Castillo mistakes, which in their unpopularity with the people made it possible for a handful of the military to effect a successful revolution without any such preparation of the ground as the

Uriburu revolutionaries were able to make before acting in 1930.<sup>45</sup> The Uriburu attempt to maintain a military dictatorship was frustrated by the determined opposition of a large part of the country despite that government's initial prestige and popularity and the absence of widespread international disapproval of the dictatorship idea. A similar attempt after thirteen years of rule by the "select minority" and at a time when the great European dictatorships are on the wane will logically meet a similar response. Already it is felt that Ramírez has lost some of the popularity which was manifested toward him during the Ninth of July independence celebration and on other public occasions about the same time, especially among the working classes but also in other strata of society. It is true that the people alone can do nothing against the armed forces but there are signs that the military and naval officers not in sympathy with the clique in power are becoming increasingly alarmed and may be expected to do something drastic to correct the situation when it becomes intolerable enough. Among these are the Justo men, who were probably prepared to resort to revolution to make their chief President had he lived, if legal recourse failed. A number of these are outside the present Government and could form a powerful nucleus around which to build a counter-revolution. Such men as Tonazzi, who has recently been appointed Commander of the Second Army, Giovaneli, the new Director of Army Instruction (or Chief of Higher Military Studies), and Pierrestegui, former Chief of Staff, should not be overlooked in this connection nor should such former Ortiz followers as Colonel Kelso, present Director General of the Remount Service.

The attitude of the American Government in the face of the present situation in this country might well be a mixture of indifference, obviously dictated by the feeling that Argentina's capacity for good or evil in international affairs is now negligible, and of academic disapproval based purely on Argentina's failure to live up to its inter-American obligations. . . . Whatever adverse repercussions the Government might try to foment in retaliation should not deter the American Government from manifesting such an attitude. United States interests encounter their share of criticism here now as it is, in *El Cabildo*, *El Pampero*, etc., and private conversations, and so long as the other American countries have no cause to feel the Good Neighbor policy has been violated in anything our Government has done to Argentina a little more ill-nature here should not be feared.

Respectfully yours,

For the Ambassador:

EDWARD L. REED

*Counselor of Embassy*

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<sup>45</sup> For correspondence on the revolution in Argentina in 1930, see *Foreign Relations*, 1930, vol. 1, pp. 378 ff.



735.94/10

*Memorandum by Mr. Edward T. Lampson of the Division of the American Republics* <sup>46</sup>

[WASHINGTON,] August 11, 1943.

The underlying despatch <sup>47</sup> deals with the possibility of a break in relations between Argentina and Japan and shows that the Japanese have been seriously considering such a development and laying plans in case it occurs. Although there is no definite evidence that a break will take place, this despatch does raise the possibility that the Argentine Government may, with a great fanfare, break relations with Japan, claiming thereby to have made important steps toward the implementation of the Rio conference, et cetera, and at the same time continuing to recognize Italy and Germany. Since in terms of Argentine affairs relations with Europe are more important than relations with Asia, the Ramírez régime may feel that such a move will be worthwhile since it might facilitate the maintenance of relations with the Nazis.

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835.00/1746

*The Secretary of State to the Argentine Minister for Foreign Affairs (Storni)*

WASHINGTON, August 30, 1943.

MY DEAR MR. MINISTER: I have received your letter of August 5, in which you were good enough to inform me regarding the situation of the new Argentine Government established as the result of the military movement of June 4, particularly with reference to the international position of Argentina. I note that your letter has the full approval of the President of Argentina and I have been pleased to make the views expressed therein known to President Roosevelt.

It is profoundly satisfactory to note your statement that the people of your country feel themselves indissolubly linked with the other inhabitants of this continent of profoundly democratic origins. This statement will be most welcome to the citizens of the United States actively engaged at the cost of tremendous sacrifices in lives and materials in a war for the survival of the principles so eloquently described by you. I feel sure that in the same spirit it will be warmly greeted by the peoples of all of the other republics of the Hemisphere

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<sup>46</sup> Addressed to the Chief of the Division of the American Republics (Bonsal) and the Assistant Chief (Dreier), and to the Adviser on Political Relations (Duggan).

<sup>47</sup> Despatch No. 11229, July 31, 1943, not printed.

which have taken measures essential to the defense of our continent against a menace now happily being overcome by the joint efforts of the friends of freedom everywhere.

However, it is with regret that my Government and the people of the United States have been forced to the conclusion that the undoubted sentiments of the Argentine people have not been implemented by action called for by the commitments freely entered into by their Government in common with the governments of the other twenty American republics.

Your Excellency is, of course, fully familiar with those commitments. As they particularly affect the present world conflict, they are based upon Resolution XV adopted by the Foreign Ministers of the American Republics at Habana in July of 1940. That Resolution provides that any attempt on the part of a non-American state against the integrity or inviolability of the territory, the sovereignty or the political independence of an American state shall be considered as an act of aggression against the states which signed this declaration. The act of aggression contemplated in this Declaration took place on December 7, 1941. In January of 1942 the Foreign Ministers of the American Republics met at Rio de Janeiro to consider the measures which they should adopt for common defense. A Resolution recommending the break of diplomatic relations with Japan, Germany and Italy was adopted. The wording of that Resolution was the subject of prolonged discussion and the text finally agreed upon was fully responsive to the views expressed by the Argentine Government. I believe it desirable to quote the Resolution in full:

#### "BREAKING OF DIPLOMATIC RELATIONS

"I The American Republics reaffirm their declaration to consider any act of aggression on the part of a non-American State against one of them as an act of aggression against all of them, constituting as it does an immediate threat to the liberty and independence of America.

"II The American Republics reaffirm their complete solidarity and their determination to cooperate jointly for their mutual protection until the effects of the present aggression against the Continent have disappeared.

"III The American Republics, in accordance with the procedures established by their own laws and in conformity with the position and circumstances obtaining in each country in the existing continental conflict, recommend the breaking of their diplomatic relations with Japan, Germany and Italy, since the first-mentioned State attacked and the other two declared war on an American country.

"IV Finally, the American Republics declare that, prior to the reestablishment of the relations referred to in the preceding paragraph, they will consult among themselves in order that their action may have a solidary character."

With the exception of Argentina, all of the American Republics have severed diplomatic relations with Japan, Germany and Italy and of these twenty republics thirteen are at war with the Axis powers.

Resolution V, adopted by the Consultative Meeting of Foreign Ministers at Rio de Janeiro, stipulated by unanimous agreement the immediate adoption of any additional measures necessary to cut off for the duration of the present Hemispheric emergency all commercial and financial intercourse, direct or indirect, between the Western Hemisphere and the nations signatory to the Tri-Partite Pact and the territories dominated by them. The Argentine representative at the Meeting adhered to this Resolution with the following reservation:

"The Argentine Delegation requests that it be recorded in the minutes, as well as at the end of this draft resolution, that the Argentine Republic agrees with the necessity of adopting economic and financial control measures with regard to all foreign and domestic activities of firms or enterprises which may, in one way or another, affect the welfare of the republics of America or the solidarity or defense of the Continent. It has adopted and is prepared to adopt further measures in this respect, in accordance with the present resolution, extending them, however, to firms or enterprises managed or controlled by aliens or from foreign belligerent countries not in the American Continent."

The Argentine Government has failed to effect the severance of financial and commercial relations called for by Resolution V. Moreover, financial transactions of direct benefit to the enemies of the United Nations have been authorized by agencies of the Argentine Government.

Resolution XVII adopted at Rio provided for a concerted effort to discover and combat subversive activities. It is notorious that Axis agents in Argentina have been and are engaging in systematic espionage which has cost the United Nations ships and lives. Vicious propaganda aimed at the United Nations appears in publications which are supported by subsidies from Axis sources. These publications have benefited by a Government decree which enables them to receive supplies of newsprint at favorable prices through the intervention of the Argentine Ministry of Agriculture.

Resolution XL adopted at the Rio de Janeiro Meeting recommended that each American republic adopt the necessary and immediate measures to close all radiotelephone and radiotelegraph communications between the American Republics and the aggressor States and all territories subservient to them, except in so far as official communications of the American Governments are concerned. Argentina is the only one of the twenty-one American Republics now permitting radiotelephone and radiotelegraph communications with Japan, Germany and Italy.

The above summary of certain of the inter-American commitments freely entered into by Argentina, together with the twenty other American republics, furnishes a convincing expression of the reason why the situation of neutrality which Your Excellency states the Argentine Republic has had to observe up to now has not been understood.

It is, of course, a matter solely within the competence of the Argentine Government to judge the degree to which Argentine public opinion which you state is firmly opposed to totalitarian regimes will support a foreign policy designed at the very least to reduce the assistance which Argentina's present position has rendered and is continuing to render those regimes. Nor can I pass upon the question of the nature of the motive which you believe would be necessary to enable the Argentine Government to fulfill the obligations it has contracted. I must, however, express my astonishment at your statement that for the Argentine Government to fulfill those obligations would afford grounds to believe that such action was taken under the pressure or threat of foreign agents. The obligations in question were freely entered into by all the American Republics, and have been carried out by all except Argentina.

In concluding the discussion of this subject, I believe it fitting to recall that the public and private statements made by the President of the Nation and by Your Excellency during the first few weeks of the tenure of office of the new Argentine Government gave my Government positive ground for the belief that Argentine sentiments of continental solidarity and of adherence to inter-American commitments would be translated into effective action within a specific and brief period.

It is no doubt true as indicated by Your Excellency that the products of Argentine agriculture and mining have been of the greatest value to the cause of the United Nations. Those products, however, have found markets at equitable prices in the determination of which the United Nations have consistently refused to take advantage of the fact that they are, thanks to the efficiency of their military and naval operations, the only major markets open to Argentina. A glance at Argentine economic statistics will show that Argentina's economic transactions with the United Nations have been highly beneficial to Argentina. I am, of course, not fully informed regarding the degree to which these transactions may have resulted in the sacrifice of materials essential to the defense of Argentina as mentioned in Your Excellency's letter. In this connection, however, it may be noted that neither the present Argentine Government nor its predecessor has at any time evidenced a disposition to strengthen the security of Argen-

tina by having Argentine military and naval forces take part in measures designed for the defense of the hemisphere.

With respect to Your Excellency's statement to the effect that Argentina is being denied materials which she requires to increase her production of commodities essential to the United Nations, you are, of course, aware that the conditions of the war have imposed upon the United States and the other United Nations the necessity for a very careful allocation of available materials of a critical and strategic nature in order that these materials may be used to the best advantage in furtherance of the war effort. Notwithstanding these circumstances, Argentine essential civilian requirements, particularly those related to public health and the maintenance of essential services, have received fair treatment.

With regard to the petroleum negotiations, it may be pointed out that Argentina, thanks to its natural resources, the production of which has increased during the war period, and to its ability to import, has enjoyed during the past year and a half far greater oil supplies for the consumption of its civilian population than have the neighboring republics. Those republics have received extremely limited supplies made possible through cooperative action in which the Government of the United States and of the producing republics other than Argentina have participated. Considerable hardship and sacrifice has resulted owing to the serious shortage of ocean-going tankers. Thus, while the Argentine people were enjoying gasoline supplies equivalent to about seventy percent of their normal civilian requirements, the peoples of Uruguay, Brazil, Paraguay, Chile and, in general, other republics were receiving only approximately forty per cent of normal civilian requirements. Argentine assistance would have been of great value during this very difficult period.

The negotiations to which your letter refers have been concerned with the provision of materials and supplies to enable the future production of the Argentine oil fields to be maintained and even be increased. The lack of these materials has not in any way affected the ability of Argentina to cooperate with the neighboring republics during the past eighteen months if Argentina had desired to cooperate.

With regard to the matter of arms and munitions, your letter states that the evolution of Argentine public opinion would be more rapid and effective in favor of the American countries if President Roosevelt were to make an open and friendly gesture toward the Argentine people such as would be the immediate supply of airplanes, replacement parts, armaments and machinery, in order to restore Argentina to the position of equilibrium which corresponds to her [status?] with respect to other South American countries. In reply, I must point out emphatically that questions of military and naval equilibrium as between American republics are surely inconsistent with the inter-Amer-

ican doctrine of the peaceful settlement of international disputes to which so many practical contributions have been made by Argentine statesmen. In fact, one of the most specific expressions of that doctrine, known as the Treaty of Non-Aggression and Conciliation,<sup>48</sup> was the work of a distinguished Argentine Minister for Foreign Affairs.<sup>49</sup> To furnish arms and munitions for the purpose indicated by Your Excellency would appear to this Government to be clearly inconsistent with the juridical and moral foundations upon which existing inter-American understanding and agreements are based.

I must also recall that it has been frequently indicated to representatives of your Government, including the military and naval officers who visited Washington more than a year ago, that the supply of arms and munitions by the United States to the other American republics is exclusively for the purpose of contributing to the defense of the Hemisphere against possible aggression. In the determination of the contribution which the Government of the United States could make to the preparations for defense of the other nineteen American Republics which jointly determined upon the need for such defense, the Government of the United States has been guided exclusively by considerations of hemispheric security. Since Argentina, both by its words and its actions, has indicated clearly that the Argentine armed forces will not under present conditions be used in a manner designed to forward the cause of the security of the New World, and, thereby, the vital war interests of the United States, it would be impossible for the President of the United States to enter into an agreement to furnish arms and munitions to Argentina under the Lend-Lease Act.

I have written Your Excellency in this detail since I am sure from the frank and friendly terms in which your letter to me is couched, that you would desire an equally frank and friendly exposition of the views of this Government. I feel that I should be lacking in such frankness, however, were I to leave you under the impression that the Government and the people of the United States have not viewed with deep regret the course followed by the Argentine Government in so far as concerns hemispheric defense since the Conference of Foreign Ministers in Rio de Janeiro. I am in entire agreement with your statement that defeat is inexorably drawing closer to the countries of the Axis. In recognition of that fact the United Nations and those associated with them are devoting their attention in a wide variety of practical and constructive ways to the problems of post-war organization. Thus the failure of the Argentine Government to comply with its inter-American commitments has not only resulted in the non-participation of Argentina in the defense of the continent

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<sup>48</sup> Signed at Rio de Janeiro, October 10, 1933; *Foreign Relations*, 1933, vol. iv, p. 234.

<sup>49</sup> Carlos Saavedra Lamas.

in a most critical period, it is also depriving Argentina of participation in the studies, discussions, meetings and arrangements designed to solve the post-war problems mentioned above.

I am pleased to take this opportunity [etc.]

CORDELL HULL

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835.00/1773 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, September 7, 1943—11 p. m.

[Received September 8—12:01 a. m.]

2054. Embassy's 2046, September 7.<sup>50</sup> An emergency Cabinet meeting was called late this evening reportedly among other matters for last minute reconsideration of question of publication the two notes. On his return to Foreign Office, Admiral Storni released the exchange. Asked if he had any comment, he replied that this was for the newspapers to do.

REED

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835.00/1781 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, September 8, 1943.

[Received September 9—3 a. m.]

2071. Embassy's No. 2063.<sup>51</sup> Final edition of *Noticias Gráficas* confiscated and paper suspended indefinitely for forthright editorial today. Tucuman newspaper *La Unión* closed for 2 days by federal interventor for nature of headline comment especially one reading "sharp reply of Cordell Hull: he makes charges." Other provincial papers including *La Voz del Interior* of Córdoba and *El Diario* of Paraná are known to have been warned not to comment on exchange of notes. Foregoing measures taken against press despite assurances given by Chief of Press Office of the Presidency earlier today that it was free to comment on this subject. It is also confirmed that message was sent to all interventors by Ministry of the Interior advising them that newspapers had been authorized to publish exchange of letters and to comment thereon. Apparently, however, it was intended to be understood that the comment be not critical.

Publicity given this subject is overshadowed in evening papers by news of Italian capitulation.

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<sup>50</sup> This telegram read as follows: "Foreign Office has notified me that it will give out both letters this evening for publication in tomorrow morning's newspapers." (123R252/273) Reference is to the letter of August 5 from the Argentine Minister for Foreign Affairs, p. 447, and to the Secretary of State's reply of August 30, *supra*.

<sup>51</sup> Dated September 8, 1943, not printed.

Embassy's No. 2061, September 8, 6 p. m.<sup>52</sup> According to Argentine press source Storni told correspondents this evening that in view of situation created by publication of exchange of correspondence and fall of Italy there was now no possibility of severance of relations with Axis countries. Rumors continue to circulate that Governmental changes are impending, hastened by foregoing developments.

REED

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835.00/1802 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, September 9, 1943.

[Received September 9—8:54 p. m.]

2083. It is officially announced that resignation of Foreign Minister Storni has been presented and accepted.

REED

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740.0011 European War 1939/31473 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, October 9, 1943—10 a. m.

[Received 11:11 a. m.]

2388. There are increasing indications that this Government is contemplating an early severance of diplomatic relations with Axis. It is understood that decree was prepared several days ago.

I am informed that Acting Foreign Minister<sup>53</sup> called Chilean Ambassador yesterday and asked him what the reaction in Chile would be to such a step, Ríos having replied that reaction would be most favorable inquired later or [on] whether it would be advisable for him to alter plans to go out of town for a long week-end. Gilbert suggested he remain near Buenos Aires.

Repeated to Rio, Santiago and Montevideo.

REED

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740.0011 European War 1939/31479 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, October 9, 1943—noon.

[Received 1:05 p. m.]

2389. Caffery's 4775, October 8, 7 p. m.<sup>52</sup> Alves certainly seemed very hopeful at 8 o'clock last night when he told me of Ríos' conversation with Gilbert, reported in my 2388, October 9, 10 a. m.

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<sup>52</sup> Not printed.

<sup>53</sup> Gen. Alberto Gilbert.



However, I have just been approached most reluctantly by an Argentine friend who said he was speaking indirectly for President Ramírez and had been asked to inquire of me what United States reaction would be if Argentine Government were to break with Japan only. I declined to express any opinion whatsoever.

Repeated to Rio.

REED

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711.35/201

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

[WASHINGTON,] October 19, 1943.

The Argentine Ambassador called on me. He was quite emotional about his recall, stating that he had been hopeful that he and I might have an opportunity to work out some mutual problems facing our two countries, with a new approach. He said he felt, however, that his place, much as he hated to leave Washington, was in Argentina as he might be able to do something constructive there. He expressed the opinion that although Argentina had recently reached the point of nearly breaking relations with the Axis, he felt the situation now would be worse before it was better.

He referred to the statements that this Government had been making and expressed the opinion that every statement we make further agitates the situation and expressed the hope that we would be a bit more cautious in these statements. I made no reply to these observations.

E[DWARD] S[TETTINIUS]

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835.00/2040 : Telegram

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

BUENOS AIRES, October 20, 1943—8 p. m.

[Received 11:45 p. m.]

2481. I called by appointment on Ramírez this afternoon. The interview was even less satisfactory than I had expected. I found the President tired and nervous and at times irritable, particularly when I referred to the manifesto by prominent Argentines (see telegram 2447 [2457], October 18, 11 p. m.<sup>55</sup>), and expressed my surprise at the communication sent by the Minister of Justice and Public In-

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<sup>55</sup> Not printed; in this telegram the Ambassador indicated that a number of distinguished signers of the manifesto of protest had been summarily removed from their posts (835.00/2021).

struction<sup>56</sup> to the Rector of Córdoba University<sup>57</sup> in which he had categorically denied that Argentina had any international commitments which it had not fulfilled. Ramírez expressed great indignation over the manifesto and defended the Minister's statement by saying that he undoubtedly had specific reference to the question of breaking relations; that article III of Resolution I had left it to each country to decide when and how it would proceed to carry out the terms of the Resolution and that it therefore could not be considered as a commitment which had not been fulfilled. Ramírez said that he still hoped to work things out so that eventually the action could be taken but that various things had hitherto made it impossible. He then referred to the unfortunate effect produced in Argentina by the publication of the Secretary's reply to Admiral Storni, indicating that this as well as certain subsequent statements emanating from the United States (he mentioned specifically Mayor La Guardia's speech and the President's declaration on the closing of the Jewish newspapers<sup>58</sup>) had not created a favorable atmosphere inviting cooperation by his Government. He was emphatic on the lack of understanding and comprehension in the United States of Argentina's position. I told him very frankly why I felt neither the Government nor the people of the United States sympathized with or could pretend to understand the course followed by his Government.

The interview lacked entirely the cordial tone which marked my talk with him last July.

Repeated to Rio, Montevideo and Santiago.

ARMOUR

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835.00/2109 : Telegram

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

BUENOS AIRES, November 6, 1943—2 p. m.

[Received 3:05 p. m.]

2630. Embassy's telegram No. 2610, November 3, 8 p. m.<sup>59</sup> Various delegations of army officers estimated by *El Pueblo* to number about 300 persons, visited the Foreign Minister yesterday afternoon to express their complete support of his recent declarations to correspondent of Santiago newspaper *El Mercurio* that the policy of Argentina is one of complete and absolute neutrality.

Foregoing item is carried in all papers and was evidently officially inspired.

Repeated to Embassy at Santiago.

ARMOUR

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<sup>56</sup> Gustavo Martínez Zuviria.

<sup>57</sup> S. Novillo Corvalán.

<sup>58</sup> Department of State *Bulletin*, October 16, 1943, p. 264.

<sup>59</sup> Not printed.

835.00/2196

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

No. 12958

BUENOS AIRES, November 26, 1943.

[Received December 6.]

SIR: Referring to my telegram No. 2729, November 19, 3 p. m.,<sup>60</sup> I have the honor to enclose the text and translation of the address made by the Argentine Foreign Minister<sup>60</sup> at the banquet given by the Paraguayan Minister, Dr. Rogelio Espinoza, in honor of the President of Argentina, after the conclusion of the recent commercial treaty and payments agreement between the two countries.

It is significant that General Gilbert should have chosen this particular occasion to make an address dedicated largely to a general defense of Argentine foreign policy, rather than to relations between Argentina and Paraguay. I have not had an opportunity to see the Paraguayan Ambassador since the date of this address, but a member of the Paraguayan delegation in a conversation with an officer of the Embassy expressed astonishment and a certain amount of disgust that this particular occasion should have been chosen for such a pronouncement. He pointed out that for his part Dr. Espinoza had limited himself to the few complimentary remarks appropriate to the occasion.

The most interesting portions of General Gilbert's speech are no doubt those in which he refers to the concept of neutrality as applied to Argentina, and to the interest of the Argentine Government and people in strengthening economic relations with neighboring countries. With respect to neutrality, the Foreign Minister's remarks go even further than the recent statements by himself and other members of the Argentine Government in interviews with representatives of Chilean newspapers. In the first of those interviews, General Gilbert stated to a representative of *El Mercurio* of Santiago that the international position of Argentina was none other than that of "a perfect and absolute neutrality". This definition of the Argentine international position was ratified by President Ramírez in an interview published in *El Mercurio* on November 11, and reaffirmed by the Vice President, General Farrell, in a further interview published by *El Mercurio* on November 20. Now General Gilbert goes further and declares that the term neutrality does not adequately describe Argentina's foreign policy; asserting at the same time that Argentina has not "interrupted" its relations with any belligerent power. The use of the word "interrumpir" rather than "romper" in referring to the severance of relations is rather significant in this regard, suggesting that the Argentine Government, far from breaking relations with the Axis, is not disposed even to interrupt them by such half-way ex-

<sup>60</sup> Not printed.

pedients as the "suspension" of relations reported under consideration some weeks ago.

The stress laid by General Gilbert on the interest of his Government in promoting ever closer economic and cultural relations with neighboring countries is a further indication of the very real efforts that are being made in this direction. In his present speech he refers specifically to the agreements concluded with Chile last August, emphasizing the importance of the one looking toward formation of a customs union, and also mentions economic agreements concluded during the past two years with Brazil, Bolivia and Peru. In the following paragraph the Foreign Minister declares that "these international agreements of economic cooperation and direct relations define perfectly a basic aspect of the foreign policy of Argentina." Despite his assurances that that policy is one of loyal and frank understanding, that Argentine diplomacy is characterized by its truthfulness, and that "the Argentine position toward world problems at this moment has the value of an irreproachable conduct", one may be permitted some doubts on the subject. As a matter of fact, the recent utterances of the most authorized spokesmen of the Government clearly point to a policy aimed at aligning the neighboring countries of South America with Argentina in opposition to the United States.

As mentioned in my despatch No. 12736 of November 9,<sup>61</sup> there are many other indications of such a policy aside from these official public declarations, and the logic of the situation itself points inevitably in the same direction. The emphasis placed by the Argentine Government on the improvement of commercial relations, and particularly on the desirability of concluding a definitive customs union with neighboring countries, would indeed appear to be only the visible portion of a comprehensive plan of action designed to assure an Argentine sphere of influence. The successful execution of such a plan under present circumstances might be nothing less than disastrous to our efforts to promote genuine hemispheric solidarity and mutual understanding based on the ideals and institutions of democracy.

To judge from recent statements made to our Ambassadors by the Foreign Ministers of Brazil, Uruguay, Paraguay, and Chile—as well as those made to me last week by the Paraguayan Minister of Finance, reported in my telegram No. 2725, November 18, 8 p. m.<sup>61</sup>—it seems evident that the Governments of those countries are concerned over the implications of current developments in Argentine foreign and domestic policies, and are anxious to ascertain our probable reaction to future eventualities.

Respectfully yours,

NORMAN ARMOUR

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<sup>61</sup> Not printed.

DISCUSSIONS CONCERNING THE SEVERING OF COMMERCIAL AND FINANCIAL RELATIONS BY ARGENTINA WITH THE AXIS POWERS <sup>63</sup>

840.51 Frozen Credits/9026a : Airgram

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

WASHINGTON, December 31, 1942—1 :30 p. m.

A-516. As the Embassy is aware, this Department and Treasury have been collaborating on an *ad hoc* freezing program for certain Argentine entities. The purposes of this program and kind of entities it should cover have been fully explained to the Ambassador and to other officers of the Embassy. The Treasury Department has, however, suggested the desirability of redelineating the functions of this program and the responsibilities of our missions in Argentina thereunder.

In general, entities which are not on the Proclaimed List and which fit within one of the following categories should be recommended or carefully considered for *ad hoc* freezing:

(1) Individuals or enterprises which are believed to be engaging in financial, trade, or other operations on behalf of enemy (including Proclaimed List) interests.

(2) Individuals or enterprises which are engaging in pro-Axis activities, but which, for political or other reasons, are not eligible for the Proclaimed List. In such cases the Embassy should consider and report on whether political considerations which preclude public listing also preclude *ad hoc* blocking.

(3) Individuals or enterprises closely connected with Proclaimed List firms in cases in which accounts of such firms may be used for operations on behalf of Proclaimed List nationals. (Recommendations for *ad hoc* freezing in such cases should ordinarily be made concurrently with recommendations for Proclaimed List action.)

In addition, accounts in the United States may be subjected to *ad hoc* freezing where the beneficial ownership of such accounts is not clear and where there is reason to believe that such accounts may involve enemy interests or the interest of undesirables and where it appears desirable to prevent the use of those accounts pending clarification regarding the names and political activities of the real owners.

Accounts within the United States of persons blocked *ad hoc* may be blocked until such time as the interested parties demonstrate the absence of enemy interest therein and the desirability of unblocking such accounts.

*Ad hoc* freezing as applied to an individual or firm outside of the United States is instituted by designating such person a "special blocked national." Banks, other financial institutions, shipping con-

<sup>63</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 453-514.

cerns, etc. which handle a substantial volume of business transactions for foreign accounts are advised of the names of persons designated as special blocked nationals. No payment or commercial or financial transaction in which any special blocked national has an interest may be effected except as authorized by a Foreign Funds Control license. A "special blocked national" is entitled to the privileges of general licenses, except that such person is not entitled to the privileges of any general license which by its terms is limited to a national or nationals of a country named therein, and, in addition, a "special blocked national" is not entitled to the privileges of General License No. 53. It is emphasized that *ad hoc* freezing should not be considered as a permanent alternative to the Proclaimed List and that the Embassy's efforts should in general be directed to clearing up the status of persons, with a view either to including them on the Proclaimed List or to giving them a satisfactory rating and releasing them from United States controls. It is clear that such a course will not in every occasion be desirable, but it should be considered the general objective.

The Embassy and Consulates, in connection with their regular reports concerning undesirable activities, are requested to recommend *ad hoc* freezing action in such cases where it is deemed desirable.

Please transmit this to the Consulates.

HULL

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840.51 Frozen Credits/9104 : Telegram

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

BUENOS AIRES, January 13, 1943—5 p. m.

[Received 8:17 p. m.]

86. Department's undated 1097, received July 24;<sup>64</sup> and 2021, December 20 [26], 5 [7] p. m.<sup>65</sup> The Central Bank has confirmed to the Embassy that another semi-annual payment presumably about 700,000 pesos is being transferred through the Bank of the Province to Switzerland for service Auckland Swiss franc debt of the Province of Buenos Aires due the Dresdener Bank. This information came unexpectedly as the Central Bank in recent conversations had given the impression that a way could be found to avoid this transfer.

This Embassy and the British Embassy feel that this is a very important matter and it becomes more so owing to the conversations with the Central Bank occasioned by the threatened *ad hoc* freezing of the Bank of the Province and the Bank of the Nation.

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<sup>64</sup> Not printed.

<sup>65</sup> *Foreign Relations*, 1942, vol. v, p. 513.

Embassy is protesting this violation of the Washington and Rio Resolutions<sup>66</sup> to Foreign Office but requests that no action be taken by Treasury Department pending receipt of a report outlining implementation of point 7 of memorandum which accompanied my letter of December 24 to Under Secretary.<sup>67</sup> Report goes forward by courier on January 15. Essential that financial policy be coordinated with policies recommended in other fields, otherwise entire program would be endangered.

ARMOUR

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740.00112A European War, 1939/28148

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

BUENOS AIRES, January 15, 1943.

[Received January 22.]

DEAR SUMNER: The enclosed memorandum<sup>68</sup> dealing with the implementation of our suggested financial controls program rounds out our recommendations for an Argentine economic policy. The memorandum suggests that pressure for Argentine observance of the Rio and Washington Resolutions be shifted from the Central Bank to the Argentine Government itself. Hope for the success of such a change in policy rests on our belief that by attacking the financial problem in the same manner as subversive activities, the Argentine Government may be induced to exercise a greater degree of control in the financial field.

As you so well know, the present Argentine Government has no ideals. Appeals and protests based on anything but self interest are therefore largely futile. We feel that the general economic policy we have recommended will, in the course of a few months, especially if reinforced by news of further victories, cause a noticeable improvement in the attitude of the Government. It is for this reason that every step we take must be considered in the light of our general policy

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<sup>66</sup> For a summary of the Inter-American Conference on Systems of Economic and Financial Control, held at Washington, June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff. For the Resolutions of the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see Department of State *Bulletin*, February 7, 1942, pp. 17 ff.; for correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

<sup>67</sup> Neither printed; point 7 of the memorandum indicated the objectives of financial control to be the reduction of remittances to the Axis, better supervision of remittances to neutrals, cessation of remittances to the Dresdener Bank of Berlin via Switzerland, reduction or elimination of new credits to Proclaimed List firms, closing out of loans to the same, the furnishing by the Central Bank to the Embassy of a breakdown of dollar accounts, and observance of the Resolutions of the Washington Conference (711.35/165-1/2).

<sup>68</sup> Not printed.

objectives, action which wounds the pride of the Argentines being avoided unless the good results of such action clearly outweigh the ill effects.

I am sending you this memorandum as it completes the program contained in the enclosure to my letter of December 24, 1942.<sup>69</sup> I would appreciate your calling it to the attention of Dean Acheson<sup>70</sup> since I have had occasion to request his personal assistance in connection with the financial matters discussed therein.

I have requested Mr. Ford to start work immediately on the report covering the financing of subversive activities in Argentina.

Sincerely yours,

NORMAN ARMOUR

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840.51 Frozen Credits/9104 : Telegram

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

WASHINGTON, January 25, 1943—10 p. m.

125. Your telegram 86, 5 p. m., January 14 [13], 1943. Department is, of course, greatly disturbed by the remittance in question and approves your protest to the Foreign Office. So long as such remittances are authorized, the Department must, of course, question the utility of any joint study concerning Argentine controls by you and the Central Bank and the good faith of the Bank with respect to such a study. Please consider the desirability of terminating this study and submit your recommendations to the Department.

Department is considering the advisability of taking up the remittance with the Inter-American Financial and Economic Advisory Committee<sup>71</sup> as a flagrant violation of Argentina's inter-American commitments and of stimulating appropriate publicity in this country. The matter of publicity has been presented on a tentative basis to the British Embassy with a view to determining the desirability and feasibility of action by the British here which would indicate their full agreement with the stand of this Government. The approach to the Inter-American Committee and the complementary publicity, which might be deemed a sign of weakness if not followed by more vigorous action, are still tentative, and your recommendation by cable is urgently requested.

The action of the Central Bank is particularly disturbing in view of the fact that it had presented the following proposition to the Bank of England. Payments which were becoming due on Argentine bonds

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<sup>69</sup> Neither printed.

<sup>70</sup> Assistant Secretary of State.

<sup>71</sup> Organized on November 15, 1939, as a result of the Meeting of the Foreign Ministers of the American Republics at Panama in that year; see Department of State *Bulletin*, March 2, 1940, p. 267.



owned by the British would be made by Argentina in the British clearing account rather than through the purchase of free sterling. In connection with this arrangement the Central Bank was to agree to make future payments on Argentine bonds held by the enemy in gold blocked in Argentina instead of remitting Swiss francs. While this proposal was receiving the careful consideration of the British authorities, the Central Bank, without any previous notice, authorized the payment to the Dresdener Bank.

The Department will, of course, attempt to coordinate financial policy with the total economic and political Argentine policy.

HULL

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840.51 Frozen Credits/9682½

*The Chargé in Argentina (Reed) to the Secretary of State*

No. 9059

BUENOS AIRES, February 26, 1943.

[Received March 9.]

SIR: Referring to the Embassy's despatch No. 8661 of February 10, 1943,<sup>72</sup> stating that a study was being made here of the present status of the dollar-currency market, I have the honor to enclose<sup>73</sup> a memorandum of the survey which was made by a local American businessman. The Embassy is now giving consideration to recommending the inclusion on the Proclaimed List of those firms that are failing to comply with the Argentine controls regarding the sale of dollar currency.

Inasmuch as it was reported some weeks ago that individuals desiring to purchase here amounts of dollar currency in excess of the established allowance of \$50 preparatory to departing for the United States were finding it easy to purchase the maximum amount at more than one exchange shop, this weakness in the local control was discussed with the Central Bank and an informal memorandum was furnished Dr. Grumbach<sup>74</sup> on January 19, 1943, a translation of which is enclosed. Subsequently, by Circular No. 323, dated February 24, 1943, the Central Bank has provided that certain data must henceforth be obtained by the exchange houses and reported concerning sales of dollar notes. There are enclosed a copy and a translation of this circular, together with a form enclosed with the circular, which it is hoped will serve to overcome the weakness aforementioned.

Respectfully yours,

EDWARD L. REED

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<sup>72</sup> Not printed.

<sup>73</sup> Enclosures mentioned in this despatch not printed.

<sup>74</sup> Edgardo Grumbach, head of the Foreign Exchange Department of the Central Bank of Argentina.

840.51 Frozen Credits/9564 : Telegram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, February 27, 1943—8 p. m.

[Received February 27—7:43 p. m.]

465. Department's airgram A-658, February 15.<sup>75</sup> Source considered responsible and well informed has told British Embassy Vatican has acquired 42 percent stock of Pessoa Francese Italiano chiefly by purchase of shares held by Banco Commerciale of Milan. Another source has placed amount at about 60 percent. Divergent proportions may be due to actual as contrasted with reported capitalization now being investigated. Prominent business man who has come from Chile reports Banco Francese Italiano in Santiago is informing public Vatican has acquired its control and American Embassy there no longer objects relations with it.

Simon of British Embassy unable to understand why Banco Commerciale would surrender its important influence over commerce here exerted through Banco Francese by sale to Vatican and he thinks if above report true there may be repurchase arrangement which would be tantamount to cloaking.

Repeated to Santiago.

REED

835.24/1329

*Memorandum for the Under Secretary of State on the Economic Policy Toward Argentina*<sup>76</sup>

[Extract]

[WASHINGTON,] March 4, 1943.

## OBJECTIVES OF POLICY

1. To secure the optimum utilization of those critical materials or supplies which Argentina produces and which are essential for the conduct of the war;

2. To assure the maximum utilization of critical materials and transportation facilities by the United Nations for supplying their needs and those of the countries cooperating with them in the war effort;

3. To make available to Argentina such goods and services as it may require within the scope of paragraphs (1) and (2) above;

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<sup>75</sup> Not printed.

<sup>76</sup> Drawn up by members of the Board of Economic Operations and of the Division of the American Republics, Department of State.

4. To supply Argentine requirements above those outlined in the previous paragraph only if the consequent sacrifices on the part of the United Nations are compensated by the effective cooperation of Argentina in preventing the use of its territory as a base for Axis subversive activities and prohibiting the use of its financial, trade, and communication facilities by the Axis.

#### IMPLEMENTATION OF POLICY

##### 5. *Financial and other Measures.*

(a) Complete, as soon as possible, the survey now being made by the Embassy to determine the extent to which the failure by Argentina to comply with its commitments at Rio and Washington is aiding the Axis;

(b) Extend no government credits of any kind to Argentina. (The proposed Export-Import Bank special credits have already been eliminated.);

(c) Increase the effectiveness of the Proclaimed List through proper consignee control and supervision of imports from the United States and, through cooperation with the British, limiting imports from that country to proper consignees;

(d) Increase the effectiveness of Navicert Control by again giving the Embassy the right to examine proposed Argentine consignees;

(e) In collaboration with the Treasury Department, strengthen measures designed to cut off transactions involving assets within the United States or United States concerns, when such transactions may directly or indirectly benefit the Axis. An example of such measures would be the suspensive *ad hoc* freezing, pending investigation of "Argentine accounts" in the United States which are believed to be beneficially owned or controlled by undesirable elements in Argentina or abroad;

(f) Present the Dresdener Bank case to the Inter-American Financial and Economic Advisory Committee at the earliest possible date.

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835.51/1547 : Airgram

*The Chargé in Argentina (Reed) to the Secretary of State*

BUENOS AIRES, March 5, 1943—3:05 p. m.

[Received March 11—4:15 p. m.]

A-161. The Embassy is in receipt of a memorandum from the Central Bank, a translation of which reads as follows:

1. According to information in possession of the Bank, the Government of the United States of North America has adopted regulations providing that in order to collect the income of the loans (bonds)

issued in dollars, it is necessary also that the respective bonds be presented.

2. In this country there are persons of Argentine nationality who in good faith possess bonds of Argentine loans issued in dollars.

3. If such Argentine residents were required, by virtue of the regulations of the Government of the United States, to send their bonds to North America in order to be able to collect their income, they would incur costs of mailing and insuring, which at present are high, and on the other hand, they would be unable to effect transfers internally with Argentine bonds of which they are the legitimate owners.

4. It has occurred to us that perhaps it would be possible to find a procedure which at the same time avoids these inconveniences to holders, and takes into consideration the control objective which the Government of the United States had in mind upon the adoption of this regulation.

5. Such a procedure could be as follows: The Government of the United States would authorize the paying agents of the Argentine loans in dollars to credit the coupons—without the necessity of the presentation of the bonds—provided that they be accompanied by an affidavit that could be drawn up by the Central Bank certifying the nationality of the owner and the possession in good faith of the bonds.

6. If this procedure should meet with the approval of the United States monetary authorities, agreement could be reached with them on the wording of said affidavit and we would appreciate receiving your suggestions with regard to this.

In view of the fact that the Central Bank has been cooperative with this Embassy in many ways and has been particularly helpful in furnishing this Embassy with requested information from time to time, it is recommended that the above proposal of the Central Bank be accepted and that the Department and the Treasury supply the Embassy with an affidavit which would be acceptable to them for placing the Central Bank plan into effect.

It would be appreciated if the Embassy could have the Department's comments on this matter as soon as possible.

REED

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840.51 Frozen Credits/9902

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

No. 9350

BUENOS AIRES, March 15, 1943.

[Received March 29.]

SIR: I have the honor to refer to the Embassy's despatch No. 9059 of February 26, 1943, on dollar currency control in Argentina.

There was enclosed in the above despatch a copy of a memorandum<sup>77</sup> sent by an officer of the Embassy to Dr. Grumbach of the Central Bank, to the effect that it appeared that exchange houses in

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<sup>77</sup> Not printed.

Argentina were not reporting to the Central Bank the amounts of dollar currency bought from and sold to such houses, and that because of the failure to make such reports it was possible for persons to buy or sell more than the allowed \$50.00 by visiting more than one exchange house. In answer to this memorandum, Dr. Grumbach delivered a memorandum of the Central Bank dated February 26, 1943, to the Embassy, explaining in detail additional safeguards taken by the Bank to ensure full compliance with the Argentine regulations. There are enclosed a copy and translation of this memorandum.<sup>80</sup>

Respectfully yours,

For the Ambassador:  
EDWARD L. REED  
*Counselor of Embassy*

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894.20235/110

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

No. 9587

BUENOS AIRES, April 2, 1943.

[Received April 10.]

SIR: I have the honor to refer to the Embassy's despatch No. 7913 of December 28, 1942,<sup>80</sup> with reference to the formation and activities of Cía. "Anan" Crédito y Finanzas, S. A., which was formed for the purpose of serving Japanese interests in Argentina, the Embassy's despatch No. 8071 of January 8, 1943,<sup>80</sup> enclosing a copy of a memorandum sent to the Foreign Office protesting against the Argentine Government's allowing this company to remit funds to Japan, and to enclose a copy with translation of the reply<sup>80</sup> of the Ministry of Foreign Affairs and Worship to the above-mentioned memorandum. That reply states somewhat vaguely that the company "Anan" is not permitted to remit funds to Japan since it is not an authorized institution. The note, as will be seen, further points out that an undertaking has been given by "Anan" that it will not intervene in the fulfilment of any operations which may affect the national interests and those of continental solidarity and security.

For the information of the Department the advertisements mentioned in the above despatch No. 7913 are continuing and Japanese are being advised to remit now since "Anan" may not be able to effect these remittances later. Accordingly, the Embassy is taking up this matter with the Central Bank and if it is considered necessary, another communication will be sent to the Foreign Office.

Respectfully yours,

For the Ambassador:  
MERWIN L. BOHAN  
*Counselor for Economic Affairs*

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<sup>80</sup> Not printed.

840.51 Frozen Credits/9490 : Airgram

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

WASHINGTON, May 14, 1943—5:30 p. m.

A-961. The Department has carefully considered the memorandum of the Central Bank enclosed with your despatch no. 8436 of January 29, 1943 and the Memorandum of Comments thereon enclosed with your despatch no. 8736 of February 13, 1943.<sup>81</sup>

Although it is evident that Argentina is far from complying with the Resolutions of the Washington Conference, the Department believes that there are certain difficulties in presenting an indictment to the Inter-American Financial and Economic Advisory Committee in the form of a critique of the deficiencies in existing Argentine controls. Among the difficulties are the following:

1. The Argentine measures are long, technical and involved. In order to be intelligible, any critique would have to go into detailed explanations of such length that the indictment would lose its effectiveness.

2. A lengthy critique would inevitably afford the Argentineans opportunities for rebuttal which in turn would have to be answered. Even assuming that in the end our case would be convincing, a drawn out controversy would not seem advisable or effective.

3. Since the Argentineans are in a better position to ascertain the facts pertaining to the operation and results of their controls, we might find ourselves unable to substantiate some of our charges or at least find ourselves in the position of having to resort to quibbling.

4. In those areas where the Argentine measures are most clearly deficient and where the criticism could perhaps be effectively brief and to the point, whatever criticism we make would most likely be also applicable in some degree to all the other American republics that have not declared war. The absence of vesting, forced sale and liquidation measures is an example.

In view of the foregoing, the Department believes that an indictment of Argentina's failure to cooperate in the field of economic warfare should take the form of a presentation of a series of actual transactions of benefit to the Axis in its war effort from an economic or financial point of view which the Argentine Government either made no effort to discover or passively permitted or actively abetted. Examples might be the Dresdener Bank case, the publication *Clarínada*, allocation of newsprint to *El Pampero*, radio beams to Axis countries, et cetera. Preferably the transactions chosen should be of the sort that have not taken place, or have taken place to a lesser degree, in the other American republics, in order that the deficiencies peculiar to the Argentine can be spotlighted.

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<sup>81</sup> None printed.

In this connection, the survey which you are preparing under point 5(a) set forth in the Memorandum on Economic Policy toward Argentina of March 4, 1943<sup>82</sup> may provide the basis for preparation of an appropriate indictment. Please inform the Department of the progress being made on this survey, of the lines of approach that you are taking and of the prospects of uncovering information that substantial economic or financial aid to the Axis has been or is being made by Argentine facilities or residents. This information would be helpful to the Department not only in formulating plans for preparing an indictment of Argentina's failure to cooperate but also in affording a basis for possible reorientation of certain aspects of our economic warfare effort in the other American republics generally.

Your own views, as well as the information above mentioned, are urgently requested.

HULL

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840.51 Frozen Credits/10527 : Airgram

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

BUENOS AIRES, May 17, 1943—4:15 p. m.

[Received May 28—5 p. m.]

A-386. With reference to Department's No. A-516 of December 31, 1942, 1:30 p. m., the Embassy has a program for *ad hoc* blocking in addition to the one outlined in the airgram under reference, which it submits for the approval of the Department.

For the confidential information of the Department and the Treasury, the Embassy for some time has been getting a list from three local banks of all checks passing through them by virtue of local clearing operations, which are drawn on or deposited in the four local Proclaimed List banks, namely; Banco Alemán Transatlántico, Banco Germánico para la América del Sud, Banco Francés e Italiano, and Banco di Napoli. The Embassy has discreetly called in certain of these depositors whom it felt that it could approach and has informed them that it has come to the Embassy's attention that they are carrying accounts with Listed banks, and has asked those persons to cooperate with this Embassy and change the account. In the past, the financial controls section has been so understaffed that it could not completely take advantage of this information. However, it is hoped that the program can now be intensified. As the Department no doubt realizes, it is a delicate situation for this Embassy to ask Argentines to remove their accounts from banks which are authorized to operate

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<sup>82</sup> For the memorandum of March 4, see p. 471: the survey prepared under point 5(a) consisted of five memoranda, one of which is printed on p. 480.

in Argentina, and which are under Central Bank supervision. Furthermore, it is the thought of this Embassy that those persons who use the financial facilities offered by enemy banks are certainly not entitled to use the financial facilities of the United States. Accordingly, the Embassy proposes to recommend for *ad hoc* blocking all those persons who, from the above mentioned information, are determined to have accounts in the local Proclaimed List banks. Many of these people of course will never know that such action has been taken. On the other hand there are many people who are not on the Proclaimed List of Certain Blocked Nationals or the Confidential List of Unsatisfactory Consignees, who will be affected by this action and will immediately come into the Embassy to make inquiry. In such cases, the Embassy proposes to tell such persons that this action has been taken by the United States Treasury Department pointing out that the Treasury Department has certain sources of information which are not available to this Embassy. The Embassy will then inquire of these visitors as to why such action could possibly have been taken, asking where bank accounts are kept, etc. When it is thus disclosed that the party in question maintains an account with the enemy bank, he will be told that this, in all probability, is the reason for his being blocked. If the Embassy has no other adverse information on the party in question, and if he proposes to remove his account from the enemy bank, the Embassy will immediately recommend that he be deleted from the List of Special Blocked Nationals.

The above proposal is made for two reasons: 1) The fact that these cooperative banks (and the Embassy hopes to get this information from two or three others in the near future) give this information to the Embassy must be kept strictly confidential. If it should become known that these banks were giving this information, they would experience tremendous difficulty with the local banking authorities and conceivably legal action could be taken by the persons affected. 2) This facilitates the Embassy's plan of having depositors withdraw their accounts from enemy banks. However, the Embassy will continue, in cases which it deems appropriate, to call the parties in and request that they move their accounts.

It is thought that if this plan is approved by the Department and the Treasury that it not only will be a tremendous pressure device, but the results of its operation in a period of 6 weeks or 2 months should leave the enemy banks in a very bad position indeed.

In addition to the above, it is the view of this Embassy that all officers and directors of Proclaimed List concerns should be designated as special blocked nationals. There will, of course, necessarily have to be some special cases for political reasons. However, it is thought that there is no excuse at this stage of the game for anyone remaining



as a director in a Proclaimed List concern since he has had the alternative of resigning from the moment his particular firm was placed on the Proclaimed List. There may be some excuse for an innocent stockholder in one of those concerns who does not wish to sacrifice his holdings by getting out, but that reason of course is not applicable to directors. Accordingly, if this action is approved by the Department and Treasury, a study of all the Proclaimed List concerns will be started immediately and the officers and directors of those concerns will be recommended for *ad hoc* blocking. The Embassy realises that in these cases there will be many callers at the Embassy inquiring as to why this action was taken. The Embassy proposes to tell such callers that it is the policy of the United States Government to block the accounts of all officers and directors of Proclaimed List firms, and that this is a matter in which the Embassy has no discretion, since a man either is or is not an officer or a director of a Proclaimed List firm.

The Embassy has in mind using the blocking in the two above mentioned cases as a sort of "preventive blocking". Its recommendation that the procedure herein outlined be put into effect is conditioned upon the Department's and Treasury's agreeing to immediately unblock any of the persons blocked according to such procedure upon the Embassy's recommendation, unless either the Department or the Treasury has additional information which is unknown to this Embassy. Such unblocking upon an Embassy recommendation must be automatic.

For the Department's and Treasury's information, the Embassy is continuing to study those accounts held in the United States in the name of Argentines, as revealed by the TFR-300.<sup>83</sup> However, it will be appreciated that this study involves considerable investigation. In the past the Embassy has been working on these accounts but due to the shortage of personnel has been unable to complete the investigations in a manner satisfactory to it. Such investigations are continuing.

In view of the tremendous amount of work involved in effecting the procedure herein above outlined, the Embassy is quite anxious to start on this project at the earliest possible date. However, the studies mentioned cannot be started until the Embassy is assured that its recommendations made herein will be carried out. Accordingly it is requested that the Department communicate its views on the recommendations herein made by telegraph at the earliest possible date.

ARMOUR

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<sup>83</sup> Treasury form used to indicate financial details as called for by Treasury Circular No. 4, 6 *Federal Register* 4196.

840.51 Frozen Credits/10528

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

No. 10226

BUENOS AIRES, May 20, 1943.

[Received June 1?]

SIR: I have the honor to refer to the Department's instruction No. 4199 of April 24, 1943,<sup>84</sup> relative to certain transfers made by the Banco de la Nación from its dollar accounts in the United States to the account of the Central Bank.

As the Embassy has previously reported concerning the depreciation of the dollar in relation to the Argentine peso from the latter part of March to April 20, 1943, the Central Bank cushioned the drop of the dollar in this period by making purchases in the free market. These purchases were not made directly by the Central Bank but for the Central Bank by the Banco de la Nación and the Banco de la Provincia on alternate days. The amounts thus purchased for the Central Bank by the banks in question are not known but it is known that the purchases were on a large scale and probably amounted to more than the withdrawals in question. Accordingly, one possible explanation of the withdrawals would be the probability that settlements with the Central Bank were not made on a day to day basis and that the amounts in question represented the amounts purchased by the Banco de la Nación for the Central Bank and transferred to it on the three occasions in question.

While the above explanation appears credible, it must also be remembered that Argentina and particularly the Banco de la Nación have feared some kind of blocking sanctions being applied by the United States Government. It was probably thought that the large amount of dollar selling in the days preceding the issuance of Decree No. 148263 of April 20, 1943 might precipitate such action. Accordingly, with this thought in mind, it is possible that the Banco de la Nación, which is known to hold a great many dollars for the Central Bank, wished to transfer them to the Central Bank to avoid difficulties. As the Department is aware, authorized banks in Argentina purchase and sell dollars in the official market for the account of the Central Bank. A commission is paid for the purchase and another commission is paid for the sale. Accordingly, the banks attempt to hold the dollars as long as possible and sell them in order to get both commissions. For this reason almost all of the authorized banks in Argentina hold considerable dollars for the account of the Central Bank.

Whether one or the other or both of the explanations above-given motivated the Banco de la Nación to effect the transfers to the Central

<sup>84</sup> Not printed; in this instruction the Department advised the Ambassador and requested his comment on relatively small transfers from the dollar accounts in the United States (840.51 Frozen Credits/10188).

Bank, the Embassy believes that the dollars transferred belonged to the Central Bank and that the Central Bank was not receiving such dollars merely to protect the Banco de la Nación in any way.

Respectfully yours,

For the Ambassador :

MERWIN L. BOHAN

*Counselor for Economic Affairs*

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835.50/108

*Memorandum on Aid to the Axis Through Use of Argentine Financial Facilities*<sup>85</sup>

At Rio de Janeiro in January of 1942 and at Washington in July, 1942, the nations of this hemisphere bound themselves together to sever all financial and commercial relations with the aggressor nations and nations dominated by them and to take appropriate steps to eliminate from the economic life of the respective countries of this hemisphere persons and firms who are deemed to be engaged in inimical activity. Argentina at those conferences bound herself to take appropriate action along these lines. To say that Argentina has not complied with her obligations in the financial field arising from the recommendations of the Rio de Janeiro and Washington Conferences is in itself a serious charge, and it can be substantiated. However, a much more serious charge, if it can be substantiated, is that Argentina has allowed her financial facilities to be used for the aid and comfort of the aggressor nations and the nations dominated by them.

The charge is not here made that Argentina has deliberately attempted to aid the Axis to the detriment of hemispheric security; the charge is that Argentina is allowing her financial facilities to be used to the benefit of the Axis. It is true that Argentina may say that she is a neutral country and free to carry out any commercial transactions which she chooses. That thought may give comfort to some Argentines and to the Argentine Government, but it must be remembered that aid to the aggressor nations does not necessarily take the form of a contribution to Axis propaganda or subversive activities. It may take the form of a commercial transaction as that term would be used by one indifferent to the war and indifferent to the benefit accruing to the aggressor nations. Commercial transactions must be analyzed on more than a *quid pro quo* basis. If a commercial transaction benefits Argentina and at the same time benefits the Axis, Argentina cannot expect the United States and the other Americas to remain indifferent when that benefit accruing to the Axis may be

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<sup>85</sup> Prepared by James H. Mann, Special Assistant in the Embassy, and transmitted to the Department by the Ambassador in his despatch No. 10263, May 24, 1943; received June 7.

measured in terms of the lives of United States soldiers and in terms of detriments to the national security of each of the other Americas.

In fairness it must be said that Argentina has taken some measures designed to decrease the aid given to the aggressor nations and the nations dominated by them. The Banco Central has on paper an extensive control of financial transactions involving the aggressor nations, the nations dominated by them and persons or firms situated therein.

When those measures are viewed as a peace time exchange control, little fault can be found. But when those measures are studied from the point of view of hemispheric security, practically nothing has been done to prevent the aggressor nations and the nations dominated by them from obtaining aid from Argentina. It must be admitted that if the Banco Central enforced to the fullest extent existing measures, much would be done to fulfill the obligations which Argentina contracted at Rio de Janeiro and at Washington, and much would be done to prevent the aggressor nations and the nations dominated by them from obtaining aid and comfort from Argentina.

One form of aid which Argentina has given to the Axis is that accruing through remittances from Argentina to the Axis countries and the nations dominated by them. The many remittances of free funds from Argentina to the aggressor nations or the nations dominated by them can only be viewed by the United States Government and the Governments of the other Republics in this hemisphere as an outright contribution to the extent of the amount of the remittance to the Axis war machine.

One of the many cases in point is the remittances which have been made to the Dresdener Bank since the Rio de Janeiro Conference. These remittances have been protested by this Government to the Argentine Foreign Office. The last of these remittances, and there have been others, occurred on or about January 10, 1943, and roughly was in the amount of 700,000 Swiss francs. That remittance was made through the Banco de la Provincia de Buenos Aires pursuant to Central Bank authorization, to the Credit Suisse in Zurich, Switzerland, for the account of the Dresdener Bank, Berlin, Germany. Such remittance when reduced to its simplest terms means nothing less than that the German Government was presented with free Swiss francs in the approximate amount of 700,000. The difference between making this remittance and not making it is the amount of materials which the German Government can purchase for its war machine from other neutral countries with 700,000 Swiss francs for use against the United States, its Allies, and against the interests of the other countries of the Western Hemisphere. Remittances of this character are not open to argument as to whether the aggressor nations are aided to

the detriment of the Allied cause. Such remittances, as stated above, are outright contributions to the Axis war effort and there can be no doubt about it.

This Government would indeed be ill-advised to attempt to enumerate in amount the remittances which have gone from Argentina to the aggressor nations and the nations dominated by them since December 7, 1941, or more particularly since January 28, 1942, or even to attempt to name all of the most important of them. However, this Government is in a position to point to certain general categories of remittances and to confront the Argentine Government with the accusation that such remittances have inured to the benefit of our enemies in the present war. However, it should be clearly understood that while certain particular remittances are mentioned herein, these specific cases are merely cited as examples. This memorandum is not an attempt to enumerate the many specific remittances which have been found objectionable or which have been formally protested. Such remittances for rent, interest, other income, communications, insurance and an infinite number of other purposes are all remittances which benefit the Axis. They make available to our enemies exchange or funds which can be used against the United States and the Western Hemisphere. Information as to the amounts, purposes and recipients of such remittances as well as the surrounding circumstances of each remittance is all known to the Argentine Government through its agency, the Banco Central.

A type of remittance which, while highly objectionable, is not as much so as the types above mentioned but which nevertheless gives aid to the aggressor nations and the nations dominated by them, is the so-called family aid remittance. At the Washington Conference it was realized that each of the nations of this hemisphere had citizens abroad in those countries ravaged by the aggressor nations and citizens who were there not by their own choice. There has been no desire on the part of any of us to see these citizens starved. However, their welfare was secondary to the major objective of continental defense. With this thought in mind, the financial authorities of the various countries of this hemisphere, including Argentina, devised a formula which would provide for the needs of those citizens and prevent aid going to the aggressor and aggressor-dominated nations. That formula is set forth in Recommendation I of the Washington Conference.<sup>86</sup> However, the Argentine Government thus far has not

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<sup>86</sup> This recommendation provided for the immobilization of funds, securities, and property held in an American republic for the account of a person or firm resident in an Axis country. For text, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control*, Washington, D.C., June 30–July 10, 1942 (Washington, 1942).

seen fit to restrict the family aid remittance to the conditions set forth in that formula. So far as this Embassy has been able to ascertain, any person in Argentina can remit for "family aid" 500 pesos per month to any person in the aggressor nations or the nations dominated by them, 1,000 pesos per month if the remittance is of income from investments in Argentina, and in "exceptional" cases, amounts in excess of that limit. This has been brought to the attention of the appropriate authorities of the Argentine Government and they have responded that in most cases the Axis and Axis-dominated countries only acquire blocked funds and that these funds can only be used for certain purposes in Argentina. Technically speaking, these funds are not free funds but they are funds which aid the enemies of the United States. Without going into detail as to the use to which these funds may be put, it is sufficient to cite only one instance. Those funds can be used for the purpose of diplomatic representation and consular services for the aggressor nations and the nations dominated by them. Were these funds not available, those nations in most cases would be forced to send to Argentina free funds to defray the expenses of their Embassies and Consulates and to that extent the free exchange available for war materials to be turned against the United States and hemisphere defense would be lessened. Thus there can be no doubt that this is an aid to the Axis and the Axis occupied countries.

In the minds of the twenty other American Republics, Argentina today by its failure to sever commercial relations with the aggressor nations and nations dominated by them, remains the one outlet for funds from this continent and the one channel into the continent from which funds may come from those countries. So long as this channel remains open it is possible for the Axis and Axis occupied countries to send to Argentina funds which may be used for propaganda and espionage activities and otherwise directed against the security of this continent. The accusation is not here made that Argentina knowingly permits the entrance of funds for such purposes. However, it is possible for these funds to enter Argentina through so-called legitimate commercial channels and be used for purposes aiding the Axis and Axis occupied countries and inimical to the security of the continent. Suppose, for instance, that a totalitarian firm in Argentina owes a debt to a bank in Argentina. It is the understanding of this Embassy that if the debt is considered large in proportion to the capital of the firm the Argentine monetary authorities will permit a remittance from the parent company to liquidate this debt. Innocent as the transaction may seem to those who choose to forget its effect on hemispheric security, it has the effect of furthering the credit of the German firm so that it may borrow other funds in Argentina and if it so desires put these funds to use for subversive activities,

espionage and Axis propaganda. A remittance of this type which served to unblock funds in Argentina was made in March 1942, whereby the Siemens Company of Germany remitted \$250,000 pesos to pay debts owed by "INAG" Fábrica Reunidos de Utiles Sanitarios. This Government is informed that this transaction freed 250,000 pesos which were blocked in Argentina in the name of the German Reichsbank. Decreasing the debt may be an aid for the Argentine economy by bringing money into Argentina but it is also an aid to the Axis, and is a detriment to the interests of the other nations of the continent. Other instances of remittances from Europe of equal potential danger could be cited.

In connection with the thought that Argentina today remains the only channel of communication between the Western Hemisphere and the Axis and Axis dominated countries, the charge must be presented that by the policy which it has pursued, Argentina has made it possible for persons and firms in the other countries of the hemisphere to deposit their funds and assets here to evade the controls of their own Governments and to effect remittances which aid the enemy countries. Furthermore, it must here be noted that Argentina has in the past opened its doors to refugee funds, but what steps has Argentina taken to discover the *real* owners of those funds and what surveillance has been placed on their use? In the past Argentina by her lack of controls which could uncover cloaking activities, has encouraged our enemies to send their funds to Argentina for safekeeping until after the war.

In addition to aid through remittances, there are many other ways in which Argentina aids the Axis financially. Argentina has been and remains a market for currency and securities looted by the aggressor countries. American currency seized by German "brigands" in the conquered countries can today be bought in Buenos Aires. It is true that the Banco Central under the authority given it by the Executive Power has done much to cope with this situation. The Banco Central has practically closed the looted currency market in so far as the authorized exchange shops are concerned but nevertheless the black market flourishes. From the Axis and Axis dominated countries looted currency is sent to Argentina and from Argentina it is sent to the other countries of the hemisphere. The same is true of securities looted in the invaded countries. The Banco Central had adopted stringent measures to stop this bootlegging and to stop the inflow but notwithstanding this action, an investigation by the Argentine Government will show that such securities have been brought into Argentina for sale in order that the proceeds may be used to further the Axis war machine. If this market were closed, it would be practi-

cally impossible for the Axis to realize funds from this loot which could be used against the interests of this hemisphere.

Argentine financial facilities are freely used by local totalitarian firms. As a matter of fact, there is really no need to list specific aid given the Axis in this connection by Argentina. Probably it is sufficient to say that the totalitarian firms in Argentina operate as they please. The Committee for Political Defense of the Hemisphere has previously shown in a memorandum to the Argentine Government, some of the espionage activities which are being carried on in Argentina. That propaganda of the most blatant type is being carried on in Argentina is in itself proof that it is financed. There is no need to search for such propaganda—it can be obtained at any newsstand.

In this connection it must be mentioned that the Government of the United States has investigated certain of those firms functioning in the economic life of Argentina and has determined that a great many of them are engaged in activities inimical to the security of the hemisphere and directed against the war effort of the United Nations. Argentina has done little if anything to determine whether those firms are engaged in such activity, nor has the Government of Argentina, in reality, done anything to prevent propaganda and subversive activities being carried on by local totalitarian firms. Interventors have been placed in a very few firms, but this type of intervention has been little more than a ceremony. It is true that probably many man hours have been expended, that accounts of a few of the German firms have been audited, that German firms have been told not to contribute to propaganda organs such as *El Pampero*. But what has this accomplished? *El Pampero* and other propaganda organs are still being published (and it may be added that they are being published with Government aid in obtaining newsprint); espionage activities continue; and except for niceties of bookkeeping, nothing tangible has been accomplished. The Banco Central and the Ministry of Finance may be powerless to act without the police. Then why hasn't the Executive Power directed the police to investigate the totalitarian firms to determine whether they are engaged in activity inimical to the interests of hemispheric defense? Investigations in other countries of this hemisphere of those same totalitarian firms operating in Argentina have proved without a doubt that those firms were, in the countries investigated, engaged in activities inimical to the security of the twenty-one American Republics. For instance, investigation in Brazil has shown that Chimica Bayer Ltda. had made a loan approximately of the equivalent of US\$500,000 to the German Embassy. Investigations of the totalitarian firms in the other American Republics has revealed numerous instances of such firms fostering activities which are inimical to the security of the



hemisphere. It is highly unlikely that a different determination would be made if such investigations were made in Argentina. That such investigations have not been made in Argentina can only be attributed to inability to make them or to no desire to make them, and certainly the United States and the other American Republics would not attribute the lack of such an investigation to the former.

Thus far Argentina has shown no disposition to investigate or control those persons and firms which the United States Government considers to be engaged in activities inimical to the security of the Hemisphere, and even in many cases where there has been a blocking of funds, it has not been used in such a way as to prevent benefits accruing to the aggressor nations or the nations dominated by them. For instance, between December 11, 1941 and March 31, 1942, the Banco de la Provincia de Buenos Aires made payments of 72,000 pesos to the Japanese Domei News Agency to "cover expenses". Under the Argentine control, such payment had to be made pursuant to Banco Central authorization.

On or about February 5, 1943, the Argentine Government paid approximately 1,100,000 pesos to the Italian Government for fuel and lubrication on the ex-Italian ships, *Comodoro Rivadavia* and *Rio Blanco*, which previously had been taken over by the Argentine Government. This money was placed in a blocked account, *but* it was provided that the Italian Government might draw 75,000 pesos per month from that "blocked" account for the purposes of paying the maintenance expenses of ex-Italian crew members residing in Argentina. This arrangement adds to the wartime resources of the Axis since it makes it unnecessary for the Italian Government to provide funds from free exchange for the purpose of supporting these Italian seamen and to that extent aids the Italian Government in its war effort.

In 1941 the Argentine Government took over the above-mentioned ships and thereafter paid the sum of 6,400,000 pesos to the Delfino Company, Nueva Compañía General de Navegación S. A. in free funds. Such payment was made in free funds notwithstanding that this Government had previously determined that A. M. Delfino and his company were engaged in activities inimical to the security of the Hemisphere and notwithstanding that such payment was vigorously protested unless it should be made into a blocked account. Today, Delfino continues to have the free use of such funds without Banco Central supervision. Is it the position of the Argentine Government that the payment of such funds is not a transaction which should be subjected to appropriate control?

As a matter of fact, the financial facilities of Argentina have been used to aid those firms which the United States Government considers

to be engaged in inimical activities. The attention of the Argentine Government is directed to the fact that on November 30, 1942, ten months after the Rio de Janeiro Conference, the government-owned Banco de la Nación Argentina, had outstanding loans and overdrafts to firms, which the United States Government had determined were engaged in activity inimical to the security of the hemisphere, to the extent of 7,253,835.97 Argentine pesos. On October 31, 1943, nine months after the Rio de Janeiro Conference, the semi-official Banco de la Provincia de Buenos Aires had outstanding loans and overdrafts to firms which the United States Government considers to be engaged in activities inimical to the security of the continent, to the extent of 4,971,308 Argentine pesos. To say that Argentina has done nothing to curb the inimical activities of these firms is in itself a serious charge, but it is a much more serious charge that Argentina through an official and a semi-official banking institution is financing activities which aid the enemies of the western hemisphere. But the aid extended on behalf of the official banks of Argentina is not the only aid granted in this manner, for not only has the Argentine Government allowed the totalitarian banks to continue their operations, but it has taken no measures to restrict their financing other firms engaged in inimical activity. Actually, the totalitarian banks are "authorized institutions" of the Banco Central and have delegated to them certain authority to approve financial transactions, including remittances to the aggressor and aggressor dominated nations. As of March 31, 1943, the totalitarian banks had the following outstanding discounts and overdrafts:

Banco Alemán Transatlántico	30,019,000 pesos
Banco Germánico de la América del Sud	30,478,000 "
Banco Francés e Italiano para la América del Sud	24,723,000 "
Banco de Napoli	5,178,400 "

Thus the totalitarian banks have outstanding more than ninety million pesos in loans and overdrafts, and it can fairly be assumed that a large proportion of this amount represents loans to totalitarian firms in Argentina.

At the outset of this memorandum it was stated that Argentina had not complied with her obligations in the financial field under the recommendations of the Rio de Janeiro and Washington Conferences, and that fact which clearly could be substantiated was a serious charge. It was stated, however, that a much more serious charge, if it could be substantiated, was the fact that Argentina was allowing her financial facilities to be used for the aid and comfort of the aggressor nations and the nations dominated by them. That charge has been

substantiated. Argentina is remitting funds to the Axis, which benefit the Axis war machine. Argentina is receiving funds from the Axis which may be used to finance propaganda and espionage, not only in Argentina but in the other republics of the hemisphere. Argentina today remains the clearing house for Axis transactions with the continent. Argentina is permitting her markets to be used for the purchase and sale of securities looted by the Axis. Argentina is sheltering property of Axis firms and individuals which have sought refuge within her boundaries. Argentina has shown no disposition to investigate effectively or to control firms within her boundaries believed to be engaged in activities inimical to the defense of the hemisphere. Argentina, through government and semi-government owned institutions, is financing the activities of firms engaged in activity inimical to the security of the hemisphere—activity which Argentina has bound herself to eliminate. Argentina is allowing totalitarian banks organized under Argentine laws to freely finance the activities of persons and firms engaged in activity inimical to the security of the hemisphere.

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740.00112A European War, 1939/32163 : Telegram

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

BUENOS AIRES, June 11, 1943—7 p. m.

[Received 8:35 p. m.]

1304. Reference despatch 10263, May 24, 1943.<sup>87</sup> The Central Bank informally advises Embassy that time has arrived when steps can be taken to investigate thoroughly activities of totalitarian firms in Argentina.<sup>88</sup> The bank suggests that it be furnished with as much evidence and information as possible regarding activities of such firms in this hemisphere, and all data possible with respect to successful procedures used elsewhere in such investigations.

In view of the developments here, it will not be necessary for the Department to prepare an integrated memorandum as heretofore suggested. However, as much material as possible should be forwarded without delay. The Department will of course be informed of the Embassy's ideas with regard to the use of such material after it has had the opportunity to study it.

ARMOUR

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<sup>87</sup> Not printed; this despatch transmitted five memoranda on aid given the Axis by the Argentine Government (835.50/108). For the memorandum pertaining to finance, see *supra*.

<sup>88</sup> The appropriate time here mentioned was the result of the overthrow of the Castillo government. For correspondence concerning this event, see pp. 365 ff.

740.00112A European War, 1939/32163 : Airgram

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

WASHINGTON, June 30, 1943—7:35 p. m.

A-1131. Reference your 1304, June 11, and 1093, May 24.<sup>89</sup> The Department has so far had little success in collecting data on specific cases where firms which form the spearhead of Axis penetration in the Western Hemisphere have directly or indirectly financed espionage, sabotage and similar activities. With respect to Axis firms in the other American republics, the information in the Department's files was largely compiled in the field with a view to Proclaimed List action. Therefore, the files are frequently less voluminous on the outstanding Axis firms than on the less important firms, since the propriety of the inclusion of the former on the List was clear, without detailed proof of undesirable activities. For this reason the Department has recently sent a circular airgram (June 21)<sup>90</sup> to the missions in the other American republics, except Argentina, requesting the desired information regarding the leading Axis firms and it is possible that the replies may be helpful. However, to judge from what is known about the activities of Axis firms in the United States and from the information that exists in the Department's files relative to activities in the other republics, it is problematical whether proof will be forthcoming that any of the leading Axis firms actually conducted or directly financed espionage, sabotage or similar activities, as distinguished, say, from having in their employ persons who had important posts in the local Nazi hierarchy or from contributing funds which in one way or another were eventually made available to the Axis diplomatic missions.

As for activities within the United States, the Department has had to rely on the resources of other agencies. These agencies have admitted their inability to produce exactly the kind of information that would be desirable for your purposes. The Department has received some material from the Alien Property Custodian which, although it leaves a great deal to be desired from the point of view of your needs, will be transmitted to you with other material which the Department hopes to collect. This other material may include some data on the activities of General Aniline and Film Corporation, with respect to which company a study has just been completed by the Treasury Department. It is believed, however, that this study relates mainly to matters concerning this company other than its espionage or sabotage activities. The Treasury Department has stated

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<sup>89</sup> Latter not printed.

<sup>90</sup> Not printed.

that it is unable to produce the specific type of information requested in your 1093 of May 24.

You have undoubtedly received by now a copy of "Argentina Today" prepared by the Federal Bureau of Investigation, which it is hoped will be useful.

With respect to your 1304 of June 11 and the point you raise therein concerning the procedure used in the investigation of subversive activities of Axis firms, the Department is unable to offer any particular blueprint. As a general procedure, however, the starting point would seem to be the files of the firm in question, which should, of course, preferably be seized before the firm has had its suspicions aroused. Careful examination of all files and pursuit of all leads by imaginative and trained investigators, backed by adequate legal powers, should be productive of information which will either be directly incriminating or the basis of inference of incriminating conduct.

HULL

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740.00112A European War, 1939/31712 : Airgram

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

WASHINGTON, July 5, 1943—6:10 p. m.

A-1145. Reference your A-386 of May 17 and your A-427 of May 27<sup>91</sup> relating to the program of *ad hoc* blocking. The question you raise as to applying *ad hoc* blocking to depositors of Axis banks has already been answered by the Department's telegram no. 947 of June 28, 1943.<sup>92</sup>

With reference to your proposal for the *ad hoc* blocking of officers and directors of Proclaimed List firms, it is not clear to the Department whether you contemplate a new program or merely a continuation of the policy that has already been agreed upon and is in effect. When Warren Robbins<sup>93</sup> was here in November a large number of cases in Argentina were discussed, case by case, with officers of the Treasury Department and of the Department and it was agreed that two large groups of names would be *ad hoc* blocked. One of these groups included all the names in the Department's files for Argentina that had an "A" or a "C-A" rating. The second large group were those names which the Department's files showed to be officers, directors or prominent stockholders of Proclaimed List firms. These names, with one or two exceptions, were designated special blocked nationals in November and December 1942.

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<sup>91</sup> Latter not printed.

<sup>92</sup> Not printed.

<sup>93</sup> Special Assistant in the Embassy at Buenos Aires.

As to officers, directors and stockholders, it would seem that in applying the *ad hoc* blocking program already in effect, the question would be merely one of blocking the directors, officers and prominent stockholders connected with firms which have been added to the Proclaimed List since that time. The main reason that these names have not already been specially blocked is that the Treasury Department has not had the personnel to investigate the files to determine the names. If your proposal is that you should do this work, in view of the fact that your files reflect the same information which exists in the Department's files, it would appear that such proposal coincides with existing policy.

The same considerations apply to the proposal in your A-427 of May 17 [27] to compile a list of firms and individuals who are suspected of carrying on activities inimical to the interests of the United States. Presumably, these are cases which would have an "A" or a "C-A" rating and it would simply be a question of bringing the list of names *ad hoc* blocked up-to-date. Although you and the Department now have an identical rating system, you are probably in a better position to pass on the merits of each case than the Department is. Accordingly, the Department and Treasury endorse your compilation of a list of such names for *ad hoc* blocking.

If the programs contemplated by you in the airmgrams under reference involve more than merely continued application of policies that have already been agreed upon, the Department would appreciate a full explanation.

HULL

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835.24/2095

*The Secretary of State to the Chargé in Argentina (Reed)*

No. 4891

WASHINGTON, September 16, 1943.

SIR: There is enclosed a copy of a revision, prepared by the Department, of the memorandum of March 4, 1943 on economic policy towards Argentina. Copies of the revised memorandum, bearing the date of August 26, 1943, are being transmitted to the interested Departments and agencies of the Government.

You are requested to bring the new memorandum to the attention of the appropriate officials of the British Embassy and the Canadian Legation at Buenos Aires. The British Embassy and the Canadian Legation in Washington are being informed by the Department.

For your information, the memorandum of August 26 is based upon

an acceptance of the belief that economic pressure will not change the course of Argentine foreign policy. On that premise, the aim of the memorandum is only to secure all the material advantages which the United Nations can obtain in Argentina while making as little sacrifice towards Argentina as is necessary in order to gain our material requirements.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

*Assistant Secretary of State*

[Enclosure—Extract]

*Memorandum for the Under Secretary of State on the Economic Policy Toward Argentina, Revised as of August 26, 1943*

OBJECTIVES OF POLICY

1. To secure the optimum utilization of those critical materials or supplies which Argentina produces and which are essential for the conduct of the war;
2. To assure the maximum utilization of critical materials by the United Nations for supplying their needs and those of the countries cooperating with them in the war effort;
3. To make available to Argentina such critical materials as it may require for the attainment of the objectives set forth in paragraph (1) above; for public health and safety; and, in unusual circumstances, as compensation for goods or services furnished by Argentina which imply sacrifice to its internal economy.

IMPLEMENTATION OF POLICY

5. *Financial and Other Measures.*

- (a) Extend no government credits of any kind to Argentina;
- (b) Continue to increase the effectiveness of the Proclaimed list through proper consignee control and supervision of imports from the United States and, through cooperation with the British, limiting imports from that country to proper consignees;
- (c) Increase the effectiveness of Navicert Control by again giving the Embassy the right to examine proposed Argentine consignees;
- (d) In collaboration with the Treasury Department, continue to strengthen the measures designed to cut off transactions involving assets within the United States or United States concerns, when such transactions may directly or indirectly benefit the Axis.

740.35112A/296 : Telegram

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

BUENOS AIRES, October 20, 1943—9 p. m.

[Received 11:15 p. m.]

2483. Reference Department's telegram No. 1586 October 12, 10 p. m.<sup>96</sup> The Embassy does not believe that Proclaimed List or *ad hoc* blocking action against Banco de la Nación or Banco de la Provincia would serve any useful purpose. It would be a disturbing, ineffective, and unwise step. The real question is whether or not the time has arrived to consider the general blocking of Argentina.

More than enough evidence to justify this step is contained in the draft statement on the financial position of German firms in Argentina and the aid extended to them by the Argentine Government submitted as an enclosure to despatch No. 12448 of October 19<sup>96</sup> which was forwarded by courier on the same date. However, any contemplated action must be carefully considered on a broader basis than economic warfare. The Secretary's letter of August 30,<sup>97</sup> together with other events, has brought about bitter opposition to the present Argentine administration from important and influential sectors of the Argentine public, including elements in the armed services. Any further action on the part of the American Government must help to increase this opposition rather than dispel it through creating a "my country right or wrong" reaction.

The Embassy's thoughts with respect to procedure were fully described in despatch 12436, October 19,<sup>96</sup> but events are moving so rapidly that action may be advisable, even before the despatches alluded to arrive in Washington.

If Prebisch<sup>98</sup> is forced out of the Central Bank, as appears to be inevitable, this occurrence plus the resignations of the principal officials of the Ministry of Finance would more than justify action on our part since we could have no further confidence with respect to the implementation of such control measures as not [*now*] exist in Argentina. The Embassy believes that blocking would be interpreted in Argentina as directed against the Government and not against the people and would be generally understood. It is therefore recommended that if Prebisch is forced to resign or the bank is intervened that Argentina be blocked and the Treasury Department issue the following statement,

<sup>96</sup> Not printed.

<sup>97</sup> *Ante*, p. 454.

<sup>98</sup> Raul Prebisch, general manager of the Central Bank.



"The Treasury Department announced today that in view of recent financial developments in Argentina and for reasons of continental security, Executive Order No. 8389<sup>99</sup> as amended, had been further amended to include Argentina as a foreign country designated in such order, effective as of October, 1943."

The reference to continental solidarity [*security*] is included for the express purpose of affording the Argentine Government the opportunity of requesting reasons of the American Government and this request, in turn, could allow the use of the material contained in despatch 12448 of October 19, in much the same manner as the Secretary's letter of August 30. The material forwarded under cover of that despatch fully substantiates the information given in despatch 1226 [*12262*] of October 5.<sup>1</sup>

The Department's immediate consideration is requested as developments in the Central Bank case may be expected within the next 48 hours and also action is [*as?*] recommended herein, to be properly timed, should be taken immediately following advice from the Embassy that adverse changes in the Central Bank have occurred. It is respectfully urged that no action be taken until the Embassy further advises the Department.

ARMOUR

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740.35112A/296 : Telegram

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

WASHINGTON, October 24, 1943—1 p. m.

1643. In reference Embassy's telegram no. 2483 of October 20, 9 p. m. Does Embassy recommend complete freezing subject only to specific licensing, blocking accompanied by general license provisions similar to those of General License No. 53,<sup>2</sup> or blocking accompanied by general license providing for certification by the Argentine Central Bank as outlined in the memoranda of the Financial Section of early August which were left in the Department by the Ambassador?<sup>3</sup>

STETTINIUS

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<sup>99</sup> This order effected the freezing of certain financial resources of non-nationals in the United States, 5 *Federal Register* 1400.

<sup>1</sup> Not printed.

<sup>2</sup> Code of Federal Regulations, Cumulative Supplement, title 31, sec. 131.53.

<sup>3</sup> Ambassador Armour had been in Washington for consultation; the memoranda referred to, dated August 5 and 7, are not printed.

840.51 Frozen Credits 35/116a : Telegram

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

WASHINGTON, October 24, 1943—8 p. m.

1644. The telegram quoted hereafter has been sent to the Secretary.<sup>4</sup>

The Treasury is again proposing to include Argentina among the list of blocked countries thus blocking the bank accounts, securities and assets in the United States of Argentine citizens, residents or entities and permitting financial transactions and communications with Argentina only by license. Treasury would make General License 53 applicable to Argentina thus general licensing all commercial transactions and transactions incident to commerce.

Ambassador Armour has also recommended a blocking proposal but with a general license of a somewhat different character.

Both the proposals of Treasury and Ambassador Armour have a political objective, namely, the upsetting of the present Argentine Government rather than an economic warfare purpose.

After very careful thought we think the chances are that the proposal will have the opposite effect; will strengthen the Government and will postpone rather than hasten a change in Government.

Our reason is the supersensitivity of Argentines to any suggestion of outside pressure. We believe the Government would seize upon blocking to present it to the Argentine people as U. S. invasion of Argentine sovereignty. The Government would wave the flag and urge "all patriotic Argentines" to forget their internal differences and rally to the "defense of their country".

Moreover, we do not believe the proposal would attain any important economic warfare objective. It is unlikely that Argentine banks, concerns and private individuals will seek to withdraw any important assets from the U. S. and our blocking here would have no substantial effect on Axis activities in Argentina.

In addition Argentine blocking

(1) would chill the friendly feeling in the other countries because they would figure that if the United States used strong arm tactics against Argentina of this character it would do the same to them;

(2) would probably not have British support without which action on our part would be unwise from both the immediate and long-term point of view; and

(3) might produce retaliatory action which would

(a) endanger United States procurement of such vitally needed materials as zinc, beryl, hides, edible oils and foodstuffs;

(b) jeopardize the advantageous shipping arrangements under which the Argentine Merchant Marine carries to the U. S. a minimum of 40,000 tons a month of cargo selected by us.

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<sup>4</sup> Secretary of State Hull was in Moscow.

Our recommendation, therefore, is that Argentina be left to stew in its own juice for the time being. The political pot is seething and may boil over of its own account.

This message repeated to Buenos Aires.

I am passing the foregoing on to you as I know of your interest in the subject. In as much as Treasury is pressing the matter vigorously, I am taking it up with the President at the earliest moment.

STETTINIUS

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840.51 Frozen Credits 35/104 : Telegram

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

BUENOS AIRES, October 25, 1943—9 p. m.

[Received October 25—8:02 p. m.]

2520. Reference Department's 1644, October 24, 8 p. m. Prebisch this morning insisted upon his resignation and the board unanimously accepted it, hoping that this might postpone further intervention by the Government. However, feeling among the directors and in other financial circles indicates that the ultimate objective of the Government is to obtain control of this institution.

It is hoped that no final decision will be taken regarding the Embassy's recommendations until the receipt of its views, which will be telegraphed in full tomorrow.

ARMOUR

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840.51 Frozen Credits 35/95a : Telegram

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

WASHINGTON, October 25, 1943—9 p. m.

1647. The President has stated with respect to the Argentine blocking proposal (Department's 1644, October 24, 8 p. m.) that he desires the proposal tabled for the time being but reviewed every week or two.

STETTINIUS

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840.51 Frozen Credits 35/106 : Telegram

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

BUENOS AIRES, October 27, 1943—6 p. m.

[Received 10:27 p. m.]

2530. Reference Department's 1644, October 24, 8 p. m. and one [*sic*] 1647, October 29 [25], 9 p. m. What would appear to be an unfortunate leak reported in Embassy's telegram No. 2526 of Octo-

ber 27, 4 p. m.,<sup>5</sup> would seem to precipitate action along one of the three following lines: (a) to freeze Argentina immediately, (b) to issue an announcement denying the press story and follow a policy of inaction, or (c) for Washington neither to confirm nor deny the United Press story, while observing reaction here. This latter course is dangerous since it would provide time for any Axis dollar assets cloaked via the Argentine to be liquidated. Furthermore it is doubtful if the United Press despatch will be released by censor so that true reaction will be difficult to determine. The following message was prepared before the Embassy had knowledge of the United Press story, but as it covers the situation in all its aspects no changes are being made.

The following represents the Embassy's considered judgment with respect to the situation:

(1) The Embassy's immediate objective in making freezing recommendation was economic warfare. Recent events have convinced us that Argentine Government has practically ceased to exercise any control over totalitarian activities or their financing. There are mounting evidences that from control the Government is rapidly passing to the promotion of such activities. The extent of the effectiveness of Treasury measures naturally depends on the degree to which our Government wishes to impose its controls. The Department realizes that the measures could of course be used to the extent of imposing a financial and merchandise embargo. The Embassy's minimum aims would be the following:

Supervision of a large percentage of Argentina's international financial transactions and, through the use of the licensing procedure, a beneficial ownership breakdown of assets held through local banks and financial institutions in the United States; the elimination of credit to Axis firms on the part of generally licensed banks; the certification by such banks that no direct or indirect Proclaimed List interest was involved in any transactions handled by them; and, possibly a disclosure of funds held locally for European account by such banks.

(2) The Embassy never believed that the measure recommended could have the extreme political effect mentioned by the Department. It hoped first to select an appropriate moment to announce freezing so that the measure would be interpreted as directed against the Government and [not] the Argentine people. Recognizing supersensitivity of Argentines, it must be remembered that there is now strong and widespread feeling within Argentina against present Government. It was our thought that proper action by United States at this

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<sup>5</sup> Not printed; this telegram called attention to a United Press report of the imminence of a general freezing measure (840.51 Frozen Credits 35/105).

time (when the cumulative effect of Government's totalitarian and unpopular acts is at a peak) would be interpreted as an alignment with Argentine people against an already unpopular Government. A better occasion may or may not arise. It should be emphasized that foregoing is merely a matter of opinion although it does represent our considered judgment. After the imposition of freezing, the Embassy hoped that the Argentine Government would give our Government an opportunity to disclose publicly the extent to which the present and previous Government were aiding and abetting those firms which could be universally defined as inimical to the security of the Western Hemisphere. The Embassy predicates its recommendations on the basis that nothing should be done to strengthen the present Government, but risks should be taken to weaken it. Risk is inherent in these recommendations.

(3) In order that the American point of view may be clearly understood by Argentina and the American Republics, it is thought that even press censorship in this country could not prevent the publication of a statement by the President and it is for this reason that the Embassy respectfully suggests that if freezing is determined upon, the President consider issuing a statement along the following lines:

"A year and a half ago the Treasury Department proposed that those financial controls applicable to neutral countries, as provided by Executive Order No. 8389, be extended to Argentina. That action, if approved, would have had the effect of subjecting all financial and commercial transactions to prior license by the Treasury. In other words, there would have been a recognition of Argentina's self-proclaimed status of neutrality and Argentina would have been accorded by the United States the same treatment given neutral countries under the above mentioned order.

Since at that time I had every confidence that Argentina would comply with the Rio de Janeiro Resolutions, I disapproved the Treasury proposal even though recognizing that in doing so I was in a sense countenancing a measure of discrimination against other neutral countries to which this measure had been applied. However, in view of recent events and for reasons of continental security, the Treasury has again proposed such action. My present reaction to the Treasury's proposal, after a year and a half of keen disappointment waiting for Argentina to join her sister republics, is one of sad and reluctant agreement; I feel constrained to approve the action. In doing so I feel that I must repeat that it is nothing more than a recognition of Argentina's oft-avowed position of neutrality, a position which that country, as a sovereign nation, of course has every right to adopt."

(4) Comments on Department's statement regarding potential dangers:

(a) The British attitude would not be a new one and as the United States has constantly borne major brunt of onus for economic warfare

measures, a slight intensification should not be too greatly feared. However, the British might agree to announce simultaneously or shortly thereafter that recent developments in Argentina including instructions to press to publish no longer the Proclaimed and Statutory Lists, made it necessary to intensify British controls with respect to shipments from Great Britain and neutral countries to Argentina.

(b) There is no question but that the Argentine Government might attempt to impede the shipment of essential materials needed by the United Nations. However, as this country has as great a need of selling as the United Nations of buying, such measures would only be temporary or would lead to elimination of the present Government. The only real danger, other than temporary, foreseen by the Embassy is that some export such as beryl, which is unimportant in Argentine economy, might be affected, but these questions could be worked out on the basis of straight trading for essential materials such as oilfield equipment.

(c) If the President issues the suggested statement, it is believed that reaction among American Republics would be favorable.

(d) Nonbelligerent rights might be withdrawn.

(e) Wilcox and Welch, respectively of the Boston and National City Banks, who were confidentially consulted, are afraid of dire results possibly including the intervention of American firms, prohibition of exports, and even deportation of Americans, due to character of present Government. The Embassy cannot fully share these fears. If action taken on the basis of Argentina's neutrality should lead to such reprisals, it would be such a definite alignment with the Axis that a failure to recognize this and to accept the challenge implied [in?] such a situation could well expose us to the criticism rather than approval of the American Republics, since this Government represents even at the present time, in the Embassy's opinion, what the United Nations are fighting in other parts of the world.

(5) The Embassy has no desire to do more than state its position and does not wish to influence the Department into recommending action the Department considers unwise. However, it must express the opinion that an opportune moment has come to make public the attitude of the United States with regard to the present Government of Argentina.

(6) Consequently, the Embassy would like to repeat its recommendation that the amendment to Executive Order 8389 be announced. Further, it is believed that no immediate provision should be made for the issuance of Argentine general licenses; such licenses should be given only after a full study by the Treasury and only after the Embassy can calculate with reasonable certainty the influence of repercussions produced in Argentina by this action. Naturally, the Treasury may desire to permit small and unimportant transactions to continue undisturbed and the Embassy could see no objection to this.

ARMOUR

840.51 Frozen Credits 35/116b : Telegram

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

WASHINGTON, October 28, 1943—6 p. m.

1661. The Treasury reports that Bancos de la Provincia and de la Nación withdrew on Monday, Tuesday and Wednesday almost \$1,000,000 in assets held in New York, and today have directed their New York correspondents to transfer \$2,000,000 (Nación) and \$7,500,000 (Provincia) to the Federal Reserve Bank of New York to be converted into gold earmarked for the account of the Banco Central. The result of this action would be to cover up any funds of those institutions by merging them with the general assets of the Banco Central and to make impossible the tracing of their particular financial transactions.

The Treasury Department, with the approval of the State Department, is today designating the Banco de la Provincia and the Banco de la Nación as special blocked nationals. Until further notice transactions involving the assets of such banks may be effected only pursuant to Treasury license. Details of the controls of special blocked nationals were furnished you in airgram A-516 of December 31, 1942.

STETTINIUS

840.51 Frozen Credits 35/118 : Telegram

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

BUENOS AIRES, October 29, 1943—9 p. m.

[Received 9:40 p. m.]

2572. Reference Department's 1661 of October 28, 6 p. m. The Minister of Foreign Affairs<sup>6</sup> asked me to call on him at 5:30 p. m. today. Anticipating he wished to discuss the bank situation I had Bohan accompany me. The Minister of Finance<sup>7</sup> was also present. The latter stated that he had received word that Nación and Provincia had been designated as special blocked nationals and assumed that the use of "special" indicated that there were special reasons for taking this action. He asked if I had any information regarding the reasons for this action which he considered very grave, and both he and the Minister of Foreign Affairs assured me that if the banks had done anything wrong it would not be repeated. I replied that the only information available to me at the moment was contained in a telegram received from the Department indicating that the Treasury had taken the action as a result of increasingly heavy transfers being made

<sup>6</sup> Gen. Alberto Gilbert.<sup>7</sup> Jorge Santamarina.

by both banks, so heavy on Thursday that the Treasury felt constrained to take precautionary measures. Neither Minister appeared to grasp the situation and both were extremely nervous and assured me that the Government was willing to do anything to correct any faults of which the banks might be guilty.

Curiously enough the Minister of Finance stated that if it were the Dresdener Bank matter, this could easily be corrected. He pointed out that the Banco de la Provincia was very proud of its credit record. How to interpret this remark is difficult since the Finance Minister's apparent lack of understanding may indicate that he had only seen the reference to this case in the United Press despatch. The Embassy is investigating this point immediately since, if the remittance was made after official and written assurances from the Argentine Government to the contrary, there would be a perfectly sound basis for the Treasury's action against the Banco de la Provincia. As the Embassy has pointed out on many occasions while there are ample grounds for a general blocking of Argentina, our case against the two banks may be weak.

I promised the Ministers that I would communicate with the Department at once and request further details.

ARMOUR

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840.51 Frozen Credits 35/122b : Telegram

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

WASHINGTON, October 30, 1943—8 p. m.

1674. The Department and the Treasury Department on October 29 presented the following two memoranda to the President regarding proposed Argentine freezing:

#### TREASURY MEMORANDUM

MEMORANDUM FOR THE PRESIDENT, OCTOBER 29, 1943

#### FREEZING ARGENTINA

Mr. Stettinius advised me this afternoon that he was sending you a short memorandum regarding the freezing of Argentina and suggested that I do likewise. We in the Treasury think that Ambassador Armour's cable of October 27,<sup>8</sup> again strongly urging the freezing of Argentina, is the best statement of the reasons for freezing. As the Ambassador states:

"...<sup>9</sup> The Mission must express the opinion, however, that an opportune moment has come to make public the United States' attitude concerning the present Argentine Government. Therefore, the Mission would like to repeat its recommendation that an announcement be made of the amendment to Executive Order 8389 (freezing Argentina)."

<sup>8</sup> No. 2530, p. 496.

<sup>9</sup> Omission indicated in the original.



A copy of this cable is attached.

For your information the Treasury Department, with the State Department's approval, has taken the following provisional action:

(a) Treasury has specially blocked the assets of the two largest banks in Argentina, who for over a year and with the Argentine Government's approval have been openly aiding the Axis. These banks were trying to transfer out of their names over \$10,000,000 of assets before this Government could act.

(b) The Treasury has temporarily stopped transactions in Argentine accounts amounting to over \$5,000,000 and involving the flight of funds from the Argentine or the transfer of substantial Argentine funds to new accounts where such funds could no longer be readily identified.

The Treasury has advance notice of additional transfers of a similar character within the next 24 hours amounting to \$10,000,000. Moreover, the Argentine Central Bank has given standing instructions for the shipment of substantial amounts of its gold to Argentina on each Argentine ship henceforth leaving the United States.

Should you decide to take action in this matter, the necessary papers are ready for your signature.

(s) D. W. Bell <sup>10</sup>

#### DEPARTMENT'S MEMORANDUM

##### MEMORANDUM FOR THE PRESIDENT

###### ARGENTINE FREEZING

Developments since your Decision of October 25 <sup>11</sup> Against a General Freezing at this time of Argentine Assets

1. Secretary Hull has telegraphed his concurrence in the Department's position as stated to you contrary to blocking Argentina. A copy of this telegram is attached.

2. Ambassador Armour has cabled renewing his recommendation to block Argentina and stating that the Argentine Government is progressing to assisting Axis activities and that while blocking involves risks, he is willing to recommend immediate blocking action. A copy of this cable is attached.<sup>12</sup>

3. Transfers and attempted transfers of Argentine funds since October 25:

\$1 million transferred largely to Uruguay.

Yesterday the Argentine Central Bank ordered private banks to transfer their funds to it. As a result, attempted transfers of \$29,500[000] were ordered from Argentine bank accounts in New York to Argentine Central bank accounts at Federal. Of these \$7 million have been made; \$9,500,000 have been definitely blocked; \$13 million are now pending. No serious disadvantage is discerned were such transactions to occur, except where individual accounts upon the evidence should be blocked.

<sup>10</sup> Under Secretary of the Treasury.

<sup>11</sup> See telegram No. 1647, October 25, p. 496.

<sup>12</sup> No. 2530, October 27, p. 496.

Now pending: Transfers of \$250,000 to Uruguay; \$1 million to Swedish Riksbank. These transfers if accomplished would remove funds from U. S. control.

4. Department's recommendations:

*a.* that there should be no general blocking this time for reasons previously given;

*b.* If contrary decision is made, general blocking should be preceded by attempt to get British and some major American Republics to take collateral action.

*c.* Since transfers effected or pending from Argentine to foreign account total only \$2,500,000 for the current week, take no action beyond existing *ad hoc* blocking, continuing present scrutiny of transactions to prevent sudden flight of capital.

(s) E. R. Stettinius, Jr.

The President approved the Department's memorandum.

The Treasury on Friday afternoon held up a total of \$2,675,000 in Argentine transactions, including the proposed \$1,000,000 transfer to the Swedish Riksbank, small amounts to Uruguay, and something over a million dollars transferred from several banks, including National City, to the Argentine Central Bank's account at the Federal Reserve Bank in New York. Certain other of the transactions mentioned in the Department's memorandum went through before the Treasury took restrictive action. \$10 million, included in the \$13 million mentioned as pending, are the National City and First National of Boston transfers and these did not actually arise on Friday.

On Saturday the Treasury had requests to approve transfers of a total of \$11 million to the account of the Argentine Central Bank (including the National City and Boston bank items) and several hundred thousand dollars to Uruguay. In accordance with the President's directive these transactions were approved. Moreover, the Treasury will on Monday approve the transactions held in suspense from Friday.

Thus the only transactions which have been effectively blocked are those of the Banco de la Nación and Banco de la Provincia. This includes the \$9,500,000, plus an additional \$1,600,000 which came through on Friday.

STETTINIUS

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840.51 Frozen Credits 35/125 : Telegram

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

BUENOS AIRES, November 3, 1943—7 p. m.

[Received 8:55 p. m.]

2608. Accurate determination of reaction still difficult since only banking fraternity fully informed regarding extent of Treasury

measures. However, the following reactions have been obtained during the day.

(1) Welch of City Bank reports that at luncheon meeting of bankers consensus was that *ad hoc* blocking of Nación and Provincia would not be effective and only result in strengthening the hand of the Government;

(2) Wilcox of Boston Bank reports a somewhat chilly atmosphere in Central Bank, although officials are marking time and advising Government to go slowly with possible countermeasures. Another source has complicated the position of the bank vis-à-vis the Government and apparently feel unkindly towards the United States;<sup>13</sup>

(3) Manager of Banco Holandés states that he could understand general blocking but action taken places unblocked institutions in unenviable position. Same reaction reported from Royal Bank of Canada;

(4) Manager of Francés y Río de La Plata stated that he was at a loss to understand action although he would not have been surprised at general freezing measures;

(5) Former high Government official stated that he felt action would create irritation not only in Government but among groups friendly to us;

(6) Welch and Wilcox state that, in their opinion, if a clear-cut case does not exist against banks, consideration might be given to same [*some?*] general license permitting controls satisfactory to the Treasury but face-saving to the local institutions. Both agree that a measure of supervision should continue;

(7) Minister of Finance informed Embassy today that Banks would be willing to supply Federal Reserve with full information regarding any operation.

Further reaction will be reported tomorrow.

ARMOUR

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840.51 Frozen Credits 35/135 : Telegram

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

BUENOS AIRES, November 5, 1943—2 p. m.

[Received 5:56 p. m.]

2620. Text of *aide-mémoire* mentioned in my November 5, 1 p. m., number 2619,<sup>14</sup> follows:

As requested by Their Excellencies, the Ministers of Foreign Affairs and Worship and of Finance, the Ambassador of the United States of America telegraphed his Government on October 29 for additional details regarding the designation by the United States Treasury Department of the Banco de la Nación Argentina and the Banco de la Provincia de Buenos Aires as special blocked nationals.

The Ambassador has now received a reply from his Government in which he is informed that the immediate reason for the action taken

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<sup>13</sup> Foregoing sentence apparently garbled.

<sup>14</sup> Not printed.

by the Treasury Department was the unusual movement of funds during the period October 25 to October 28 inclusive. During the first 3 days of that period, debits to the accounts of the two banks amounted to \$4,184,000 as compared to \$989,000 for the full week ending October 11. Of the 3-day total, almost \$1,000,000 was transferred to countries other than the United States. On October 28 transfer orders amounted to almost \$10,000,000, at which time the Treasury Department, as a precautionary measure, blocked further operations.

While the foregoing explains the immediate reason for the action of the Treasury Department, the Ambassador understands that the fundamental causes are more far-reaching and disturbing. For almost 2 years the United States Treasury Department has been calling attention to operations carried on by these two institutions which had the effect of benefiting the Axis or Axis-occupied countries or nationals of such countries resident therein. Likewise, the Treasury has pointed out on many occasions that the institutions in question have granted credits and overdrafts to persons and firms whose activities are deemed to be inimical to the security and defense of the hemisphere. The Embassy, in accordance with the provisions of resolution VIII of the Inter-American Conference on Systems of Economic and Financial Control held in Washington in 1942,<sup>15</sup> brought those observations to the attention of the appropriate agencies of the Argentine Government.

During the course of the present year, informal conversations have been held, as the Ministry of Foreign Affairs is aware, between officers of the Embassy and those agencies. The latter have invariably taken the position that the remittances to Axis or Axis-occupied territory were made in accordance with the established policies of the Argentine Government. With respect to credits and overdrafts, the appropriate agencies, although courteously receiving the Embassy's observations, stated, presumably following directives of the Argentine Government, that they were unable to take corrective measures or alter existing policies.

The United States Treasury Department has maintained that even though the operations carried on by the Banco de la Nación Argentina and the Banco de la Provincia de Buenos Aires were authorized or condoned by the Argentine authorities, this did not free those institutions from the responsibility of effecting such operations, since, in so far as the use of the financial facilities of the United States was concerned, the Treasury Department was obligated to apply its controls on the basis of the wartime financial regulations of the United States and the recommendations adopted at the Rio de Janeiro and Washington conferences. Accordingly, after more than one year of patient waiting, following the Inter-American Conference on Systems of Economic and Financial Control, the Treasury Department felt that the two banks in question had definitely elected to continue operations and transactions which had the effect of benefiting the Axis Powers and which were inimical to the security of the hemisphere. Therefore, it was decided that the institutions in question were not entitled to the free and unrestricted use of the financial facilities of the United States. Accordingly, the Treasury has taken

<sup>15</sup> See *Foreign Relations*, 1942, vol. v, pp. 58 ff.

action to require that specific licenses be obtained for further transactions by the two institutions, to the end that it may request and obtain information as to the nature of such operations in order to preclude the possibility of the financial facilities of the United States being used in contravention of the existing wartime financial controls and the recommendation of the above-mentioned conference.

The Ambassador desires to make clear that the Treasury Department will, of course, be pleased to consider applications for specific licenses made on behalf of the above mentioned banks.

Buenos Aires, November 5, 1943.

ARMOUR

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840.51 Frozen Credits 35/136 : Telegram

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

LONDON, November 5, 1943—midnight.

[Received November 6—7:10 a. m.]

7710. Bliss, high official of MEW<sup>16</sup> asked Spiegel of EWD<sup>17</sup> to see him respecting the proposed freezing of Argentine funds. He stated MEW had been approached for its opinion respecting joint British and United States action in freezing Argentine balances. MEW conferred with the Treasury and Foreign Office and it was decided that the United Kingdom could not join the United States and freeze Argentine sterling balances.

The position of British officials, according to Bliss, is that the special account arrangement is satisfactory from the British point of view and accomplishes everything which the British feel is necessary. Bliss mentioned in this connection that Argentine sterling balances are in the vicinity of 50 million pounds. It is felt in MEW that should the United Kingdom take steps to freeze sterling balances the repercussions might be unfortunate because the United Kingdom is now more than ever dependent upon Argentina for certain vital supplies, notably meat. This position has evidently been communicated to the British Embassy in Washington. Bliss stated that the effectiveness of the whole proposal has probably been lessened by the leak in the American press respecting the proposed freezing action. London papers copied the American story on this matter.

Bliss indicated that balances of the Banco de la Provincia and of the Banco de la Nación have recently been blocked by the U. S. Treasury on an *ad hoc* basis. He suggested that the United Kingdom could not block the sterling funds of Argentine banks in this manner be-

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<sup>16</sup> Ministry of Economic Warfare.

<sup>17</sup> Economic Warfare Division of the Embassy.

cause of the necessity of financing most shipments from Argentina to the United Kingdom.

MEW had evidently also received an inquiry from the British Embassy in Washington concerning the attitude of MEW to unilateral freezing action by the United States. At this point Bliss indicated that this may ultimately turn out to be an issue over which the United States and British Governments may differ, with the result that each will follow its own policy. He wished to state, however, that in his opinion American freezing of Argentine dollar balances without accompanying British freezing of sterling balances might be exploited in Argentina as indicating a split among the United Nations over this issue, with the result that the freezing action of the United States might not have the desired political effect in Argentina.

Bliss added that a second more important reason for questioning the desirability of unilateral freezing by the United States was the possibility that Argentina might be driven in retaliation to create difficulties over meat supplies for the United Kingdom. He pointed out that this would affect supplies for American Army personnel stationed in the British Isles as well as purely British civilian and military supplies.

Bliss stated that he was making this known on a purely unofficial and informal basis, but intimated that it might be helpful if this opinion could be brought to the notice of the appropriate American officials through appropriate channels.

Spiegel made no observations on the foregoing and confined himself to stating he would transmit the information to the appropriate authorities. If the Department desires any reply to be made, please instruct.

WINANT

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840.51 Frozen Credits 35/137 : Telegram

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

BUENOS AIRES, November 6, 1943—11 a. m.

[Received 2:16 p. m.]

2626. Minister of Finance, after reading *aide-mémoire* (Embassy's 2619 of November 5, 1 p. m.<sup>18</sup>) stated that he agreed with us (Bohan was with me) that undoubtedly questionable transactions had been carried out, but that such things would not be permitted under the new finance administration in Argentina. Hence, he was not interested in the past history of the case, since he was centralizing matters in his own hands and he could assure me that no operations would be

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<sup>18</sup> Not printed; for text of *aide-mémoire*, see telegram No. 2620, November 5, from the Ambassador in Argentina, p. 504.

carried out in the future which would be objectionable. Foreign Minister interrupted to state "we give you our guarantees on this". Finance Minister continued that since these guarantees had been given, the Treasury undoubtedly would wish to unblock these two banks, especially as it would be entirely agreeable to the Minister for the bank's correspondents to submit informally full information to the United States Treasury Department regarding any future transfers.

The Ministers, throughout the interview, showed a complete lack of understanding of the Rio and Washington Resolutions and their remarks could have been interpreted as assurances that such resolutions would be effectively implemented providing the two banks are unblocked. My attempts to obtain more specific information were unsuccessful because of the bland assumption on their part that everything would be all right once the banks were cleared.

I believe the Department will share our views that such generalized statements mean nothing. I personally cannot see how this Government, in view of its clear tendencies and announced policies, could be counted upon for any effective implementation. Furthermore, I feel strongly that under the circumstances we should not prejudice the effective use of the material accompanying despatch 12448<sup>19</sup> in a vain and illusory attempt to secure such implementation.

The Ministers clearly expect an early reply to their naive proposal and I would appreciate the Department's views with respect to the next step to be taken.

The Department may wish me to see the Ministers again and inform them that if they are willing officially to furnish my Government with concrete information as to the specific measures their Government is prepared to take in order to implement effectively the pertinent Rio and Washington Resolutions, the Treasury Department will be happy to consider the elimination of the two banks from the list of special blocked nationals. It is realized that this course of action may lead to protracted discussions but frankly we can see no alternative procedure.

ARMOUR

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840.51 Frozen Credits 35/137 : Telegram

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

WASHINGTON, November 13, 1943—6 p. m.

1752. From the Under Secretary. The Department will discuss the entire question of Argentine freezing within the next few days with the Secretary and until that time it is not prepared to take any action with respect to the points raised in your No. 2626 of November

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<sup>19</sup> Dated October 19, not printed.

6, 11 a. m. The Department does believe that it would be desirable for you to see the Ministers and indicate that this Government is desirous of obtaining from them concrete information as to the specific measures which Argentina is prepared to take in order to implement effectively the pertinent Rio and Washington resolutions. [Stettinius.]

HULL

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840.51 Frozen Credits 35/207a : Circular telegram

*The Secretary of State to the Diplomatic Representatives in Brazil, Mexico, Colombia, Peru, and Chile*

WASHINGTON, December 4, 1943—10 p. m.

The Department and the Treasury are considering subjecting Argentine financial transactions to control. As you are aware, this Government has for almost 2 years been calling the attention of the Argentine authorities to the lack of effective implementation by Argentina of Resolution No. V of the Rio Conference and the resolutions of the Washington Conference on Systems of Economic and Financial Control. Despite these representations, operations continue which benefit the Axis. These operations include some direct and indirect remittances; very substantial credits and overdrafts to persons and firms within Argentina whose activities are inimical to the security and defense of the hemisphere; and government purchases and other forms of aid given to such persons and firms. Recent measures taken by the Argentine Government have led this Government to believe that the implementation in the future may be even less effective and that the Argentine Government may increase its positive assistance to undesirable elements.

As a result of an unusual movement of funds which began at the end of October the Treasury, with the concurrence of the Department subjected the Banco de la Nación Argentina and the Banco de la Provincia de Buenos Aires to special *ad hoc* blocking. The Argentine Government has since admitted that many transactions have taken place in the past which were contrary to the Rio and Washington Resolutions and has orally stated that it is willing to take corrective measures once the two banks are unblocked. The Department, in view of Argentina's failure to comply with the commitments which it entered into at Rio and Washington, is not optimistic regarding the possibility of Argentina taking at this late date any effective measures to implement the resolutions.

This Government is consequently considering extending control to all dollar financial operations of Argentina. Such controls would be so applied as not to interfere with legitimate commercial transactions



in this hemisphere. They would not by any means eliminate all of the unsatisfactory operations of Argentina mentioned above, but they would make it possible to control those carried out through United States financial facilities. The Department believes it would be desirable for such action to be taken jointly by the several American republics and not unilaterally by the United States alone. It requests your opinion at once whether the country to which you are accredited would join with this Government by taking parallel action or at least by publicly announcing its belief that the measures taken by the United States Treasury were necessary and justified for the security of the hemisphere. The Department is not requesting you at this time to discuss the matter with the appropriate local authorities but further requests your comments on the probable effect of such discussions if the Department should decide that you should undertake them in the near future.

As a last effort to obtain the collaboration of the Argentine Government in implementing the undertakings of the American republics in the financial control field, and in view of the assurances given orally by the Argentine Ministers of Foreign Affairs and Finance, the Department is instructing Ambassador Armour to attempt to obtain a specific statement by the Argentine Government regarding the manner in which it will proceed at once to implement fully the Rio and Washington resolutions.

Please cable your comments at once.<sup>20</sup> You will be kept informed of the reactions of our Embassies in the other countries and developments in Argentina.

By airmail pouch you will be sent additional information regarding the specific ways in which Argentina has failed to implement its inter-American commitments in the financial control field.

HULL

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840.51 Frozen Credits 35/231

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

No. 13095

BUENOS AIRES, December 7, 1943.

[Received December 15.]

SIR: I have the honor to advise the Department, for the purpose of the record, of the substance of a conversation that occurred on

<sup>20</sup> In telegram No. 5633, December 8, 1943, Ambassador Caffery indicated that it was improbable that Brazil would take parallel action because of the existing favorable trade with Argentina; Ambassador Messersmith in telegram 1214, December 6, and Ambassador Lane in telegram 2247, December 7, said that it was probable that Mexico and Colombia would agree. It was doubtful that Peru would collaborate, according to the Chargé (Patterson) in his telegram 1590, December 6, and quite definite that Chile would not, in the opinion of Ambassador Bowers, telegram 2044, December 6. (840.51 Frozen Credits 35/208, 202, 206, 201, 203, respectively.)

November 17, between members of the Economic Unit of the Embassy staff and officials of the local branches of the National City Bank of New York and the First National Bank of Boston.

The conversation occurred during the course of a luncheon given by Mr. Whitman, Manager of the local branch of the National City Bank, and attended by Messrs. Camp, Robbins, Mann, Skelton and Randall of the Embassy, as well as Messrs. Wilcox and Driscoll, Vice President and pro-General Manager, respectively, of the Boston Bank, and Mr. Welsh, Vice President of the National City Bank, and Mr. Arnold, recently transferred to the Buenos Aires branch from Peru.

The introduction to the discussion was a statement by Mr. Arnold to the effect that his experience of several years in Peru and of recent visits to Ecuador and Bolivia indicated that those countries were probably not giving any more, if as much, cooperation to the war effort of the United States as Argentina. From this starting point the representatives of the banks immediately referred to the recent blocking of the Argentine Bank of the Nation and the Bank of the Province of Buenos Aires, criticizing that action as ill conceived, both from the standpoint of representing pressure on a country whose cooperation was better than that of various others and, more particularly, on the grounds that they believed it had caused the United States inestimable harm and would accomplish little or no useful results. They based part of their position on the belief that the total amount of remittances to enemy territory, overdrafts and loans to Proclaimed List firms and other operations contrary to Treasury regulations were insignificant, compared to the total operations of the banks, and, further, that these banks had operated as nearly within Treasury restrictions as they were able to do considering local circumstances. The group as a whole emphasized their opinion that the United States had acted unwisely and that our policy should be constantly aimed at an objective whereby any action taken would give promise of accomplishing more than we might possibly lose. They felt, for example, that a strong policy towards Argentina would be thoroughly justified only if complete, which meant the cooperation of Great Britain, even to the point, if necessary, of risking momentarily the possible loss of supplies of foodstuffs now purchased in this country. In a word, they felt that no half-way measure could accomplish anything but greater ill will, into which category they definitely placed the blocking of the above mentioned banks. The group went so far as to express the opinion that by this action the United States now found itself in a position whereby some new action must be taken in such a way as to save its own face. They proposed that it would be unfortunate were the two banks immediately unblocked, as to do so would be to lose even more ground.

They urged some other immediate action which would embody some system whereby the banks would be allowed a considerable liberty of action under supervision, preferably exercised in Buenos Aires, since, according to them, previous experience convinced them that any requirements involving the issuance of licenses in Washington would carry with them relatively interminable delay.

An additional point suggested, particularly by Mr. Welsh and not contradicted by any of the others, was to the effect that it was the task of our Government to find some way of knowing the Argentine administration officials and of working out a system with them which basically would be one of cooperation, designed to give the United States the most possible of those things and controls which she needs for the conduct of the war. They recognized clearly that the complexion of the present Argentine Government was very unsatisfactory. . . . They admitted the totalitarian tendencies of this Government and expressed again the belief that the preferable line of action would be joint opposition by at least the United States and Great Britain, but they insisted that without this, cooperation rather than partial opposition would prove the most enlightened policy.

They pointed out that numerous of the British Colony are still in one way or another in touch with Argentine Government officials, impressing upon them that Britain understands the Argentine position, whereas the United States fails to do so.

Respectfully yours,

For the Ambassador:  
HAROLD M. RANDALL  
*First Secretary of Embassy*

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#### EFFORTS TO PREVENT COMMUNICATION BETWEEN ARGENTINA AND THE AXIS COUNTRIES THROUGH COMMERCIAL WIRELESS COMPANIES<sup>21</sup>

810.74/675 : Telegram

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

WASHINGTON, January 4, 1943—8 p. m.

14. The Department authorizes you to approach the Foreign Minister<sup>22</sup> regarding the proposal that Transradio Internacional refuse messages in secret language to or from non-American countries (your 2669, December 30, 7 p. m.<sup>23</sup>), along the following lines:

This Government can not agree to participation by American interests in the rendering of such service to the Axis as enables it to

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<sup>21</sup> For previous correspondence, see *Foreign Relations*, 1942, vol. v, pp. 108 ff., *passim*.

<sup>22</sup> Enrique Ruiz Guiñazú.

<sup>23</sup> *Foreign Relations*, 1942, vol. v, p. 184.

destroy personnel and shipping of the United States and its Allies. Consequently, it proposes to instruct the American interests in Trans-radio Internacional to concert with the British interests to have the company refuse all messages in secret language to or from non-American countries. It feels free, in the spirit of the Rio resolutions,<sup>24</sup> to invoke the sympathetic understanding of the Argentine Government for the position in which these United States interests now find themselves, and its agreement to this measure for the common defense of all the American republics.

The Department is suggesting to the British Foreign Office that your British colleague be given instructions similar to the above. You should wait until he has received such instructions and then take the indicated action in concert with him. The precise timing of your approach to the Argentine Government is left to your discretion.

You may consider it advisable to present this matter to the Foreign Minister in writing, so as to obtain a written reply.

HULL

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810.74/897c : Telegram

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

WASHINGTON, January 14, 1943—9 p. m.

67. The situation with respect to Axis use of telecommunications in Argentina seems to warrant special efforts to point out the true state of affairs through all available channels of public information. The expected rupture of relations with the Axis by Chile<sup>25</sup> should give a news story on which to base comments on the situation in Argentina.

It is, therefore, planned to take the opportunity offered by the expected Chilean break to point out in American radio broadcast news commentaries the fact that Axis diplomatic offices in Argentina are still able to transmit information by means of secret codes. It is hoped that any statement which the Chilean Government may make in connection with the breaking of relations will give some information concerning espionage activities<sup>26</sup> which may be related to the Argentine situation. Subsequently, it is hoped that public statements by prominent persons in this country and in other American republics

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<sup>24</sup> Resolutions of the Third Meeting of Foreign Ministers of the American Republics held at Rio de Janeiro, January 15-28, 1942; see Department of State *Bulletin*, February 7, 1942, pp. 117 ff. For correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

<sup>25</sup> Official notice of this rupture reached the Department on January 21, 1943. For correspondence on this subject, see pp. 795 ff.

<sup>26</sup> See pp. 2 ff.

lies may be made which will contribute to a wider discussion of the Axis use of Argentine telecommunications in press and radio.

Although the state of siege in Argentina will probably make discussion of this subject impossible within the country, some comments can be sent to Argentina by shortwave radio. Furthermore, the cooperation of the Coordination Committee<sup>27</sup> for Uruguay is being obtained to create as much discussion as possible of this point on Uruguayan radios and in Uruguayan newspapers which reach Argentina. We are cabling the Embassy in Montevideo to this effect and suggest that you take appropriate steps to get in touch with the Embassy and Committee there in order to guide them in their discussions and provide as much material as possible which will enable them to keep the subject alive in their news programs. It would be desirable for you to send someone to Montevideo to work with the Embassy and Committee there on this subject.

Anything that can be done in Argentina along these lines will, of course, be all to the good.

HULL

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810.74/899

*The American Ambassador in Argentina (Armour) to the Argentine Minister for Foreign Affairs (Ruiz Guinazú)*<sup>28</sup>

#### AIDE-MÉMOIRE

The Ambassador of the United States of America refers to the Embassy's memorandum of December 11, 1942,<sup>29</sup> containing certain observations relative to the recent Decree of the Argentine Government restricting radio communications in code between Argentina and non-American countries and, in compliance with instructions received from his Government, has the honor to state as follows:

The Government of the United States cannot agree to the participation by United States interests in the rendering to the Axis powers of services which enable those powers to destroy personnel and shipping of the United States and of the nations allied with the United States. The United States Government therefore proposes to instruct the United States interests in Transradio Internacional to concert with the British interests in that company with a view to terminating the transmission of all messages to or from non-American countries in secret language. The Government of the United States feels free,

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<sup>27</sup> A committee of the Office of the Coordinator of Inter-American Affairs.

<sup>28</sup> Handed to the Under Secretary for Foreign Affairs on January 15, 1943. Copy transmitted to the Department by the Ambassador in his despatch No. 8277, January 21, p. 516.

<sup>29</sup> *Foreign Relations*, 1942, vol. v, p. 179.

in the spirit of the Resolutions adopted at Rio de Janeiro, to invoke the sympathetic understanding of the Argentine Government for the position in which the above mentioned United States interests find themselves, and to solicit the agreement of the Argentine Government to this measure for the common defense of all the American Republics.

BUENOS AIRES, January 14, 1943.

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810.74/888 : Telegram

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

BUENOS AIRES, January 19, 1943—8 p. m.

[Received 8:09 p. m.]

140. Department's 14, January 4, 8 p. m. Following is translation of memorandum instruction dated January 19 from Argentine Foreign Office.

"The Ministry for Foreign Affairs has the honor to acknowledge receipt of the memorandum dated the 14th instant from the Embassy of the United States of America, which advises that the American interests in the Transradio Company will receive instructions from the United States Government in order that, in agreement with the British interests, the said company may put an end to the transmission of all messages in secret language sent to or received from non-American countries.

The said memorandum once again raises the problem of foreign interests in corporations which function in the country, a point concerning which the Argentine Government has reiterated and reiterates its viewpoint, so well known that it would appear unnecessary to emphasize it again, to wit, that companies which function in Argentine territory, in conformity with the provisions of its laws are Argentine companies subject exclusively to the laws and to the authorities of the country. Consequently companies which function in the Republic may not accept orders emanating from foreign governments.

In the case of the Transradio Company this fact is much more evident, because a company operating a public service is concerned and as such it is subject exclusively to the provisions of its respective concession and to the control of the Posts and Telegraphs authorities.

The decrees of October 8 and December 2, 1942, relative to the intervention of Telecommunication companies and the regulation of the Posts and Telegraphs Department, have been dictated for the purpose of increasing still further the supervision of telegraphic communications with foreign countries providing the greatest safeguards and establishing a maximum quota for transmissions in code, with the additional proviso that said quotas could be reduced or suppressed by the competent authority (article 2 paragraph 3 of the regulations of December 3) in case it is proved that the use of these facilities is abused.

The memorandum under reply adduces no proof whatever which substantiates the aforementioned abuse which might warrant the suppression of telegraphic service in secret language, within the existing regulations."

It is understood that official interventors provided for in December 2 decree will be named tomorrow for each company.

ARMOUR

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810.74/899

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

No. 8277

BUENOS AIRES, January 21, 1943.

[Received February 1.]

SIR: With reference to the Department's telegram no. 14, of January 4, 8 p. m. and the Embassy's telegrams nos. 140, of January 19, 8 p. m., 141 of January 19, 9 p. m. and 153 of January 20, 8 p. m.,<sup>80</sup> I have the honor to report that the substance of the information contained in the Department's telegram above mentioned was incorporated into an *Aide-Mémoire*, dated January 14, as soon as it was learned that similar representations were to be made by the British Embassy here.

On January 15 I called on Dr. Gache, Under Secretary for Foreign Affairs, and handed him the *Aide-Mémoire*, a copy of which is forwarded herewith in both English and Spanish.<sup>81</sup> He said he would like to say to me, not as Under Secretary but rather as "Dr. Gache, a man in the street", that perhaps it might have been a more effective procedure for us to have given these instructions to the company without previously consulting or informing the Foreign Office. My reply was that it seemed logical that the company would get in touch with the Argentine Government before taking final action, and I felt sure my Government would wish to be on record as having informed the Argentine Government of the action we proposed to take, particularly as we hoped that we could count on their support, at least to the extent of not making it impossible for Transradio to take the action requested.

I said that our hope was based not only upon the fact that the action envisaged was in accordance with the Rio resolutions signed by the Argentine Government, but I felt sure he must agree that it was asking too much of a company, with approximately half of its capital American and British, to send messages which led to the sinking of our ships, with attendant loss of life. In fact, I felt sure that the American

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<sup>80</sup> Telegrams Nos. 141 and 153 not printed.

<sup>81</sup> *Ante*, p. 514.

shareholders, in receiving their dividends, would feel that they virtually were accepting "blood money" so long as such a situation existed. I added that in my opinion the action proposed by us might be of assistance to the Argentine Government. The Minister for Foreign Affairs had argued that missions having official representatives here could not be deprived completely of the use of cipher, but if the companies themselves took the action, would not the Government's position then be a mere acceptance of the decision taken by the companies?

Dr. Gache did not vouchsafe any opinion as to what his Government's position would be, but admitted that the situation was a most illogical one. He said he would of course take up the matter with his Minister, who was going out of town that night.

The Under Secretary also informed me that Mr. Hadow, the British Chargé d'Affaires, had just preceded me and had delivered a similar communication. A copy of the Spanish text of the British *Aide-Mémoire*, furnished by Mr. Hadow, is forwarded herewith, as well as an English translation.<sup>32</sup>

I had no more than returned to my office when Dr. Gache telephoned to say that he had spoken with the Minister, and he wished to reiterate his feeling that he believed it inadvisable for us to present this matter officially, and that instead we should take it up with the company direct without having anything on record at the Foreign Office.

I told Dr. Gache that it was unlikely that the company would agree to take the action without some intimation of what the Government's attitude would be, and asked him whether the Foreign Minister would permit me to tell representatives of American interests in Transradio that the Argentine Government would interpose no objection to the company's taking the action requested, and that if they wished confirmation of this they could approach the Foreign Office. Dr. Gache emphatically said that he knew the Foreign Minister would not agree to any such procedure. I replied that in this case I could see no alternative other than for our *Aide-Mémoire* to stand.

Dr. Gache then asked if I would object if he kept the *Aide-Mémoire* on his desk without making it a matter of official record until the return to Buenos Aires of the Foreign Minister, at which time I might discuss the subject with the latter. Inasmuch as the same request was made concerning the British representation, both Mr. Hadow and I told Dr. Gache that we saw no objection, but I added that if the Foreign Minister still held to his opinion, my *Aide-Mémoire* would have to be considered retroactively.

On the afternoon of January 15, the day of my interview with Dr. Gache, an official of Transradio was called to the office of Sr. Co-

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<sup>32</sup> Not printed.



sentino, Chief of Radiocommunications in the Posts & Telegraphs Department, and cautioned against taking any action concerning suppression of all code traffic without prior approval of the Argentine Government. Even before this warning, however, it was quite apparent that the local Transradio board would have taken no such action without official approval.

Under date of January 19, the Foreign Office replied to my *Aide-Mémoire* with its memorandum, a Spanish copy of which is forwarded herewith. An English translation was given in the Embassy's telegram No. 140 of January 19, 8 p. m. The Foreign Office reply was accompanied by word from Dr. Gache that the Minister would discuss it with me the following day—January 20.

I opened the conversation by calling the Minister's attention to the fact that the wording of his memorandum would indicate that the communication which I had left with the Under Secretary had not been clearly understood, for his reply showed that they were under the impression that our Government proposed to send instructions to the company direct, whereas my *Aide-Mémoire* had clearly indicated that before taking this measure we hoped to secure the agreement of the Argentine Government. On re-reading my *Aide-Mémoire*, the Minister admitted that this nuance had escaped him. I then stated that I was surprised at the language used in the second paragraph of the Foreign Office memorandum; that so far as I was aware, there had never been any occasion for the Argentine Government to set forth its views to us regarding interference by Foreign governments in companies incorporated under Argentine law. The Minister said that he realized that this was probably true but that the statement I referred to was merely a general reiteration of the traditional Argentine policy. I said that as he probably knew, 50 percent of the capital of the company under discussion—Transradio—was American and British and that he must surely agree that to ask this company to continue to send messages, undoubtedly containing information leading to the sinking of our ships, ran counter to every instinct of decency and humanity. I told him, as I had already told Dr. Gache, that I felt sure American shareholders receiving dividends from the Argentine company under such circumstances would feel that they were accepting "blood money". Furthermore, I had understood him to say some weeks ago, in discussing the Government's amended decree permitting 100 words per diem in code to the Axis countries, that if proof were forthcoming that these Embassies were abusing this privilege steps would be taken to prohibit all messages in code. Surely, since that conversation, such evidence had been forthcoming; in fact, the Foreign Office's own communiqué published in the press

on January 12 last, setting forth the facts connected with Captain Niebuhr's<sup>33</sup> recall, clearly admitted the latter's complicity as an official member of the German Embassy. The Minister interrupted me to say that he felt I was mistaken: that they had merely admitted the impropriety of Niebuhr's action in identifying himself with certain espionage activities but that this did not necessarily include complicity in sending messages in code which had to do with the sinking of United Nation shipping. Proof of this, or that information sent by Axis agents had resulted in sinking of United Nations ships was, he insisted, still lacking, as stated in the last paragraph of his memorandum.

I asked the Minister whether he did not feel that the many intercepted messages which we had officially brought to his Government's attention in our memoranda together with copies of telegrams regarding allied shipping which they had themselves found in the raids on Axis offices that followed, did not constitute such proof. He still attempted to maintain his point that direct connection between telegrams sent and the sinking of allied ships had not been established and told me that if we could furnish such proof they would be glad to have it. He asked particularly that our Government furnish them, if possible, with deciphered copies of code messages sent by the German Embassy since the 100 word regulations went into effect. If these were to show that the German Embassy was continuing to send messages reporting movements of ships, etc., his Government would, of course, then be in a position to act.

In the meantime, he said, the Government would issue the strictest instructions to the interventors now stationed in the radio offices that they should satisfy themselves as to the innocuous nature of the contents of code messages emanating from the Axis Embassies. To my question as to how this could be accomplished, he made the incredible reply that the officers in question could insist that the Embassies inform them what was in the messages, or give them a reading of them.

The Minister then went on to stress again the point that use of the code was a right inherent in diplomatic representation and that his Government could not deprive Axis missions of all use of the code without virtually isolating them. I replied that even admitting, for the sake of argument, the right of the Axis representatives to invoke such privileges after the abuse they had already made of this country's hospitality, this privilege was not a recently acquired one: it existed, if at all, at the time he had signed on behalf of his Government at Rio Resolution 40<sup>34</sup> unanimously adopted by the 21 republics. It

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<sup>33</sup> Capt. Dietrich Niebuhr, Naval Attaché in the German Embassy in Argentina.

<sup>34</sup> For text of this Resolution, see Department of State *Bulletin*, February 7, 1942, p. 140.

seemed to me that the time to have raised this point was before agreeing to the Resolution—not now, a year later. I then read him the text of the Resolution, which I had with me. The Minister, obviously on the defensive, replied that the Resolution was merely a “recommendation”. Furthermore, that so many resolutions had been presented at Rio—five or six a day—that there had been no time properly to study them and it would be unreasonable to take them too seriously or, at any rate, insist upon a too literal interpretation of them.

This astounding statement, surpassing even anything I had already come to expect from Dr. Ruiz Guiñazú, was too much. I told him that it was evident that no useful purpose could be accomplished by continuing the conversation, and departed.

I was informed later, by one of the American correspondents who attended the press conference of the Minister, called for the purpose of discussing Chile’s break in relations with the Axis, that to a question by one of the correspondents as to the reason for my interview with him, the Minister stated with evident annoyance: “The same old question—telecommunications”, adding hastily, “But that is not for publication”. I understand that the correspondent of the *New York Herald Tribune*, my informant, considered this caution as applying only to local publication and incorporated it in a despatch to his paper.

As mentioned in the Embassy’s telegram no. 141 of January 19, 9 p. m., the Argentine Government’s reply to the British *Aide-Mémoire* of January 15 was similar to that received by us. Mr. Hadow also took issue with the Argentine reply, but as arrangements were not made for him to see the Foreign Minister, he presented his points in a personal letter to the Minister, a translation of which is forwarded herewith.<sup>37</sup>

Respectfully yours,

NORMAN ARMOUR

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800.76 Monitoring/576

*The Chargé in Argentina (Reed) to the Secretary of State*

No. 9269

BUENOS AIRES, March 6, 1943.

[Received March 13.]

SIR: I have the honor to refer to my telegram no. 503 of March 4, 5 p. m.,<sup>38</sup> in which it was stated that the Argentine authorities could

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<sup>37</sup> Letter not printed.

<sup>38</sup> Not printed.

not permit the "intervention" of our Military Attaché in connection with the clandestine radio program. Further inquiry on this point elicited an informal undated memorandum (received on March 5) from an official of the Foreign Office, a copy and translation of which are forwarded herewith.<sup>39</sup>

From this it is indicated that not only will the Military Attaché be excluded from active participation but that it might be awkward to deliver the equipment<sup>40</sup> to the Argentine authorities on a loan basis only. This latter subject was discussed in detail in the Embassy's strictly confidential despatch no. 9124 of February 27.<sup>39</sup>

As soon as a definite reply is received concerning the disposition of the equipment now in possession of the Military Attaché, an informal discussion will be had with officials of the Posts & Telegraphs Department to work out a system of collaboration. However, as stated in the last paragraph of the Embassy's strictly confidential despatch no. 9237 of March 4,<sup>39</sup> it is rumored that changes may be effected in the administration of the radio-communication section of the Posts & Telegraphs Department, and this might delay a satisfactory solution of the matter.

Respectfully yours,

EDWARD L. REED

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835.741/13 : Telegram

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

WASHINGTON, March 18, 1943—6 p. m.

391. Department's no. 1859 of November 30 [*December 1*], 9 p. m.,<sup>41</sup> and your no. 2437, December 2, 8 p. m.<sup>39</sup> In view of developments since your telegram under reference, Department is of the opinion that, unless you have already done so or still perceive objection thereto, you should now press upon the Argentine Government the adoption of the procedure followed by us during the period of our neutrality in the last war in transmitting code or cipher radio messages to and from the diplomatic missions of the Central Powers.<sup>42</sup>

HULL

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<sup>39</sup> Not printed.

<sup>40</sup> Portable direction finders for detection of clandestine radio stations.

<sup>41</sup> *Foreign Relations*, 1942, vol. v, p. 177.

<sup>42</sup> The procedure to which reference is here made required that U. S. Naval officials assure themselves of the neutral character of the messages, that they be given possession of a key to the code or cipher used, and that messages be paraphrased and countersigned by a censor before being transmitted.

835.741/29 : Telegram

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

BUENOS AIRES, March 19, 1943—8 p. m.

[Received 8:55 p. m.]

605. Department's 391, March 18, 6 p. m. A memorandum describing procedure followed by United States during period of our neutrality in last war was delivered to Under Secretary for Foreign Affairs on December 4. Matter was also discussed with Foreign Office official familiar with question (see section 2 Embassy's 2453, December 4, 11 a. m.<sup>43</sup>). Since that time I have discussed this point with Foreign Office and will raise it again at first opportunity.

I fear, however, that efforts along this line will not be fruitful and that as suggested in last paragraph of Embassy's 2588, of December 18, 10 [2] p. m.,<sup>44</sup> most effective step would I feel be to present evidence that Axis diplomatic missions have since December 13, date on which 100-word restriction became effective, sent messages in code transmitting subversive information.

ARMOUR

835.741/29

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

No. 4088

WASHINGTON, April 1, 1943.

SIR: With reference to your telegrams numbers 141 of January 19, 153 of January 20,<sup>45</sup> and 605 of March 19, 1943, inquiry has been made of the appropriate agencies of the Government as to whether specific and concrete evidence could be furnished showing that since December 3, 1942, the Axis diplomatic missions in Buenos Aires have transmitted code messages resulting in injury to or loss of United Nations shipping, but the Department regrets to inform you that this inquiry has now established that evidence of this nature can not be produced.

There is sufficient circumstantial evidence to warrant the Department's belief that Axis code messages sent from Buenos Aires since that date have either endangered United Nations shipping or actually resulted in injury or loss thereto, and in any future conversations with Argentine authorities on this subject you will be amply justified in basing yourself on this assumption; unfortunately, however, categorical evidence of the nature with which it would be gratifying to

<sup>43</sup> According to this telegram international radiograms in code were suspended by decree except for 100 code words per day. For text, see *Foreign Relations*, 1942, vol. v, p. 178.

<sup>44</sup> *Ibid.*, p. 181.

<sup>45</sup> Neither printed.

confront the official with whom you had the conversation reported in your 153 above referred to is not available.

Very truly yours,

For the Secretary of State:  
A. A. BERLE, JR.

862.20210/2364 : Telegram

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

BUENOS AIRES, May 15, 1943—noon.

[Received 2:26 p. m.]

1040. Department's 1920 of December 10, 5 p. m.<sup>46</sup> Minister Interior informs me the prosecuting attorney desires that he be furnished most urgently with the names of ships sunk sailing to and from Argentina in addition to the five mentioned in telegram under reference in order to strengthen his case against the German spies whose trial is expected to take place very shortly.

I should be most grateful therefore, if I might be furnished with following information and authorized in my discretion to convey to the prosecuting attorney as much of it as I deem necessary: Names, tonnage, date of sinking of ships since we began to intercept clandestine messages. Please state whether or not ship was outbound from Argentina and if possible number of lives lost in each case. Of particular value would be such data on ships sunk since the Rio Conference.

In the meantime, I shall do my best persuade Minister of Interior to let me examine the telegrams which the police seized from Martin Schneider and which they propose to use in prosecuting this case.

ARMOUR

862.20210/2364 : Telegram

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

WASHINGTON, May 21, 1943—8 p. m.

752. From Berle. Your 1040, May 15, noon. Information requested being assembled. Department's #730, May 18, 6 p.m.<sup>46</sup> Mr. Sterling of the FCC<sup>47</sup> advises that approximately seven clandestine radio stations are thought to be operating in Argentina at the present time and that although Mr. Means is a qualified technician, his training has not been specialized along the lines you need. The FCC is prepared to assign two specialized experts trained in detection and

<sup>46</sup> Not printed.

<sup>47</sup> Federal Communications Commission.

location work to Argentina. Please notify department whether FCC offer is acceptable.

Mr. DeBardeleben, who was in Chile on a similar assignment, will be considered as one of the two FCC men for Argentine assignment. However, if you think that he should not receive the assignment because of the possibility that he is known to Axis agents and that his presence may detract from his usefulness, please notify Department accordingly.

It might seem opportune at your discretion to discuss this matter with the Minister of the Interior if you decide to furnish him the information requested in your telegram No. 1040. [Berle.]

HULL

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835.741/34 : Telegram

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

BUENOS AIRES, June 10, 1943—7 p. m.

[Received June 10—6:20 p. m.]

1284. I am reliably informed that President Ramírez has just signed a decree suspending the use of code language in all international radiotelephonic and radiotelegraphic communications.

ARMOUR

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835.741/36 : Telegram

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

BUENOS AIRES, June 11, 1943.

[Received June 11—9:03 p. m.]

1309. English translation decree approved June 10 follows:

In view of the adherence of the Argentine Government to Resolution XL of the third consultative meeting of the American Republics and considering the conveniences of continental security, the President of the Provisional Government of the Argentine nation decrees:

Article 1. Code language either prearranged or in cipher in international radio telephonic and radio telegraphic communications is hereby suspended.

Article 2. This decree shall be countersigned by the Ministers of Foreign Affairs and Worship and of the Interior.

Article 3. Let it be communicated, et cetera.

ARMOUR

835.741/46

*Memorandum by Mr. Louis J. Halle, Jr., of the Division of the American Republics to the Chief of That Division (Bonsal)*

[WASHINGTON,] June 11, 1943.

ARGENTINE DECREE SUSPENDING USE OF CODE ON INTERNATIONAL  
RADIO CIRCUITS

MR. BONSALE: The only telecommunication circuits from Buenos Aires to Europe or Asia that do not pass through any United Nations control-point are the radio circuits. The Axis Embassies, as a result of the present decree, can not send code messages over these circuits. In theory, they are free to send code messages to Europe by way of the cable circuits, but these all pass through British or American control-points.

Resolution XL of Rio called for complete severance of telecommunications with Axis territory. Argentina has not complied, since it will continue to maintain telecommunications with Axis territory for plain-language and (presumably) commercial-code messages. However, what Argentina has done should be even more effective than compliance with Resolution XL, since it will affect the communications of neutral missions, such as the Spanish, in Buenos Aires. If the Spanish wish to send messages to Europe in confidential code, they must do so by cable, through United Nations control-points rather than directly as heretofore. This means that the British, or ourselves, can at the very least hold up the Spanish messages for twenty-four or forty-eight hours, and can probably prevent completely any misuse of this channel. In any case, the decree can hardly be welcome to the Spanish Government, which has such close bonds of friendship and culture with Argentina particularly! The Axis Embassies have left to them only the following possibilities for rapid communication with their home bases:

- (1) Clandestine radio.
- (2) Non-confidential messages that may, of course, contain hidden meanings.
- (3) Confidential code messages (possibly) through the Spanish Embassy and by way of cables under United Nations control. It seems doubtful that they would be able to use this channel.



835.741/37 : Telegram

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

BUENOS AIRES, June 12, 1943—6 p. m.

[Received June 12—5 :20 p. m.]

1318. My 1309, 11th. I am informed that the decree prohibiting use of code in international radio communications is now being enforced and is applied to both incoming and outgoing traffic.

ARMOUR

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835.741/41 : Telegram

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

BUENOS AIRES, June 16, 1943—7 p. m.

[Received 8:33 p. m.]

1350. In conversation with Foreign Minister this afternoon when I called to present members of Embassy staff he told me in confidence that the German, Japanese and Italian Embassies had made clear their views on radio telecommunications decree. The Japanese representations had included a veiled threat, the Germans had been reasonable, and the Italians suppliant. The basis of the representations had been the argument that without the privilege of communicating with their Governments in code their Missions here would largely become useless. His reply in all instances had been entirely categorical: That Argentina had certain obligations vis-à-vis the other American Republics and that it intended to carry out those obligations and commitments and that the decree would not be modified. As he realized this reply might very possibly lead to a break in relations with one or more of the powers he had informed the President of the position he had taken, asking his approval and if he approved, suggesting he advise the Ministers of War and Marine, particularly the latter as the future course of events might necessitate their being held in readiness. The President had this morning notified him that he entirely approved of the position he had taken. I took the occasion to communicate to the Minister the contents of Department's telegram 873, June 15,<sup>49</sup> with which he seemed much pleased.

He referred to the question of *Graf Spee*<sup>50</sup> sailors which British Ambassador had raised with him and said that immediate steps were being taken to prevent further escapes although unfortunately it was too late to make up for the laxness shown by the previous Government.

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<sup>49</sup> Not printed; this telegram indicated the satisfaction with which the Department learned of the decree limiting telecommunications (835.741/43a).

<sup>50</sup> For correspondence concerning the last days of this German battleship, see *Foreign Relations*, 1939, vol. v, pp. 91-108.

German speaking military and naval officers had been designated to keep close watch over movements of *Graf Spee* officers and men still in the country.

Referring to internal situation he said there had been grave corruption under the previous Government among Government officials and in the courts and that his Government proposed to clean this up after which elections would be called and the Government returned to constitutional channels. "After all," he said "I am a Republican and believe in the Republican form of government".

While he did not raise petroleum question<sup>51</sup> specifically there were other matters, he said, which he wished to discuss with me shortly at some length and I judge this is one of them. For this reason I hope Department can advise me as soon as possible of decision reached on my telegram 1300, June 11, 5 p. m., and 1344, June 16, 4 p. m.<sup>52</sup>

ARMOUR

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835.741/42 : Telegram

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

BUENOS AIRES, June 18, 1943—9 p. m.

[Received 9:23 p. m.]

1376. Reference my telegram 1350, June 16, 7 p. m., and Bower's telegram to Department 1093, June 17, 1 p. m.<sup>53</sup> Gache informs me protests of Axis representatives against radio communications decree were oral. Following Minister's categorical refusal to modify decree they requested separately to be received by Ramírez and were informed that if visit was for purpose of discussing radio decree this was useless as decision had full approval of President but if they wished to see him for courtesy visit only their requests would probably be granted. German and Japanese Governments had indicated they would forbid use of codes to and from Argentine Missions in Berlin and Tokyo. Italians very conciliatory and willing to permit Argentine Mission in Rome to continue use of code but Argentine Government on reciprocal grounds [is reported] as instructing its representative to discontinue use of codes.

Gache does not anticipate any further immediate action by Axis Governments and would clearly prefer that break when it comes should be on initiative of this Government.

Repeated to Santiago.

ARMOUR

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<sup>51</sup> See pp. 379 ff.

<sup>52</sup> *Ante*, pp. 377 and 390, respectively.

<sup>53</sup> Latter not printed; Claude G. Bowers was Ambassador in Chile.

810.74/990a : Telegram

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

WASHINGTON, June 29, 1943—3 p. m.

955. Now that Argentina has forbidden transmission of diplomatic coded messages over international radio circuits, it is possible that Axis missions are using other channels, either legal or clandestine, to communicate with their respective governments by code. One such possibility might be via neutral diplomatic missions in Rio and radio station "Radiobras", which, it is understood, still permits transmission of coded messages to neutral countries.

Will you please investigate this matter, possibly talking it over with Hayes<sup>54</sup> and your British colleague, and report to Department any information you can obtain in this matter together with your recommendations. Included in such report, will you please let us have as detailed information as possible concerning traffic to and from neutral missions during the 2 or 3 weeks before June 16, and since June 16, in order that we may determine whether there has been any suspicious increase in such neutral traffic which would indicate that Axis missions are using such channels for the transmission of their own messages.

HULL

810.74/990 : Telegram

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

BUENOS AIRES, July 3, 1943—4 p. m.

[Received 4:18 p. m.]

1481. Your 955, June 29, 3 p. m. Both Hayes and the British feel that only solution is to have Radiobras refuse to transmit coded messages to neutral countries.

Hayes informs that the Japanese are sending messages in code to Lisbon via British Western.

As Italcable is still functioning between Buenos Aires and Brazil, it will be very difficult to check on traffic. All America Cables and British Western have been asked to furnish information requested.

ARMOUR

810.74/990 : Telegram

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

WASHINGTON, July 10, 1943—8 p. m.

1010. Your 1481, July 3, 1943. The British Government is about to place an embargo on all cipher telegrams filed by Axis missions with

<sup>54</sup> George W. Hayes, Manager, Transradio Internacional.

telegraph companies under British control for transmission by cable. The British have asked us whether we will take similar action with regard to United States companies.

Before taking similar action with regard to the I. T. & T. cable from Buenos Aires to Rio de Janeiro, the Department wishes your views with regard to possible reactions in Argentina.

The Department is instructing the Embassy in Rio to ascertain whether the Brazilian authorities will be willing to forbid the transmission of all messages in code over its international radio circuits.

HULL

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835.741/46a : Telegram

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

WASHINGTON, July 12, 1943—9 p. m.

1023. The Department wishes information on controls exercised by Argentine Government or telecommunication companies to enforce anti-code provisions of June 10 decree.

What prevents a German agent from filing messages with Transradio for Berlin in ostensible commercial code which actually disguises secret code? Are there regulations specifying what commercial codes may be used, requiring plain-language translations of commercial code messages to be presented at time of filing, limiting languages that may be used, et cetera? Who enforces such regulations? How are international radiotelephone conversations controlled? How are news-service transmissions scrutinized and controlled?

Please report completely on the actual situation.

HULL

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810.74/995 : Telegram

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

BUENOS AIRES, July 13, 1943—2 p. m.

[Received 3:32 p. m.]

1542. Department's 1010, July 10, 8 p. m. As far as Axis Mission communications are concerned I strongly recommend that at this end we leave well enough alone at least for the next few weeks. Could not the situation be met temporarily by having the Brazilian Government order the companies there to withhold delivery and refuse transmission of all code messages sent by Axis Missions here?

ARMOUR

835.741/47 : Telegram

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

BUENOS AIRES, July 15, 1943—5 p. m.

[Received 5:35 p. m.]

1566. Department's 1023, July 12, 9 p. m. In accordance with provisions of June 10 decree no code messages, commercial or otherwise, are being transmitted or received by radio. Commercial code messages may be sent by cable so long as plain language translations are filed with telecommunications companies; Government code messages are of course not subject to this provision. Spanish translations must be filed with plain language messages, whether cable or radio. A total of five commercial codes may be utilized in cable messages; six languages may be used in either radio or cable messages. Responsibility for enforcement of regulations rests largely with communications companies; in addition, however, there is effective Government control and censorship. International radio telephone conversations are monitored, officially and unofficially, by Government officials. News service transmissions are scrutinized both by employees of communications companies and by Government censors.

A more complete report on situation is being forwarded by airmail.

ARMOUR

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810.74/995 : Airgram

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

WASHINGTON, July 30, 1943—7:30 p. m.

A-1262. The following memorandum outlining the steps which the British Government is taking to stop Axis messages to and from Argentina has been received by the Department from the British Embassy here:

“Arrangements being made to stop all telegrams in cypher or code including commercial code to or from Argentine which transit London and which fall into any of the following categories First; messages from the enemy Missions or Consulates in the Argentine to any non-American destination Second; messages from the Argentine irrespective of sender if address can be identified as denoting any enemy Government office Mission or Consulate in any non-American country Third; messages to enemy Missions or Consulates in the Argentine from any non-American country Fourth; messages which can be identified as emanating from any enemy Government Office Mission or Consulate in any non-American country to any address in the Argentine.”

This Government will likewise stop upon receipt in this country any cable messages to or from the Argentine sent over American con-

trolled lines which can be identified as falling within the categories above set forth in the British note.

The foregoing is for your information only and as you will perceive is consonant with the point of view set forth in your 1542, July 13, 2 p. m.

HULL

835.504/135 : Telegram

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

BUENOS AIRES, November 3, 1943—7 p. m.

[Received 8:45 p. m.<sup>55</sup>]

2607. A decree dated October 21, printed in the *Military Bulletin* of October 26 but not as yet published in the *Official Bulletin*, provides for the study of measures designed to replace within the shortest possible time all foreign employees of "national, provincial or private" telecommunications systems in Argentina with native Argentines or naturalized citizens of not less than 10 years standing. According to the decree directives, technical and specialized positions must without exception be filled by native Argentines. Although there is no indication in the decree itself that international telecommunications companies are included within its purview it seems probable on the basis of supplementary evidence that an assumption to this effect would be a safe one.

Recognition in the decree of the need for technical training for prospective replacements may indicate that no immediate action on a grand scale is contemplated, but officials of foreign controlled telecommunications companies are expressing considerable concern. Key managerial employees of all such companies are either American or British; in addition Unión Telefónica, which of course is a "national" company, has approximately 1,500 foreigners employed in minor technical capacities.

A copy of the decree follows by airmail.<sup>56</sup>

ARMOUR

835.504/135 : Airgram

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

WASHINGTON, November 12, 1943—11:45 a. m.

A-1697. The Department presumes that the companies affected will take up with the appropriate Argentine authorities the decree of

<sup>55</sup> Text printed from corrected copy received November 5, 3:50 p. m.

<sup>56</sup> Despatch No. 12696, November 6, not printed.

October 21 concerning telecommunications to which you refer in your 2607 of November 3.

In the circumstances it would not seem necessary for you at this time to approach the Argentine authorities on this matter. However, for your own background information and in the event that in the future you should deem it advisable to approach the Argentine authorities on the application of the decree the following is the general attitude which the Department believes you might appropriately take:

The Argentine Government has, of course, the legal right to require that only Argentine citizens shall be employed in Argentine telecommunication systems. On the other hand in the United States there is no similar legal requirement and communication companies in this country may and in fact do employ aliens. The only restriction is that the Federal Communications Commission may only issue radio operator's licenses to American citizens. We have been informally advised by the British Embassy here that there is no requirement in Great Britain that communication companies should not employ aliens.

It is quite obvious that the sudden dismissal of communication technicians of alien nationality from Argentine communication companies would have a very serious effect on the companies concerned and the individuals dismissed. Therefore, while this Government admits the strict legal right of the Argentine Government to replace foreigners with Argentine nationals in existing communication systems it is earnestly hoped that the proposed change will only take place in a very gradual manner so as to cause the least possible economic disturbance to the companies and individuals concerned. It is also hoped that in any event, if found to be necessary, any company affected by the decree will be allowed to employ technical advisers of foreign nationality.

The matter has been discussed informally with the British Embassy here which is telegraphing the British Embassy in Buenos Aires to seek its views in this matter. In view of the similarity in interests of our two countries with regard to the application of the decree of October 26, I believe it would be helpful if you kept in close touch with your British colleague so that the two governments may maintain parallel and similar positions in this case.

Please continue to keep the Department advised by telegraph of all developments and if necessary request further instructions.

HULL

## BOLIVIA

### NON-RECOGNITION BY THE UNITED STATES OF THE REVOLUTIONARY REGIME ESTABLISHED IN BOLIVIA BY THE MOVIMIENTO NACIONALISTA REVOLUCIONARIO

824.00/1278 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 20, 1943—10 a. m.

[Received 1 p. m.]

1977. The Movimiento Nacionalista Revolucionario under Victor Paz Estenssoro seized the Bolivian Government early this morning, December 20. The MNR has occupied the Palace and imprisoned General Peñaranda<sup>1</sup> and most principal generals and high Government officials including General Candia<sup>2</sup> and Zilveti Arce.<sup>3</sup> Major Taborga who has been head of the Traffic Department is one of the principal revolutionary leaders and has already been designated Minister of Government. It appears that most of the army has sided with the revolution. Radio broadcasts have included reading of Peñaranda's resignation as a response to the will of the people and the army. See this Embassy's despatch No. 2400 of October 20, 1943.<sup>4</sup>

BOAL

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824.00/1282 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 20, 1943—10 p. m.

[Received December 21—6:44 p. m.]

1985. My telegrams on the revolutionary movement including 1982.<sup>5</sup> The situation is now as follows:

Doctor José Tamayo, Minister of Foreign Affairs of the Junta has delivered to the Nuncio as Dean of the Diplomatic Corps a note stating the foreign policy of the Junta which is being telegraphed in clear.

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<sup>1</sup> Enrique Peñaranda, President of Bolivia.

<sup>2</sup> Gen. Miguel Candia, onetime Minister of War.

<sup>3</sup> Pedro Zilveti Arce, Minister of Government.

<sup>4</sup> Not printed; the Ambassador indicated evidence that the MNR wished to cooperate with the United States (824.00/1238).

<sup>5</sup> Dated December 20, 1943, not printed.



Previously a meeting of the Chiefs of Mission was held at the Nuncio's house where the matter of deposition of various persons who have taken refuge in a number of Embassies was discussed.

Inasmuch as I now have no such persons at the residence or office I did not enter into the discussion.

The other Chiefs of Mission agreed that the Chilean Ambassador<sup>6</sup> would endeavor to arrange for safe conduct to Arica, for such as wished to leave the country and still appear to be in danger.

He had already made arrangements for President Peñaranda and his brother Elisio to leave by Aeto Carril [*ferrocarril?*] for Arica accompanied by the Chilean Military Attaché and they left this afternoon. The Chilean Ambassador reports that President Peñaranda informed him that he had not signed a resignation (as broadcast and published in the newspapers). When such a document was presented to him for signature he said he stipulated he would sign only if allowed to go to his home at Sorata and live there unmolested. The Junta refused this request. However, they acceded to the Chilean Ambassador's suggestion of deportation to Arica which was ordered by the Junta without the President's consent.

I have talked with the Mexican and Brazilian Ambassadors and with the Colombian Minister and British Chargé d'Affaires who are of the opinion that regardless of assurances of intention which have been or may be given by the revolutionary Junta it is desirable that we all proceed with extreme caution and in close consultation with each other. I doubt if any of them will at present recommend immediate recognition of the Junta as a government. The Mexican Ambassador explained in [the meeting of Chiefs of Mission that] he considers the fact that Mexico is at war makes the wisdom of applying the Estrada Doctrine<sup>7</sup> doubtful and that he expects to await evidence that the Junta is not or does not become sympathetic to Nazi influences before recommending "automatic" continuation of official relations.

The revolution appeared by noon to have been completely successful in La Paz. There seems to have been little bloodshed. Soldiers and carabineros were stationed throughout the city this afternoon and it is hoped that this will prevent a repetition of the looting which took place this morning. Insofar as we can ascertain all military forces in the neighborhood of La Paz have joined the revolution although there are unconfirmed reports of continued resistance at Uyuni. I understand that although they have arrested Generals Rodríguez and Ortiz (the former until lately Military Attaché in Chile) they are being considered by the MNR for high army posts.

<sup>6</sup> Benjamin Cohen Gallerstein.

<sup>7</sup> For an account of this doctrine of recognition, see Supplement to the *American Journal of International Law*, vol. 25 (1931), p. 203.

Four of the American training planes from Santa Cruz were flown back to La Paz this morning by air officers sympathetic to the MNR. Captain Baumgardner of the Air Mission is reported as still being in Santa Cruz.

General Toro<sup>8</sup> sent a message to my house today saying he might appear there this evening. He is at present in hiding. I have seen the Chilean Ambassador and he states he will be glad to receive him in the Chilean Embassy, so if he calls at the residence I will arrange for him to go to the Chilean Embassy.

A feature of this revolution is that it appears to be entirely an MNR-Army affair without participation by the PIR.<sup>9</sup> There is evidence this evening that in some parts of the country where the PIR is dominant they are endeavoring to take over the local administrations rather than let the MNR have them and that a struggle between these two parties may be imminent in La Paz. There has been a resumption of desultory rifle fire on a small scale in some parts of the city which may be attributable to this struggle.

There are some indications that there may be friction between the army and other Junta leaders.

The Panagra plane from Lima which was to have brought the Vice President of Peru stayed in Arica this morning. Another Panagra plane here was detained for some time by the Junta under orders but then was allowed to proceed to Lima. Panagra's license has been suspended by the Junta but Aranibar<sup>10</sup> expects to arrange for resumption of service by tomorrow.

While there are some rumors of a counter-revolution tonight it seems probably [*probable*] to me that the Government has been so thoroughly broken up and army forces have gone over to the revolution so extensively that nothing serious of this character is apt to occur unless it be with the PIR.

I would appreciate having telegraphic instructions as soon as possible regarding future contacts with the Junta. I gather that the Foreign Minister of the Junta will ask me again to come to see him at the Foreign Office and I shall do so in harmony with the practice already being followed by the other Chiefs of Mission for practical reasons. The Nuncio's acknowledgment to Tamayo's note clearly establishes the Junta's unrecognized status.

I will also appreciate any information you can telegraph me regarding the attitude of other Governments particularly those of the United

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<sup>8</sup> Ex-President General David Toro.

<sup>9</sup> Partido de la Izquierda Revolucionaria.

<sup>10</sup> Ernesto Aranibar, Manager in Bolivia of W. R. Grace and Company, of which Panagra (Pan American-Grace Airways) was a subsidiary.

Nations and of Chile, Paraguay, Peru and Argentina, regarding recognition.

As a background [apparent omission] of the members of the Junta as at present constituted is such that I am under the impression that a prerequisite to recognition should be actions in harmony with Bolivia's position as a member of the United Nations. For instance deportation from Bolivia of the outstanding Nazis and Japanese capable of future financing of opposition to the United Nations interests regardless of what promises and agreements might have been made.

The Mexican Ambassador is strongly of the opinion that any unsecured recognition of the Junta might result in its following the same course as that followed by the Argentine Government under similar circumstances.

BOAL

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824.00/1282 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 22, 1943—1 p. m.

1453. The Department does not desire you to call at the Foreign Office as suggested in the fourth section of your 1985, December 20, 1 [10] p. m. Any contact with the officials of the Junta should be in the most informal manner possible and preferably through subordinate members of your staff.

HULL

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824.00/1422d : Circular telegram

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

WASHINGTON, December 22, 1943.

In response to a question at my press conference today as to the attitude of the United States toward the new Bolivian regime, I made the following statement for direct attribution:

"Considerations of the security of the Hemisphere and of the war effort of the United Nations must have first importance in any matter of this or similar character. Included in the relevant considerations is the question whether outside influence unfriendly to the Allied cause played any part. It must never be forgotten that the Hemisphere is at present under sinister and subversive attack by the Axis, assisted by some elements from within the Hemisphere itself."

HULL

824.01/91 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 23, 1943—10 a. m.

[Received 11 :28 a. m.]

2000. The following resolution said by Paz Estenssoro<sup>11</sup> and Victor Andrade<sup>12</sup> to have been passed unanimously by the Junta yesterday was conveyed to me indirectly from Andrade today.

"The new Government of Bolivia has defined its intention to make effective cooperation with the United Nations and especially with the United States in their war effort against the Axis Powers, cooperation arising from the adherence of Bolivia to the United Nations pact<sup>13</sup> and the state of war with the Totalitarian Nations in which it is. The measures to be adopted will be taken without vacillation within the briefest periods and without the useless verbiage which has been characteristic of the deposed government.

The topics which we are considering which interest both countries are the following, and which will be resolved with consideration for the necessities of aid to the United Nations and the needs of the Bolivian people: (1) Contract concerning exclusive exportation of quinine bark and anti-malarial products to the United States, installation of a modern factory for the production of quinine and other anti-malarial products. Agreement concerning cooperation for the establishment of cinchona plantations and training of technicians in the subject. (2) Nationalization of businesses and firms of German and Japanese citizens. Freezing of funds arising from the sale of the nationalized businesses. Agreements for the financing of said program. (3) New contract concerning the sale of tin at a higher price than at present, specifying that a part of the increase in price shall be invested in a plan of social assistance that will improve the living conditions of the mining laborers."

BOAL

824.50/294 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 23, 1943—8 p. m.

[Received December 24—3 :30 a. m.]

2013. For Assistant Secretary Berle. Please telegraph for my own information what the situation is with regard to Bolivian funds and Government monetary reserves in the United States. Are they

<sup>11</sup> Victor Paz Estenssoro, Minister of Finance in the Junta.

<sup>12</sup> Minister of Labor, Hygiene, and Social Welfare in the Junta.

<sup>13</sup> For text of Declaration by United Nations, signed at Washington, January 1, 1942, see *Foreign Relations*, 1942, vol. I, p. 25. With regard to Bolivia's adherence to the Declaration and entry into the war, see *post*, pp. 543 ff.

blocked? Development Corporation has about 3 million dollars in the Banco Central which comes from former Bolivian Government deposit. You may wish to see whether Export-Import Bank desires to instruct its directors in La Paz including Egger<sup>14</sup> against any withdrawals either in Bolivia or in the United States in excess of regular running expenses. While Inslee<sup>15</sup> has some fears regarding this as a precedent for the Bolivian side both Egger and Crespo<sup>16</sup> feel this would be very desirable if done immediately.

In view of Crespo's arrest and later release today "because his co-operation would be needed" Egger and I fear the Junta might seek to put pressure on the directors to use their present powers by threatening the welfare Crespo and his family.

BOAL

824.50/294 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 24, 1943—7 p. m.

1465. From Berle. No action has as yet been taken by the Treasury Department with respect to blocking Bolivian funds in the United States, with reference to your 2013, December 23, 8 p. m.

Because of Christmas, we are unable to get immediate instructions from the Export-Import Bank regarding the local funds of the Bolivian Development Corporation. The Department would suggest that Egger and other local American directors take no action or make any expenditures not in keeping with the regular operations of the Fomento Corporation. In a doubtful case, please cable for instructions. [Berle.]

HULL

824.01/135 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 28, 1943—10 p. m.

1479. Your 2049, December 27, 2 p. m.<sup>17</sup> You are requested to visa only passports issued prior to revolution of December 20th, but such passports should not be visaed if they bear any stamps placed thereon by the Junta. The Department does not wish to impede the departure

<sup>14</sup> Rowland A. Egger, Manager, Bolivian Development Corporation.

<sup>15</sup> Joseph A. Inslee, Representative of the Export-Import Bank.

<sup>16</sup> Alberto Crespo Gutiérrez, President of the Bolivian Development Corporation and former Minister of National Economy.

<sup>17</sup> Not printed; in this telegram the Ambassador asked if the Department wished applications for visas on passports referred to it.

of persons from Bolivia, but at the same time does not wish you to take any steps which might be construed as recognition of the Junta.

HULL

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824.00/1395 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, December 29, 1943—10 p. m.  
[Received December 30—11:08 a. m.]

2094. For Assistant Secretary of State Berle. The following is a summary of the revolutionary situation as it appears today based on details which have already been communicated or are under study: The revolutionary Junta is for the moment firmly entrenched through the support of the army and to a much lesser degree of the traffic police and to probably a moderate degree of civilian support to the extent of which as yet undefined the venality of the old regime which had grown torpid in power and thus allowed itself to be surprised contributes to its unpopularity with the younger army officers and the small lower middle class of civilians in the cities. President Peñaranda's prestige has of course suffered, particularly in the cities, but he is generally chaotic [*sic*] to have been imposed upon by his Ministers and having apprised [*sic*] still considerable liking for him as a person.

The upper middle class a large portion of which has speculative tendencies in business is either hostile or disposed to dicker with that Junta and to continue their opportunities for making money. All mining interests are alarmed but inclined to compromise to protect their holdings from drastic action and gradually attempt to reestablish their influence through financial or other assistance to individuals. They realize that the Junta is going to need money and are mostly preoccupied over increased taxation if such is deemed probable soon.

The revolution appears to have little or no incidence on the agricultural areas of the country which contain the great underprivileged majority of the population, inarticulate, illiterate and apathetic. However, the Junta is believed to have considerable support, largely through conditional and hesitant PIR adherence in the mining areas. For some time before the revolution word seems to have been spread about among the Indians and Cholos that the Government had "sold out Bolivia's metals, rubber and quinine to the United States for nothing". This I learned from Indian and Cholo sources.

It is considered probable although not yet probable [*provable?*] that the MNR received funds from persons such as Bernardo and Augusto Elsner, Rudolfo Borgzve, Ernst Schilling, C. F. Gundlach,

the firm of Zeller Moser, and possibly from Japanese. Carlos Hertzog, manager for Gundlach and brother of the former Minister of Labor who was not arrested, is a fervent MNR member and it is reported he may have collected funds from enemy interests.

It is not believed that such contributions were large—that the cost of the revolution probably did not exceed \$50,000 and that most of the funds were used to provide some form of reward to soldiers and a citizen police.

It is generally believed that some form of support was received from Argentina presumably in the form of assurances of backing to Paz Estenssoro when he was in Buenos Aires and some small shipments of arms to the MNR for civilian use. None of this is provable, merely seems to be the consensus of opinion, from La Paz Junta circles which are of course emphatic in their negation. There is some indication of recent entries of some arms into Bolivia of which the Department has been informed. In connection with Argentine influence you will recall my confidential letter to you of November 6, 1943.<sup>18</sup>

The question may arise why Axis firms would invest even on a small scale in a revolution against a Government which had left them relatively unmolested. The answer to this may be that: First, the general tendency of such firms to invest with both sides in order to protect themselves against action from either; second, their observation of a disposition on the part of our Government to use leverage of the tin contract to obtain more satisfactory action by the Bolivian Government and their belief that such action was imminent particularly on expropriation.

Any move that would delay the issue and enable them to fish in troubled waters may have seemed timely. Previous friendship with MNR leaders and *La Calle* may be a factor.

The Argentine motive, it is believed in addition to making a beginning of forming a bloc of friendly nations, may have been to head off the quinine agreement and create a disturbance in which they could operate. Obviously, whatever undertakings or decrees the Junta or an unconstitutional successor thereof might make prior to or subsequent to recognition would have to be ratified by action of a Congress and President whose election is necessary to return Bolivia to a constitutional basis. The influence of Axis and Argentine elements has always seemed more effective in the Congress than elsewhere within the Government, and Congress might take such action with regard contracts and decrees of the old Government as to reopen all of them for renegotiation, thus providing an opportunity for larger quotas to Argentina, higher prices and less materials to the United States.

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<sup>18</sup> Not found in Department files.

A return to a status considered constitutional in Bolivia prior to elections, might be achieved if the Junta could arrange for the return of Peñaranda or Carrasco<sup>19</sup> or more likely to have Baldivieso,<sup>20</sup> who is in La Paz, assume his constitutional position as Acting President in the absence of the other two from the country. Such a solution is probably barred at the moment by the personal ambitions of Paz Estenssoro and Taborga.

A prolonged period of nonrecognition may drive them to seek arrangements with Baldivieso. Recognition by Argentina alone, or by Argentina and Paraguay, for instance, is not thought to solve their problem as in an unrecognized status, they would fear the possible economic disorganization of blocking funds, including proceeds from tin purchases, or outright stoppage of tin purchases. The moral effect of nonrecognition of the great majority of the American nations would also be very strong. In the event the military reaches the conclusion that the civilians are not successful in handling the recognition problem, the military element might decide to oust the civilians. Civilians and Taborga are obviously concerned about this and will take precautions against surprise. If ousted, and they were able to do so, they might make some effort to create public disturbances possibly including violence against diplomatic missions, to discredit the military. They might also seek to bring forth a general, such as Rodríguez, to try to split the army influence at such a time. (See also my 2069, December 28, 6 p.m. on Rodríguez.)<sup>21</sup> Prolonged nonrecognition is apt to cause considerable bitterness unless *modus vivendi* is established for current operations pending finding some means of returning to a constitutional status and, or, recognition.

It is realized in many quarters that the issue is far broader than the matter of securing strategic materials from Bolivia. Apprehensions of neighboring countries with regard to establishment of a precedent are believed to exist. It is also realized that the Peñaranda government with all its faults was, nevertheless, one of the few elected governments (however relative that term may be) of Bolivia and for that matter of South America, and that any encouragement of abandonment of democratic procedures of obtaining office is a matter to be weighed seriously.

Assurances of cooperation by the Junta should be viewed in the light of previous records of its members which are not remarkable for any consistency in support of either the United Nations or the United States. It is generally believed that the Junta or a successor thereof or a Congress elected under its auspices may change its inter-

<sup>19</sup> Manuel Carrasco, President of the Bolivian Senate.

<sup>20</sup> Enrique Baldivieso, President of the Bolivian Chamber of Deputies prior to the emergence of the Junta.

<sup>21</sup> Not printed; this telegram referred to General Bilbao Rioja rather than to General Rodríguez (824.00/1377).



national attitude just as rapidly in the future as in the past if not held by some firm factor. The pivotal factor seems to be the Government revenue derived from sales of minerals which amount to from 54% to 60% of the Government's income. It is also generally believed that the United States would find it much more difficult to cease purchases, block funds or take other similarly drastic measures after recognition than before. It is also believed here that the United States will not act alone in this matter and therefore the opinions of the other South American nations excluding Argentina will be very material in connection with recognition (reference circular of December 28 [30], 8 p. m.<sup>22</sup>) [The present Government?] if recognized and established in power may at least until elections be considerably less venal than the old Government but there is no assurance that this would last and it is generally believed that with regard to some of its members and adherents it would not. A number of prominent adherents to the Junta such as Armando Arce, Céspedes<sup>23</sup> and Jorge Lavadenz,<sup>24</sup> can hardly be expected suddenly to reform. Mr. Pacheco<sup>25</sup> is very friendly with the Junta group and his son and brother are members of it.

Another unsuccessful effort was made last night by the Junta to arrange for a contact with me. I gather that while the MNR and the Army both have suspicions of the PIR they will come to an arrangement with the PIR in the belief that it may have more influence in the United States than they have to give evidence of broader popular support of the Junta. Presumably this would cause some changes in the composition of the Junta.

It is not anticipated that a counter-revolution by the old Government can be successful at present. However, if prices go on rising and economic benefits are not rapidly visible to the populations in the cities, at the mines and possibly in the rubber areas, it is to be expected that a counter-movement by whoever starts it first might succeed. Pinto<sup>26</sup> is evidently prepared to shift into such a movement at the proper time but if Peñaranda generals were leading it Taborga would probably be a centre of resistance, fearing retribution for his outright and notorious betrayal of the President's personal confidence and because he is generally disliked. His nickname is "Little Hitler". At the moment, Taborga is openly anti-MNR and pro-army, evidently considered army may soon force out MNR.

Conditions throughout the country appear to be fairly normal but there is great anxiety and pessimism in business circles. While such

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<sup>22</sup> Not printed.

<sup>23</sup> Augusto Céspedes, Secretary of the Junta.

<sup>24</sup> The Junta's representative in Santa Cruz.

<sup>25</sup> Presumably Abel Pacheco whose brother, Major Alfredo Pacheco, was chief of the Air Force under the Junta.

<sup>26</sup> Maj. José Celestino Pinto, Minister of Defense in the Junta.

anxiety may be justified from the point of view traditional to business in Bolivia, it is obvious that much more fair and progressive measures in administration could be carried out in Bolivia without their meriting the term "radical".

According to the *New York Herald Tribune* correspondent who has just talked with him Paz Estenssoro describes himself as an "un-orthodox Marxist"; that he emphatically denied a sort of communism "of the Stalinist variety" and believes in eventual nationalization of the public utilities and mines but admits technical personnel for such a program is not now available.

The matter of recognition is generally considered of paramount importance at the moment for the reasons given.

I have just received word from our Embassy at Buenos Aires that Argentina will probably recognize tomorrow. Tamayo told reporter recently that he expected "several recognitions this week including Argentina and perhaps Peru and Chile". General feeling here is that having Argentina recognize first may embarrass the Junta by strengthening assumption of Argentine inspiration and that if other American Nations generally withhold they will in the last analysis be in a better position to secure their requisites from the Junta or a successor than Argentina. Of course, the Junta will welcome recognition from any country now in their present rather panicky state of mind on the subject.<sup>27</sup>

Boal

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**ENTRANCE OF BOLIVIA INTO THE WAR; AND ASSISTANCE BY THE UNITED STATES TO BOLIVIA IN DEFENSE MEASURES <sup>28</sup>**

740.0011 European War 1939/28836

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

[WASHINGTON,] March 29, 1943.

The Bolivian Ambassador <sup>29</sup> called to see me today at his request.

The Ambassador said he had a personal and confidential message for me from his Foreign Minister <sup>30</sup> asking for "guidance" in the following matter. The Bolivian Government felt that, as the months passed, there would be an increasing effort on the part of the European powers to draw a sharp distinction between the American Re-

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<sup>27</sup> The Department continued to withhold recognition, and in a circular message to a number of its European Missions dated January 22, 1944, indicated that the Bolivian Government had been overthrown by force and treachery under circumstances that appeared to link the action with subversive groups based in Argentina (824.00/1722a).

<sup>28</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 515-536.

<sup>29</sup> Luis Fernando Guachalla.

<sup>30</sup> Tomás Manuel Elio.

publics which had declared war upon the Axis and those American Republics which had severed relations with the Axis and were co-operating with the United Nations in every other way but which had not actually declared war. Furthermore, he said, the Bolivian Government had confidential information which led it to believe that the Government of Chile, in order to improve its general position within the Hemisphere, was intending to declare war upon the Axis within the relatively near future. Dr. Elio, the Bolivian Foreign Minister, was anxious to know what we thought Bolivia should do.

I replied to the Ambassador saying that of course, as the Bolivian Foreign Minister already knew, President Roosevelt had created a precedent by inviting to the first meeting of the United Nations, to be held here in Washington the end of next month,<sup>31</sup> representatives of the "Associated American Republics" as well as representatives of the American Republics which had declared war. I said I believed that that precedent would in all probability assure the representation of the "Associated American Republics" at all meetings of the United Nations of the same character which were not strictly limited to naval or military matters. On the other hand, I said, I felt it was probably true that, as the end of the war came nearer, many powers in Europe which had been in the struggle from the beginning would probably feel that nations which had not actually participated in the armed struggle should not be treated on a basis of equality with nations which had actually participated in the war.

With regard to the attitude of Chile, I said, I had no specific information, but I had gained the impression that the Chilean Government was considering in fact going beyond the limits of its present policy and taking a more active role in the war effort.

The Ambassador said that if Chile were to declare war Bolivia would have to declare war, and undoubtedly Peru as well. I said that, as the Ambassador knew, this Government had never suggested to any other American Government that it declare war upon the Axis, but that, in view of the question which his Government had asked me and in view of the great importance of the question, I wondered if the Bolivian Government would not think it desirable to consult the other "Associated American Governments" and ascertain whether they thought the time had come when they should take a more decisive part in the war, so that if one of the powers mentioned were actually to declare war, the others would not be placed in the position merely of having to follow the lead of another power. I said I felt that the consultative procedure had proved immensely helpful in inter-Amer-

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<sup>31</sup> The invitation to the United Nations Conference on Food and Agriculture, originally scheduled to meet on April 27, 1943 "at some suitable place in the United States". The opening date was postponed to May 18, and Hot Springs, Virginia, was designated as the place.

ican relationships and perhaps this would be a good opportunity, in this informal and secret way, for this procedure to be adopted among the six American Republics which had cooperated in every other way with the United Nations. The Ambassador said he felt this was much the best solution and that he would communicate secretly with his Foreign Minister along these lines.

S[UMNER] W[ELLES]

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740.0011 European War 1939/28835 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 5, 1943—5 p. m.

[Received April 5—3 p. m.]

639. The Bolivian Council of National Defense has now recommended to President Peñaranda that he decree general mobilization and declare that a state of war exists between Bolivia and the Axis Powers. The declaration of war would be provisional and would depend upon eventual approval by Bolivian Congress which would be called into a special session for that purpose probably after the return of President Peñaranda from the United States.

I expect that President Peñaranda will act upon this recommendation of the Council of National Defense while Vice President Wallace is in Bolivia.<sup>32</sup>

BOAL

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740.0011 European War 1939/28923 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 9, 1943—2 p. m.

[Received April 10—12:29 a. m.]

675. In view of the issuance of a decree placing Bolivia in a state of war with the Axis I took special occasion to offer the Minister for Foreign Affairs the full cooperation of our Government commenting incidentally that the first obligations of our Government were of course to the fighting fronts.

In detail I offered him cooperation in the apprehension and transportation of dangerous enemy aliens mentioning that Mr. Ickes,<sup>33</sup> an expert in this field who was recently in La Paz, had in cooperation with officers of the Embassy compiled a list of over 150 enemy aliens believed to be dangerous; I likewise mentioned that our Government is prepared to pay the transportation costs from La Paz for any or all of these dangerous aliens or others that may be decided to be danger-

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<sup>32</sup> For correspondence concerning the Vice President's trip, see pp. 55 ff.

<sup>33</sup> Raymond Ickes, Department of Justice agent.

ous. Full cooperation was likewise offered to the Foreign Minister in the preparation of a possible Bolivian Proclaimed List and the organization of censorship of communications. With respect to censorship Mr. Campbell, the postal censor who is now working in La Paz, is presenting a plan of organization to the appropriate Bolivian authorities in response to their request that he organize a system of censorship and select the personnel for operating it.

The Minister for Foreign Affairs expressed his appreciation of these offers of cooperation and indicated that his Government might wish to take advantage of our assistance in these respects since it was of course the intention of the Bolivian Government to cooperate even more with our Government now that Bolivia is in a state of war.

I received the distinct impression from the Minister for Foreign Affairs that he would appreciate it if our Government would send some message to the Bolivian Government in recognition of its action in decreeing that a state of war exists with the Axis. If the Department agrees it may wish to send a telegram along these lines.

BOAL

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740.0011 European War 1939/28924 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 9, 1943—4 p. m.

[Received April 10—12:37 a. m.]

677. Reference Department's 522, April 8, 5 p. m.<sup>34</sup> I took occasion this morning, talking to the Bolivian Minister of Foreign Affairs about related matters, to give him a photostat copy of the United Nations Declaration<sup>35</sup> together with the explanatory information included in the first two paragraphs of instruction 530 of March 25, 1942,<sup>34</sup> commenting to him that this information might be of use to him in the event the Bolivian Government should [desire?] to sign the Declaration.

The Minister for Foreign Affairs said that this was a matter of great interest to him and that he wished to proceed immediately with the signature of the United Nations Declaration. He says that with this information he would proceed immediately to arrange an appropriate ceremony during the week of April 11 for this purpose.

BOAL

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<sup>34</sup> Not printed.

<sup>35</sup> Signed at Washington, January 1, 1942, *Foreign Relations*, 1942, vol. I, p. 25.

740.0011 European War 1939/28920 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 10, 1943—11 a. m.

[Received 5:40 p. m.]

691. A brief Associated Press despatch under dateline Washington April 9 appeared in the La Paz newspaper *El Diario* April 10 stating that the Secretary of State Cordell Hull in a press conference had excused himself from making any comment on the entry of Bolivia into a state of war with the explanation that this action requires Bolivian congressional approval.

While this action does formally require Bolivian congressional approval it appears to be the general feeling throughout the Bolivian administration that the presidential power to order mobilization provides as much authority for Bolivian administration as it would in any event wish to exercise even after a possible formal declaration of war by the Bolivian Congress. Although there has been some incidental newspaper and other comment indicating doubt concerning the constitutionality of the action of the Bolivian administration I believe it is the general expectation that the measure will not be seriously questioned and that there will be a *pro forma* indorsement by the Bolivian Congress possibly several months from now.

BOAL

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740.0011 European War 1939/29003 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, April 16, 1943—midnight.

566. Referring to your 727, April 14, 3 p. m.,<sup>36</sup> and other recent telegrams on possible adherence of Bolivia to United Nations Declaration, you were instructed on March 25, 1942<sup>37</sup> that a nation "at war" against the common enemies and "rendering material assistance and contributions" is eligible for adherence.

It is not clear whether Bolivia is "at war", as it is stated in Bolivian memorandum contained in your 727 that the decree of April 7 constituted merely a "step toward" active belligerency. Bolivian Government will understand our responsibility in this matter, as depository for the Declaration, and mutual desirability for clarifying the point before application for adherence is made. Please ask for definite

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<sup>36</sup> Not printed.

<sup>37</sup> Instruction No. 530, not printed.

statement on question whether Bolivian Government considers Bolivia at war against Axis.<sup>38</sup>

For form of adherence see Iraqi note in radio bulletin of January 22, 1943. For Bolivian adherence, a similar note would be sent to us and the President of Bolivia could affix his signature while in Washington.

HULL

740.0011 European War 1939/29104 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 21, 1943—1 p. m.

[Received 3:20 p.m.]

769. Department's 578, April 20, 3 p.m.,<sup>39</sup> and 566, April 16, midnight. Exchange of notes based on Department's telegrams under reference but specifying "Nations of the Axis" instead of Germany, Italy and Japan is being prepared for signature tomorrow April 22 at noon.

After exchange of notes the Foreign Minister plans to issue a press statement to the effect that Bolivia has signified its adherence to the United Nations Declaration by a note; that this adherence has been acknowledged by means of a note; and that President Peñaranda will sign the Declaration while in Washington.<sup>40</sup>

BOAL

740.0011 European War 1939/29245 : Telegram

*The Secretary of State to the Bolivian Minister for Foreign Affairs (Elio)*

WASHINGTON, April 30, 1943.

I have received your telegram of April 27, 1943,<sup>39</sup> stating that in harmony with the Bolivian Government's decree of April 7 declaring a state of war between Bolivia and the Axis nations, the Bolivian Government considers that the time has come to contribute more completely to the program of purposes and principles of the Atlantic Charter; that now when the greater part of the civilized world is fighting for liberty and independence, Bolivia desires to increase its

<sup>38</sup> In telegram No. 760, April 19, 6 p. m., the Ambassador in Bolivia reported that the Bolivian Minister for Foreign Affairs indicated that the Bolivian Government was "in a state of war with the nations of the Axis" (740.0011 European War 1939/29061).

<sup>39</sup> Not printed.

<sup>40</sup> The signed copy of Bolivia's adherence was transmitted to the Department by the Ambassador in his despatch No. 1583, April 27, 1943; received May 6.

efforts in the struggle; and that accordingly Bolivia formally adheres to the Declaration by United Nations of January 1, 1942.

It is a source of genuine satisfaction for the Government of the United States, as depository for the Declaration, to welcome Bolivia as one of the United Nations; to see Bolivia thus associated with thirty-one other freedom-loving nations which have pledged themselves to employ their full resources in the struggle against the common enemies.

Please accept the renewed assurances of my high esteem.

CORDELL HULL

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824.20/260

*The Chargé in Bolivia (Woodward) to the Secretary of State*

No. 1650

LA PAZ, May 8, 1943.

[Received May 25.]

SIR: I have the honor to report that, prior to his departure for the United States as a member of the Official Party of President Peñaranda, General Felipe M. Rivera <sup>41</sup> requested the United States Military Mission to Bolivia to assist him in preparing a detailed plan of organization and a list of all equipment that would be necessary to form a series of model units in the Bolivian armed forces which would be brought together at Cochabamba as an instructional force at the Bolivian Army Staff Schools in that city. This project contemplates the possibility of obtaining from the Government of the United States a considerable variety and quantity of matériel to equip various proposed units. There is enclosed a copy of a memorandum <sup>42</sup> presented to General Rivera by the Chief of the United States Military Mission, with which there were transmitted the detailed tables of equipment and organization which General Rivera had requested.

The idea for this project appears to have begun when Colonel Walter E. Buchly, Chief of the United States Military Mission, suggested that a much more efficient system of instruction could be instituted at the Bolivian Army Staff Schools in Cochabamba if the Bolivian Military Authorities would call in to Cochabamba typical units of Cavalry, Infantry, Artillery and an Engineer Combat Unit, and arrange for the concentration of the best equipment now available in Bolivia under the control of small sections of these units in order to provide practical demonstration, on a small scale, of efficient military organization and operation. Colonel Buchly's suggestion contemplated the possibility of obtaining a small additional supply of

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<sup>41</sup> Aide to President Peñaranda.

<sup>42</sup> Not printed.



matériel from the United States—possibly consigned to the United States Military Mission in the same way that other sample matériel has already been assigned to the Mission—but he made his suggestion in full consideration of the great difficulty of obtaining any quantities of miscellaneous matériel at this time. Colonel Buchly thought that it might be possible to equip efficiently: one troop of a Cavalry Squadron, one company of an Infantry Battalion (with various pieces of extra equipment of a general nature for the entire Battalion); one company of an Engineer Combat Battalion; and one battery of 105 mm Howitzer Artillery.

As indicated in the organization list in the attached memorandum, General Rivera's project goes much beyond the original suggestion of Colonel Buchly and contemplates the obtaining of equipment from the United States which it may be impracticable to obtain during the active prosecution of the war. Although Colonel Buchly does not have an estimate of the total probable cost of the equipment that is desired by General Rivera, he believes that it would probably cost several million dollars, and, accordingly, constitute a large proportion of the Bolivian Lend-Lease quota.<sup>45</sup>

A further consideration in the possible organization of a series of model units, on the scale suggested by General Rivera, would be the possibility that the Chilean authorities and people might be alarmed by the carrying out of such a project, particularly when there has recently been considerable publicity in both Bolivia and Chile concerning the Bolivian desire for sovereignty over a port on the Pacific.

Respectfully yours,

ROBERT F. WOODWARD

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821.24/839 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, August 28, 1943—4:10 p. m.

A-705. Your A-570, August 13, 5 p. m.<sup>46</sup> It is understood that full information respecting current and past deliveries of ground matériel furnished to Bolivia under Lend-Lease should be obtainable from your Military Attaché<sup>47</sup> to whom copies of "transfer directives" are regularly furnished by the War Department whenever an assignment involving ground matériel is made to the Bolivian Army.

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<sup>45</sup> The Department's liaison officer with the War Department (Wilson) advised the Chief of the Foreign Branch, Collection Unit, IG (Colonel Adams), on June 12, 1943, that the equipment indicated by Colonel Buchly should be requisitioned in the regular way by the Bolivian Embassy in Washington.

<sup>46</sup> Not printed.

<sup>47</sup> Col. John B. Johnston.

With respect to airplanes, the following Lend-Lease assignments have been made: prior to 1942, 3 AT-6's; during 1942, 1 JRF-5, 10 SNC-1's, 12 BT-13's, 5 PT-17's, 8 L-8A's, 8 L-9A's; during 1943, 9 AT-6's, 2 AT-11's. Additionally, there have been assigned 2 AT-7's which are tentatively to be delivered in the United States during September.

It will be noted that certain of the airplanes above-listed, such as the JRF-5 and the SNC-1 are of a naval type. Other than these, no Naval matériel has been assigned to Bolivia nor are any future deliveries of Naval matériel scheduled at this time.

HULL

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740.0011 European War 1939/32073 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, November 27, 1943—noon.

[Received 4:49 p. m.]

1837. The Bolivian Congress last night in plenary secret session voted the adherence of Bolivia to the Declaration of the United Nations. The Foreign Minister informs me that the motion by Congress is couched in the following terms:

"The National Congress decrees as follows:

Sole article—the adhesion of Bolivia to the collective pact of the United Nations signed in Washington on January 1, 1942 is approved."

The Foreign Minister stated that the Senate had voted unanimously for the foregoing motion and in the Chamber of Deputies there had been only two votes against, all other votes being for the motion.

The Foreign Minister said that he considers that this constitutes ratification of Bolivia's state of war with the Axis Powers.

He added that he would give me on Monday<sup>48</sup> an official notification<sup>49</sup> in writing describing this position and that he expects to send a telegram directly to you informing you of the ratification. He asked me to send to you advance notification today and added that he considered this action as one of the most momentous events in Bolivian history. I gathered that he will consider your reply to the message he proposes to send to you of special significance to this country.<sup>50</sup>

BOAL

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<sup>48</sup> November 29.

<sup>49</sup> Note of November 30, 1943; copy transmitted to the Department by the Ambassador in his despatch No. 2689, December 3 (not printed).

<sup>50</sup> In a telegram of December 1, 1943, to the Bolivian Minister for Foreign Affairs, Secretary of State Hull expressed gratification for the step Bolivia had taken as evidence of the solidarity of that country with all freedom-loving people (740.0011 European War 1939/32209).

DISCUSSIONS AND UNDERSTANDINGS BETWEEN THE UNITED STATES  
AND BOLIVIA CONCERNING ECONOMIC PROBLEMS <sup>51</sup>

811.20 Defense (M) Bolivia/750

*Memorandum of Conversation, by the Ambassador in Bolivia  
(Boal)* <sup>52</sup>

[LA PAZ,] January 13, 1943.

Mr. Crespo, Minister of Economy, asked me to call on him yesterday afternoon. He said he had rather a difficult matter on his hands. He recalled that some time ago an export permit to ship 25 tons of tin concentrates to Argentina had been cancelled at the request of the Embassy as being in conflict with existing contracts. He said that unfortunately this permit had originally been issued as a result of a conversation between President Peñaranda and Dr. Ibanez Benavente, made while they were on a trip together; that the President quite innocently without realizing the limitations imposed by the tin contracts, had told Dr. Benavente (who had purchased the tin concentrates and desired to ship them to Argentina as a speculative operation) that he might do so. Dr. Benavente, he said, since the cancellation of the permit, had been representing to the President that having made an agreement on the basis of his oral assurance with the Argentine buyers, he was placed in a most difficult position through his inability to comply. Mr. Crespo indicated he had been asked to bring this matter up with me again.

I told him I had no authority to commit the Metals Reserve <sup>53</sup> on the subject; and at the time it first came up they had not been willing to make an exception and as far as I knew this was still their position.

Mr. Crespo remarked that in his opinion such exceptions were dangerous, as one exception would lead to another and might result very adversely to the operation of the contract.

I told Mr. Crespo that in my opinion it was not desirable to have tin going out in such a manner that its destination and use could not be controlled with respect to hemisphere defense interests; that if the present instance were to be repeated inadvertently by other officials of the Bolivian Government or senators or congressmen, the same embarrassment would arise again, and it might be claimed if an exception had been made in one instance there was no reason to refuse to make one under similar circumstances. However, I explained to Mr. Crespo that I was not in a position to express an official view but this represented my personal opinion. Mr. Crespo said he entirely

<sup>51</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 592-614.

<sup>52</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 1149, January 16; received January 23.

<sup>53</sup> Metals Reserve Company, an instrumentality of the U.S. Government administered under the direction of the Secretary of Commerce.

agreed on this point and he had already made up his mind in the same sense.

I said that I did not feel I could take up the matter at all unless I had specific data now on the circumstances under which the tin had been purchased by Dr. Benavente, the price he paid, the price he expected to sell at; any contracts or agreements involved and the names of the intended consignees. He said that if it became necessary he would supply such data to me, but he thought the matter might rest where it now is as I evidently was not in a position to hold out any hope to him regarding the making of an exception.

Mr. Crespo remarked that there was an exception allowing for an annual shipment of 25 tons of unrefined tin to Chile. He wondered whether this exception for one year to Chile might not be transferred to cover the shipment to Argentina, cancelling the one year provision with Chile. I remarked we had recently been notified by the Ministry of Economy that Hochschild<sup>54</sup> desired to make the current 25-ton shipment to Chile. Mr. Crespo expressed surprise, stating he understood the inquiry regarding the shipment to Chile had been made on the basis of one half ton, not on 25 tons. He said he would look into this immediately as he was unaware that anything had been done on the whole 25 ton exception for Chile.

P. DE L. BOAL

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824.504/71 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, January 13, 1943—2 p. m.

[Received 7 p. m.]

65. Department's 46, January 11, 9 p. m.<sup>55</sup> Following note from the Foreign Minister dated January 6, 1943, has been received this afternoon at the Embassy:

"As Your Excellency is not unaware, various factors have combined during the year 1942 to bring about a considerable increase in the cost of production of minerals. It is possible to cite the scarcity and the increases in prices at the source of many of the materials used in mining production, the scarcity of labor which has in its turn resulted in readjustments in wages, increase in the cost of living.

These circumstances justify the possibility of a revision in the present prices paid for our minerals, a possibility admitted by the Metals Reserve in the course of previous negotiations.

In order that this new situation may be verified by the experts of the Embassy in your worthy charge, I would appreciate it if Your Excellency would instruct them to collaborate with the Divisions of

<sup>54</sup> Mauricio Hochschild was the owner of large tin mining properties in Bolivia.

<sup>55</sup> Not printed; this telegram dealt with the sending of a commission to Bolivia for a study of labor conditions (824.504/69a). For correspondence on this subject, see pp. 607 ff.

Mines and Commerce of the Ministry of National Economy to determine the extent to which these increases have resulted in increases in the cost of production, presenting as a result their respective reports.

In the assurance that Your Excellency will be kind enough to cooperate with my Government in this matter, I am honored to reiterate to you the sentiments of my highest and most distinguished consideration.

(signed) Tomás Manuel Elio."

I will appreciate telegraphic instructions as to the reply if it [is] desired that the Embassy should make [one].

BOAL

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824.504/71 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, January 21, 1943—midnight.

104. Your 65, January 13, 2 p. m. It is noted that a communication has been received from the Foreign Minister which suggests the possibility of a revision of mineral prices in view of a considerable increase in the cost of production. That this Government is fully conscious of the need of paying prices which are equitable to Bolivia and its economy and which will enable the payment of fair wages to labor and at the same time maximize production of metals and minerals needed in the war effort, is shown by the very substantial increases in prices paid to the Bolivian mining industry which were made effective during 1942. The Department feels that it is now apparent that other phases of the situation and possibilities other than price increases should be given major consideration. It therefore seems advisable not to consider the subject of price until a study has been made and conclusions reached on the various factors which relate to the cost of production. The Department also feels that such an approach is essential to the long-run welfare of the Bolivian economy.

You are authorized to discuss this orally with the Foreign Minister on the above basis.

HULL

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824.50/228

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

[WASHINGTON,] February 2, 1943.

BOLIVIAN DEVELOPMENT CORPORATION

I informed the Bolivian Ambassador <sup>56</sup> this morning that the informal soundings of opinion which I had made both in the Depart-

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<sup>56</sup> Luis Fernando Guachalla.

ment and the Export-Import Bank regarding the proposal to transfer to the Bolivian Development Corporation<sup>57</sup> the credit of \$1,700,000 made by the Bolivian Banco Central in connection with the Standard Oil settlement<sup>58</sup> had shown conclusively that those consulted were adverse to the idea. I said that it seems highly undesirable to make a change in the conditions agreed upon between the two Governments since quite evidently no new circumstances had arisen since the negotiation of these arrangements.

The Ambassador was somewhat disappointed. He said that the Bolivian Government had been obliged to undertake to refund the Standard Oil payment through the Central Bank in two annual installments, one of which, I understand, was paid in 1942 and the other will be due toward the end of 1943. These payments together with the Government's obligations in connection with the Corporation amounting to \$3,500,000 per annum will, according to Espada,<sup>59</sup> put the Treasury in a rather difficult situation.

The Ambassador will communicate our point of view to his Government. He also suggested that it be made known by the Bank to Mr. Egger,<sup>60</sup> who will undoubtedly be approached by the Bolivians on this subject. (I suggest that this be arranged with the Bank by Mr. Collado or Mr. Hooker.<sup>61</sup>)

I expect to hear about this again. In my conversation with the Ambassador I did not refer to the political angle, namely the linking of the Standard Oil settlement with our willingness to extend economic cooperation. The Ambassador did, however, allude to this point and emphasized the Government's political vulnerability on this score.

It is my impression that the Ambassador in bringing this matter up was merely carrying out his instructions and that he understands our position clearly.

PHILIP W. BONSAI

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811.20 Defense (M) Bolivia/872: Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, March 13, 1943—noon.

[Received 5:55 p. m.]

487. For Rubber Development from Lepper.<sup>62</sup> In note dated March 3,<sup>63</sup> but received by us yesterday, Bolivian Government taking

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<sup>57</sup> An agency of the Bolivian Government with American participation in its management.

<sup>58</sup> For correspondence on this settlement, see *Foreign Relations*, 1942, vol. v, pp. 586 ff.

<sup>59</sup> Joaquín Espada, Minister of Finance.

<sup>60</sup> Rowland A. Egger, Manager of the Bolivian Development Corporation.

<sup>61</sup> Emilio G. Collado and John S. Hooker, members of the Secretariat of the State Department's Board of Economic Operations.

<sup>62</sup> Richard C. Lepper, representative of the Rubber Development Corporation.

<sup>63</sup> Not printed.

advantage of what they claim is doubtful wording of our Rubber Agreement <sup>64</sup> and wishing to profit by tempting Argentine offers for production of exempted regions proposed the following amendments to the Agreement.

- (1) Inclusion therein of Velasco triangle.
- (2) Definite exclusion of Larecaja and Caupolicán to full extent of potential production (we fear in addition smuggling from adjacent regions).
- (3) Until above production reaches 250 tons Rubber Development to make up difference for export to neighboring countries (Bolivian Government cynically admit they are committed for exports greater than quantity provided in Agreement).
- (4) Five hundred dollar deduction from development fund to be limited to first year and remainder to be spent only in Departments of Beni, Pando and Santa Cruz.
- (5) We to provide at cost price through Banco Agrícola tools, equipment, and supplies necessary to intensify this unlimited production for shipment to Argentina.

In the same note they claim "It has not been possible to ascertain either the capacity or the cost of production in those provinces since no production has been taken from that source". However, we are purchasing rubber from there and are certain that the Government, specially person of the Minister of Public Works (the chief landowner in the region), has made no effort to determine costs but has procrastinated for months while dealing in his name and that of the Government with various Argentine interests including the Government of that country (see La Paz report on March 9 <sup>65</sup> and Embassy's airgram 198, March 12 <sup>66</sup>). The fact that Bolivian Government has disregarded Hall's <sup>67</sup> observation made to the Cabinet February 22 that agreement limited all exceptions to 250 tons by continuing negotiations with Argentina to the point of lacking only signatures makes us believe they have in mind voiding the Agreement should we not meet their terms. Shall cable suggestions for legalizing Agreement. Full text and our observations and recommendations regarding note cited follow in separate communication. [Lepper.]

BOAL

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<sup>64</sup> For text of agreement signed July 15, 1942, and exchange of notes signed on the same day, see *Foreign Relations, 1942*, vol. v, pp. 574-580.

<sup>65</sup> Not found in Department files.

<sup>66</sup> Not printed.

<sup>67</sup> Carlos Hall, representative of the Rubber Development Corporation.

811.20 Defense (M) Bolivia/876: Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, March 16, 1943—noon.

[Received 6:22 p. m.]

500. For Rubber Development from Lepper. Reference No. 343 cable 487, March 13. Chief of Economic Section Foreign Ministry <sup>68</sup> admitted to Hall yesterday that by exchange of notes Bolivia had promised to take care of rubber necessities of Uruguay and Chile; that former Ministers of Economy and Foreign Affairs, Crespo and Anze had forgotten to remind President of this when latter promised whole 250 tons to Argentina; that commitments to other countries named are 100 tons each which under "moral" obligation Bolivia must now fulfill; that Chile particularly is for compliance and that in answer to Chilean Ambassador's note last week the Minister of Economy <sup>69</sup> promised that needs of Chile would be taken care of.

Two months ago Chilean Ambassador <sup>70</sup> told Hall that his country's consumption was already taken care of by Brazil but that he would nevertheless try to get what had been promised by Bolivia. [Lepper.]

BOAL

811.20 Defense (M) Bolivia/878: Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, March 16, 1943—5 p. m.

[Received March 17—12:48 a. m.]

502. Reference our letter February 26 <sup>71</sup> and cable 399. <sup>72</sup> American lawyer at Embassy of opinion Rubber Agreement could successfully be challenged in the courts because of failure of President and Cabinet so far to promulgate in legal form. Our Agreement with Banco Agrícola combined with numerous decrees might conceivably be sufficient to uphold our rights. However, there is no reason why the Government should not promulgate the Agreement as they are obligated to do by their repeated assurances to consider the Agreement in

<sup>68</sup> Raúl Espejo Zapata.

<sup>69</sup> Gustavo Adolfo Otero.

<sup>70</sup> Benjamin Cohen Gallerstein.

<sup>71</sup> Not found in Department files.

<sup>72</sup> Dated February 26, not printed.



effect and valid. I suggest that before considering any of the suggestions in the Bolivian Government note of March 3, see cable 497 [487],<sup>73</sup> we insist that the existing Agreement be duly promulgated by the President.

If the Government should refuse to promulgate the present Agreement to be legalized by signatures of President and Minister of Agriculture, the whole question of continuance of American cooperation would presumably arise since this would be an act of obvious lack of faith on the part of the Bolivian Government. We think that if the Agreement were open to any form of discussion for amendment, items other than the inclusion of Velasco and the treatment of Larecaja and Caupolicán would probably arise and therefore the issue should be made now on the terms of the present Agreement and we should evince no willingness to discuss anything else. Meantime supplies should be provided only to producers with whom we have existing private contracts and in whom we have some degree of confidence.

The chief point at issue will evidently be to try to circumvent the clear provision in the existing Rubber Agreement that exports to neighboring countries should be limited to 250 tons annually. This is the point the Bolivian Government is evidently trying to open up under pressure from Chile and Uruguay and more particularly from Argentina.

We would appreciate having your views as to our next step. Please communicate to Rubber Development Corporation.

BOAL

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824.001 Peñaranda, Enrique/68

*The Chief of the Division of the American Republics (Bonsal) to the  
Ambassador in Bolivia (Boal)*

WASHINGTON, March 22, 1943.

DEAR PIERRE: In Larry's<sup>74</sup> absence I am pleased to acknowledge your letter to him of March 5, 1943,<sup>75</sup> in which you enclosed a copy of a letter dated March 2, 1943, addressed to Mr. D. S. Iglehart, Grace and Company, New York, by Mr. J. E. Zalles, discussing certain matters of political and economic interest to President Peñaranda

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<sup>73</sup> Dated March 13, p. 555.

<sup>74</sup> Laurence Duggan, Adviser on Political Relations.

<sup>75</sup> Not printed.

who has requested Grace and Company to sound out government opinion in Washington on these subjects prior to his trip to the United States.

I agree with your view that it would be inadvisable for you to initiate the discussion of these questions with President Peñaranda, especially in view of the fact that he has chosen Grace and Company as his confidant in the present case. However, as it is possible that President Peñaranda may communicate his views to you at some later date, I shall set forth below for your background information certain considerations relative to the points raised.

1) *Minerals.* The question of long term minerals contracts is being studied by the Department and the various interested agencies, but due to its extremely complicated nature it is doubtful whether the views of this Government will be sufficiently clarified by the time President Peñaranda arrives in Washington to enable any definite proposals to be submitted to him. Accordingly, the President should not be encouraged to expect that he can do more than discuss long term minerals contracts in general terms.

2) *Rubber.* This Government has every desire to stimulate Bolivian rubber production as a war measure. Interest in a post war rubber program in Bolivia is at present limited to possible encouragement for experimental plantations to test the possibility of establishing a Bolivian source of supply which could furnish crude at a price reasonably competitive with far eastern or synthetic rubber.

3) *Hydroelectric Development.* Due to material shortages hydroelectric development in Bolivia would presumably have to await the end of the war. This would seem to be a field for activity on the part of the Development Corporation and any program of this sort should be handled through the Corporation.

4) *Guarantee of Territorial Integrity.* The United States cannot accept responsibility for the territorial integrity of Bolivia whose security must depend on the functioning of the inter-American security system.

5) *Additional Tanks and Planes.* The Munitions Assignment Board is of course reluctant to divert tanks and planes from the actual fighting fronts. It is possible, however, that, if sufficient reason were shown, Bolivia's allotment of certain types of training planes might be increased.

In general, it should be stressed that the Department does not contemplate President Peñaranda's visit as more than a good will trip giving recognition to the considerable achievements in United States-Bolivian relations which have already been accomplished. It would be unfortunate if the President should leave La Paz, expecting to receive substantial material, financial, or political benefits.

With warm personal regards, I am

Sincerely yours,

P[HILIP] W. B[ONSAL]

811.20 Defense (M) Bolivia/878 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, March 25, 1943—9 p. m.

443. Embassy's A-198, March 12,<sup>76</sup> 487, March 13, 500 and 502, March 16, 545, March 22.<sup>77</sup> The views and recommendation contained in your 502, March 16, are concurred in by the Department.

At the Department's request the Bolivian Ambassador came in March 25 to discuss the matter. He was advised that we were very much concerned that any question was being raised at this late date as to the validity of the agreement, particularly after the agreement had been so extensively considered by the Bolivian Congress last year. We also said that the sale of any amount in excess of the 250 tons reserved for sale to neighboring countries would, of course, violate the agreement. We stated that a very unfavorable reaction on public opinion and on the attitude of the United States Government as a whole would result from either of these issues being raised.

It was pointed out that neither Chile nor Uruguay appeared to need rubber. In both cases we have undertaken in collaboration with Brazil, to furnish and are furnishing their essential requirements for rubber and rubber products, and it is understood that in both countries there are substantial stocks of rubber. Uruguay has offered us surplus stocks of tires, and its proposal is now under consideration. We have just concluded a purchase of 90 tons of rubber from Chile. (The Embassies at Santiago and Montevideo have been advised of the Bolivian situation and requested to discuss the matter with the local authorities, pointing out these factors and to the violation of the Bolivian rubber agreement involved in the proposed transactions.)

The Ambassador was advised that we were unwilling to discuss the inclusion or exclusion of Caupolicán or Larecaja while there is any question as to the validity of the agreement as a whole; that we have engaged in development work, provided equipment and material and expended substantial sums of money under an agreement which we understood to be valid in all respects; and that to question the agreement or its implementation would inevitably affect other programs being carried on jointly between the two Governments. The Ambassador was told that we had no doubt a conclusion, satisfactory to both Governments, as to the question raised in your 487 and related questions, could be reached promptly once any question with respect to the agreement as a whole has been removed.

The Ambassador stated he would telegraph his Government with respect to this matter. You are requested to take the same position

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<sup>76</sup> Not printed.

<sup>77</sup> No. 545 not printed.

with the Bolivian Government. Rubber Development concurs in the foregoing and you are requested to communicate the substance to Lepper and Hall for their guidance.

HULL

824.001 Peñaranda, Enrique/1563

*Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)<sup>78</sup>*

[WASHINGTON,] May 5, 1943.

Participants: President Roosevelt  
 Mr. Sumner Welles<sup>79</sup>  
 Ambassador Pierre de L. Boal  
 Mr. Philip Bonsal  
 President Peñaranda  
 Dr. Tomás Manuel Elio, Minister for Foreign Affairs  
 Ambassador Luis Guachalla

This conversation took place at the White House on May 5, following the State Dinner to President Peñaranda.

After a few remarks of a general character, President Peñaranda stated that taking advantage of President Roosevelt's friendly interest in Bolivian problems, he wished to have his Minister for Foreign Affairs, Dr. Elio, set forth certain questions of major interest to Bolivia. From this point President Peñaranda practically retired from the conversation, Dr. Elio doing almost all of the talking on the Bolivian side.

*Tin.*

Dr. Elio next turned to the subject of Bolivia's tin. He stated that Bolivia is making a maximum effort to supply tin for the use of the United Nations. He said, however, that there was a great deal of concern regarding the future of the industry. It is of very greatest importance to the country's economic development. He recalled that in the last war the Dutch constructed a smelter in the United States but that after the war it was dismantled with the result that Bolivia continued to depend on European smelters. Dr. Elio stated that his Government hoped that the smelter recently established at Texas City would be maintained after the war. After reviewing certain other phases of the tin problem, Dr. Elio stated that what Bolivia was interested in was a guarantee of continued purchase of Bolivian tin

<sup>78</sup> For press release issued by the White House on the discussions and agreement between President Roosevelt and President Peñaranda, see Department of State *Bulletin*, May 15, 1943, p. 431.

<sup>79</sup> Under Secretary of State.

by the United States for a longer period than currently contemplated in the arrangements between the two countries.

The President and Mr. Welles indicated that there would seem to be no objection to an arrangement under which the present purchase contract would be extended for a period of about two years following cessation of hostilities. (The question of whether a price would be guaranteed for more than one year was not clearly brought out; it was obvious, of course, that the Bolivians wished for a price guarantee. It does not appear, however, that a price should be settled on more than a year to year basis, it being, of course, understood that the good faith of the United States will guarantee the payment of an equitable price.)

President Roosevelt discussed the smelting of Bolivian tin at some length. He acquiesced in Dr. Elio's hope that the smelter at Texas City would be maintained after the war. He said that, most emphatically, however, a smelter should be built in Bolivia itself. Dr. Elio replied that this had long been a Bolivian aspiration and that, in fact, certain machinery for the purpose was already available in Oruro. He pointed out that Bolivia has great hydroelectric possibilities and also has petroleum available as fuel. He suggested the possibility of our sending a technical expert from the United States to Bolivia in order to draw up definite plans for a smelter. He said that the furnishing of equipment and financing would have to be taken care of by our Government.

President Roosevelt made a number of remarks concerning international cartels for the purpose of handling the marketing of such products as tin. He said that he had no objection to the establishing of such cartels provided participation therein was on a governmental basis and not on the basis of private interests. He developed the idea of a cartel which would sell the world output of tin at an average price but would buy from the producers at a price directly related to the cost of production in the different producing areas. Bolivia would receive a price higher than the average sale price, whereas Malaya would receive a price lower than the average. This concept was received by the Bolivians with considerable enthusiasm.

It was left that this matter would continue to be handled through negotiations of the type conducted in connection with the present tin contract. There was no mention of specific price or of other conditions in which the BEW<sup>80</sup> is interested. President Peñaranda did say that it was important to get more money to the Bolivian laborers and to implement the report of the Magruder Commission.<sup>81</sup> In order

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<sup>80</sup> Board of Economic Warfare.

<sup>81</sup> The Commission to study labor conditions in Bolivia; concerning the contents of this report, see footnote 86, p. 615.

to avoid any misunderstanding, I made it clear that the Bolivian Labor Mission was a joint enterprise of the two Governments.

*Exports from the United States to Bolivia.*

Dr. Elio talked of the difficulties caused to Bolivian economy by the very reduced tonnage allocated to the supplying of Bolivian import requirements. Mr. Welles was able to inform President Peñaranda and Dr. Elio that this tonnage allocation was about to be increased from 4,000 tons to 5,600 tons. This announcement produced an excellent effect. (However, the next morning Dr. Elio asked President Roosevelt if the figure could not be increased to 6,000 tons, since the latter figure would have an "excellent psychological effect". It is understood that arrangements are being made to meet this requirement).

While President Roosevelt expressed sympathy with the Bolivian plight in the matter of imported goods, he spoke at some length and with feeling concerning the necessity for Bolivia to become as self-sufficient as possible in the matter of manufactured articles. He referred particularly to the possibility of using substitutes for certain imported goods. In his remarks not only on this subject but on other subjects, the President advocated that Bolivia follow a strongly nationalistic policy avoiding so far as possible dependence upon other countries and particularly upon capitalistic interests in other countries. (He developed this theme in his conversation with President Peñaranda the following morning in which he stated that he and Eric Johnston<sup>82</sup> were in agreement that new enterprises in a country like Bolivia which require capital from abroad should raise that capital through the sale of bonds or of other senior securities, leaving the common stocks or management shares to be purchased by local capitalists). The President also spoke with great indignation of the activities of certain bankers in the twenties in loading Bolivia with an unjustified debt burden at the unconscionable rate of eight per cent interest.<sup>83</sup>

*Defense Materials.*

President Peñaranda as a military man showed more direct interest in this topic than in the others dealt with. He asked the President to see whether it would not be possible to increase the flow of defense materials to Bolivia.

The President did not reply directly, although he did refer to the great shortage of materials needed on the fighting fronts. However,

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<sup>82</sup> President, United States Chamber of Commerce, and management representative on the Economic Stabilization Board.

<sup>83</sup> For correspondence regarding bankers' loans to Bolivia, see *Foreign Relations*, 1922, vol. I, pp. 640 ff., and *ibid.*, 1923, vol. I, pp. 441 ff.

he described the possibility to which his attention had recently been called of obtaining certain types of war materials which, while not strictly modern for combat purposes, were highly valuable for training purposes. He referred, for example, to a certain type of anti-aircraft gun with a range of 5,000 yards, which because of the development of a new type with a range of 7,000 yards, had become obsolescent. However, it remains highly valuable for training purposes. Both President Peñaranda and Dr. Elio stated their belief that the defense of Bolivia must be based upon development of aviation and anti-aircraft matériel.

President Roosevelt described the value of smoke-screens as defense against air attack. Ambassador Boal stated that studies were underway for the provision at the important Bolivian mines of certain smoke producing equipment as a defense against possible Axis air raids. The President expressed great interest as well as the hope that this equipment could be manufactured in Bolivia.

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811.20 Defense (M) Bolivia/1055 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, May 29, 1943—9 p. m.

739. For Hall from Allen Rubber Development Corporation. Your 943 May 19, 957 May 21 and 974 May 26.<sup>84</sup> We are in accord with your view that we should firmly maintain the position that the Government of Bolivia should carry out in good faith not only the express provisions of the rubber agreement but likewise the plain intent of the agreement. As regards the Larecaja-Caupolicán area the agreement clearly contemplates the ascertainment of excess production costs in that area and the establishment of a proper cost differential. We have formally offered to the Bolivian Government a cost differential which we understand is entirely satisfactory to the producers and which is more than adequate, based upon the experience to date of the only actual producer.

We feel that the only question at issue is the determination of a reasonable and proper cost differential and that any attempt by Bolivia to take into consideration the prevailing Argentine price should be firmly resisted as contrary to the plain intent of the agreement. Owing to absence of Peñaranda we were unable to make representations suggested in your 943.

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<sup>84</sup> None printed. Telegram No. 974 contained the recommendation that purchase contracts with individual producers should be negotiated since the producers were unwilling to wait for Bolivian governmental action.

We approve your entering into individual contracts on the basis of our proposal to the Bolivian Government providing the Embassy concurs and providing in your opinion and that of the Embassy we could not be charged with bad faith toward the Government of Bolivia in so doing, and it being understood that such contracts will be made at the standard Bolivian prices, with a separate clause providing for payment of a cost differential at the rate and for the period specified in our proposal to the Government. It might be well to state in the contract that this cost differential is being paid in accordance with clause 3 [4?] of the agreement between Bolivia and Rubber Development Corporation. If the individual contracts are drawn in this manner we do not believe that clause 6 of your standard purchase contract would be brought into operation.

The fact that all of the principal producers have been willing to enter into contracts with us will be the best possible proof that the cost differential we have proposed is adequate. If it should be found undesirable or impractical to make individual contracts, we feel that the potential production in the Larecaja-Caupolicán area is so small that we can, if necessary, afford to stand firmly upon our position and await such response as the Government of Bolivia may make to our proposal.

In view of the fact that our proposal would appear to be more advantageous to the Banco Agrícola than the plan proposed by the Bolivian Government could we not obtain some support from the Banco Agrícola? Send airmail text of proposal outlined in your cable 797 of April 26.<sup>85</sup> [Allen.]

HULL

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811.20 Defense (M) Bolivia/1186

*Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)*

[WASHINGTON,] July 10, 1943.

The Bolivian Ambassador came in at his request. He showed me a telegram from Dr. Elio in La Paz asking for a report on the progress of the tin negotiations and recalling Mr. Welles' promise that he would do his best to have this out of the way by the end of the month of June.

In reply, I told the Ambassador that this matter had been given the most careful attention by all concerned, both in the Department

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<sup>85</sup> Not printed; this was essentially a compromise proposal, the important provision of which was the inclusion of the Larecaja and Caupolicán rubber areas (811.20 Defense (M) Bolivia/978).



and in the Board of Economic Warfare. I recalled that the position of this Government as to price, the extension of the contract, as well as to low-grade ores, had been at least informally made known to him at a meeting last month. I stated that, as he knew, the main question with which both the Department and the Board of Economic Warfare were wrestling was the one involving the relationship between the tin contract and specific improvements in Bolivian social conditions. The Ambassador and I had an extremely frank exchange of views on this point in the course of which he made the following points:

(a) It would not be understood in Bolivia if there were to be included in the tin contract covering the acquisition of tin from producers certain obligations involving the Bolivian Government in social and labor matters.

(b) The Ambassador does not consider feasible the proposal of certain BEW officials to include two or three cents per pound in the tin contract for these purposes.

The Ambassador recalled that the point of view of the Bolivian Government on this subject had been made quite clear by President Peñaranda and Dr. Elio on the occasion of their visit.

The Ambassador then told me that he expected in the course of this month to receive from La Paz an instruction containing the results of a study currently under way by officials of the Bolivian Government regarding the recommendations of the Magruder mission. This instruction will cover (a) the action which the Bolivian Government plans to take and (b) the matters in regard to which cooperative arrangements might be worked out. I suggested to the Ambassador and he willingly accepted the suggestion that, when the instruction is received, he might confer with Mr. Duggan and myself as to the most expedient way in which the views of the Bolivian Government on these matters might be officially presented to this Government.

The Bolivian Ambassador also told me that he had received an instruction from La Paz asking that he endeavor to except from the tin contract some 1,200 tons of tin per annum for export from Bolivia to other American republics.

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811.20 Defense (M) Bolivia/1210b : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, July 28, 1943—9 p. m.

967. In connection with the tin negotiations which are now under way between representatives of the Bolivian producers and the Office of Economic Warfare,<sup>86</sup> the Bolivian Embassy on June 1 presented a

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<sup>86</sup> Previously the Board of Economic Warfare.

memorandum <sup>87</sup> suggesting that the following adjustments in existing tin agreements might be made:

(1) An extension of the term of the present contract. While no definite new term was suggested, it was indicated that it might be for the duration of the war plus 2 years;

(2) Establishment of a price of 70 cents per pound less returning charge f. o. b. South American port for the period of the new contract;

(3) Cancellation of Clause 3, Paragraph *d* of the Tin Contract of November 4, 1940 <sup>88</sup> or at least its amendment to permit a larger proportion of ores under 35 percent tin content to be exported to Metals Reserve Company without penalty.

These suggestions have been carefully considered by the Department and OEW. A memorandum dated July 28 <sup>87</sup> is being delivered to the Bolivian Ambassador replying to these points as follows:

(1) expressing willingness on the part of this Government to purchase tin for at least 2 years beyond the expiration of the present contract provided agreement is reached on the other terms of the new contract;

(2) suggesting a price of 60 cents for a period of 1 to 2 years from the expiration on June 30, 1943 of the previous price agreement;

(3) expressing the opinion that the provisions of Clause 3, Paragraph *d* of the 1940 contract might more properly be strengthened rather than relaxed.

The Department's memorandum also expresses the willingness of this Government to enter into parallel discussions looking toward the implementation of the recommendations of the Joint Bolivian-United States Commission of Labor Experts to be carried out concurrently with the tin negotiations.

Copies of these memoranda, which set forth the present positions of the Bolivian and United States Governments in regard to the tin negotiations, will be forwarded to you by airmail.

HULL

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811.20 Defense (M) Bolivia/1240b : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, August 13, 1943—4 p. m.

1023. Department is concerned over recurring evidences of laxity in attitude taken by Bolivian Government or certain of its officials towards terms of Rubber Agreement with this Government. After careful consideration of proposed Medina transaction as outlined in letters from Munro and Hall and as referred to in Ambassador's

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<sup>87</sup> Not printed.

<sup>88</sup> For a summary of this contract, see telegram No. 42, October 19, 1940, to the Minister in Bolivia, *Foreign Relations*, 1940, vol. v, p. 546.

letters to Messrs. Acheson and Duggan, it appears to Department that Bolivian Government contemplates permitting violation of or in any event unjustified exception to terms of Rubber Agreement. We feel that it would be unwise to permit any such transaction and that no particular exceptions to Rubber Agreement can be permitted from time to time if we hope to maintain its general effectiveness. Embassy should discuss with Rubber Development necessity of any steps required to prevent violation of agreement by Bolivian Government or by private individuals with permission of Government.

With respect to airgram on this subject being sent concurrently by Rubber Development to Hall and Munro,<sup>90</sup> representations to Bolivian Government on this subject should, of course, be handled by Embassy.

HULL

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824.6354/379

*The Acting Secretary of State to the Bolivian Ambassador  
(Guachalla)*

WASHINGTON, August 19, 1943.

MY DEAR MR. AMBASSADOR: Some days ago you called and discussed with me the current tin negotiations being carried out between representatives of certain Bolivian producers and the Office of Economic Warfare and particularly the points of view in regard thereto of President Peñaranda as expressed in telegram No. 230 of July 21, 1943, received by you from your Foreign Office, a copy of which<sup>91</sup> you kindly made available to the Department in an informal manner. The Department has been following these negotiations closely and officers of the Department have participated in them. I am glad to avail myself of this opportunity to explain the position of the Department with especial regard to the points raised in the telegram, thus supplementing the Department's memorandum to you of July 28, 1943.<sup>92</sup>

The conversations between President Peñaranda and President Roosevelt have, of course, been carefully considered in the present negotiations and they have been largely based upon those conversations. In keeping with a fundamental point covered in the conversations, it has been made clear that there will be complete willingness on the part of this Government to extend the term of the tin contract which is now in effect for a period of two or three years beyond its present expiration date of June 30, 1945. It is believed that this will

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<sup>90</sup> No. A-672, August 13, 1943, not printed.

<sup>91</sup> Not printed.

<sup>92</sup> Not printed, but see telegram No. 967, July 28, 9 p. m., to the Ambassador in Bolivia, p. 566.

meet President Peñaranda's desire to have the contract remain in effect for a total of five years.

The interested agencies feel, however, that it is impracticable at this time to establish a fixed or minimum price beyond June 30, 1945 in the absence of any means of foretelling at this time what an equitable price may be during the period after that date. An extension of the contract along the lines indicated would assure the Bolivian producers a stable market for their production of tin over a period of years and it would, of course, be the intention of this Government to conclude equitable price arrangements by mutual agreement from time to time.

Full and careful consideration has been given to the desire of the Bolivian Government to have the present price of 60 cents per pound of fine tin raised to 70 cents per pound during the unexpired portion of the existing tin contract. The interested agencies of this Government have come to the conclusion, however, that a price of 60 cents, which represents an increase of more than 25 percent over the original price under the existing tin agreement, is as much as can reasonably be offered, taking into consideration all factors of the situation. You will realize that the purchase of tin is accomplished with public funds appropriated by Congress. The Metals Reserve Company is already paying Bolivian producers a price substantially in excess of that for which tin can be acquired in other producing countries, and a further increase could hardly be justified under existing circumstances.

Should it prove impossible at this time to obtain an agreement on price for the unexpired portion of the present contract, I would suggest that the price of 60 cents might be maintained for an additional period of two to six months, on the same informal basis as has been used for the months of July and August 1943, without prejudice to either party in the establishment of a longer term contract price. The Government of the United States would be prepared either to continue the negotiations during this period in an effort to reach agreement or to suspend the negotiations and reopen them at a later date, whichever would be more satisfactory to the Bolivian Government and tin producers.

My Government is of course desirous of assisting the Bolivian Government to the utmost in so far as may be possible in stabilizing its economic structure. It is for this purpose that it has gladly extended credits to the Bolivian Development Corporation; has entered into long-term tin, tungsten, and rubber agreements; and is prepared to extend the term of the present tin contract. The plans of the Bolivian Development Corporation include an extensive program for the development of public works, for which credits extended by the Export-

Import Bank will be available. So far as assistance to labor is concerned, the willingness of this Government to lend financial assistance in the implementation of the recommendations of the recent Joint Bolivian-United States Commission of Labor Experts has already been manifested. We are ready to enter into negotiations whenever your Government desires as to the scope of the assistance which can be offered to complement the expenditures which may be undertaken by the Bolivian Government and mineral producers.

If there is any phase of the tin negotiations which you wish to take up, the other interested officers of the Department and I will be glad to consider it with you at any time.

Believe me [etc.]

SUMNER WELLES

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811.20 Defense (M) Bolivia/1254 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 20, 1943—8 p. m.

1170. Department's 1169.<sup>93</sup> The Department feels that the terms now being offered by OEW to the Bolivian Government and the two quinine factories for anti-malarial products are generous and should be acceptable. The proposed agreement with the Bolivian Government would provide that the United States would have the exclusive right to receive exports of bark and anti-malarials. It appears, however, that considerable supplies of the latter may be lost by exportation to other countries before the agreement is concluded. You are requested, therefore, to endeavor to have the appropriate Bolivian authorities take action to suspend exports of quinine, quinine sulphate, and totaquina pending conclusion of agreement. There would be no objection on our part to having the language of any decree or other measure all-inclusive instead of being restricted to other countries if this would facilitate taking of the action desired. In presenting the matter to the Bolivian authorities, you should stress the fact that quinine products received in this country are used solely in direct connection with the war effort and are allocated to the military forces of the United Nations, whereas exports from Bolivia to other countries would be diverted to supplying civilian populations for which quinine substitutes are being made available. Any such exports thus adversely affect the conduct of the war.

HULL

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<sup>93</sup> Not printed; this telegram, dated September 20, requested export restrictions on cinchona bark and anti-malarials and authorized inland collection stations.

824.6354/395a : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, September 22, 1943—7 p. m.

1180. The Department is presenting a memorandum to the Bolivian Ambassador proposing the following amendments in the tin contract: (1) extension of its term to September 30, 1948; (2) establishment of the price at 63½ cents per pound of tin content f. o. b. Pacific ports for one year beginning October 1, 1943; (3) substitution of a new schedule of smelting charges and impurity penalties replacing the schedule in paragraph 8 of the present contract and the percentage quotas and penalty provisions of paragraph 3 thereof. This new schedule would be designed to stimulate the production of high-grade concentrates by increasing the charges for low-grade ores and would absorb approximately 1 cent of the apparent 3½ cent increase in the case of ores of average present grade. The Bolivian Embassy has already indicated that the Bolivian Government will devote its share by taxation of any increase to social welfare purposes and this would be confirmed in an exchange of notes. The net increase to producers under the proposal would thus average 1½ cents per pound, although it would be greater if a larger proportion of high-grade concentrates were produced than is now the case. Consideration would be given to establishment of a separate schedule of treatment charges applicable to a limited tonnage of low-grade concentrates delivered by the small producers through the Banco Minero. Text of memorandum follows by air mail.

HULL

824.6354/403

*Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Dawson)*

[WASHINGTON,] September 25, 1943.

Participants: Luis F. Guachalla, Ambassador of Bolivia  
 Mr. Bonsal  
 Mr. Dawson

The Bolivian Ambassador called this morning at his own request to discuss the Department's memorandum of September 22, 1943<sup>94</sup> setting forth a proposal for a new amendatory tin contract between the Metals Reserve Company and the Bolivian producers of tin. The Ambassador said that he wished to comment upon the following points in the proposal:

1. He felt that the term for the new price should be for two years instead of one as suggested in the Department's proposal. In this

<sup>94</sup> For the substance of this memorandum, see *supra*.

connection he referred to the fact that a period of two years had been mentioned by Mr. Welles and officers of the OEW in earlier conversations;

2. His most recent instructions from La Paz were that the Bolivian Government would be willing to accept a minimum price of 67 cents but he would recommend acceptance of a 65-cent price. He pointed out that the increased treatment charges and taxation would absorb part of the proposed 3½-cent increase and that a rise in wage scales would be inevitable regardless of what price increase was decided upon so that a 3½-cent price increase would in reality in his opinion be canceled by these burdens;

3. The Ambassador expressed the opinion that the price should be retroactive to July 1, 1943, instead of taking effect October 1, 1943. Were this granted, the extension of the term of the contract might be to June 30, 1948 instead of September 30, 1948 so as to keep the yearly contract periods on a fiscal year basis;

4. He felt that the provisions in the proposal for exclusive deliveries of tin to the United States and the United Kingdom should be modified to provide for the existing exemption for 25 tons of fine tin a month to Chile and for possible sales to other countries in the future, should the tin situation improve following the termination of the war and prior to the end of the extended contract;

5. In this connection he made the added suggestion that the provision for a minimum delivery of 18,000 tons per year should be made subject to quotas which might be established by the International Tin Committee when it resumes active operations. He pointed out that the tin cartel arrangements are intergovernmental ones. If there were not such a provision in the tin contract and the Bolivian tin quota were reduced, the Bolivian producers might be placed in a position of having promised to make deliveries, guaranteed by the Bolivian Government, which would be contrary to a direct commitment of the latter;

6. The Ambassador expressed some doubts as to the propriety of including in an exchange of notes a statement to the effect that the Bolivian Government would devote the taxes on the increase in the tin price to social welfare. He made the point that in conversations with Mr. Welles he had received the impression that we wanted to keep a tin procurement contract completely separate from social features. Mr. Bonsal suggested that the mention of the point in the Bolivian Ambassador's proposed note might take the form of expressing appreciation of the fact that the increased tin price would enable the Bolivian Government to implement its social welfare program;

7. The Ambassador pointed out that the Department's proposal did not indicate how the price for later years was to be established. He suggested that it might be provided that the price would be adequate to maintain normal production. Mr. Dawson remarked that the production angle was covered by other provisions of the proposed contract. He said that the thought of the Department and the OEW was that price would be mutually agreed upon between the parties to the contract on an equitable basis. The Ambassador agreed that this might be satisfactory but suggested that the hiatus in the Department's memorandum might be closed;

8. The Ambassador remarked that disputes occasionally arose between the Metals Reserve Company and the suppliers as to the interpretation of the present contract and suggested that an arbitration clause might consequently be inserted in the amendatory contract.

The Ambassador mentioned that the memorandum of September 22, 1943 had been handed to him by Mr. Bonsal in a provisional manner with the thought that amendments in it might be made. It was pointed out to him that the memorandum contained a general proposal from this Government. Most of the points raised by him were suggestions for changes desired by the Bolivians which the Department and the OEW would be glad to consider but might better be covered in a memorandum from the Bolivian Embassy or in its discussions with the OEW rather than by amendment of the Department's memorandum. He was, however, informed that the matter would be discussed with the OEW and that no objection was seen to a further memorandum from the Department making it clear that it was proposed that the prices for later years be established by mutual agreement.

ALLAN DAWSON

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811.20 Defense (M) Bolivia/1302 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, October 8, 1943—noon.

[Received 4:13 p. m.]

1634. The Foreign Minister<sup>95</sup> this morning told me that after the Argentine Government had consented to renting two locomotives and selling a third to the Bolivian Antofagasta Railroad for use in Bolivia the Argentine Ambassador<sup>96</sup> had approached him on the subject of quinine products. The Ambassador said that his Government was in great need of anti-malaria products for use in the Argentine part of the Grand Chaco where malaria is very prevalent and primitive conditions make it desirable to have quinine sulphate and totaquina available. The Foreign Minister said that in view of the impending quinine agreement he wanted to discuss this with me. He felt that their relations with Argentina made it imperative to "give and take" on such matters in so far as possible. He understood that the amount the Argentines would want to have of both of these products from the Government factory would not be large—he did not know how much this would be.

I told him it was my understanding that atebirin for such purposes was as good as quinine sulphate and better than totaquina. I told him

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<sup>95</sup> Carlos Salinas Aramayo.

<sup>96</sup> Avelino Araoz.



I would like to have a short time to discuss the matter with our technicians. The Foreign Minister indicated he would like to have our views by tomorrow October 9 the object being to establish a quota. I have consulted with EFEA [*the FEA?*]<sup>97</sup> representative here who is of the opinion that the point might be in particular if we would be prepared to allow the Argentine Minister of Public Health to receive from the United States a quota say of 100 kilos of atebirin in lieu of quinine sulphate and totaquina for this area on purely humanitarian grounds.

I would appreciate having a telegram on this and your view in general on the subject by tomorrow if possible.

BOAL

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811.20 Defense (M) Bolivia/1302 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, October 9, 1943—6 p. m.

1242. The Department feels strongly that there should be no exceptions to the proposed quinine agreement such as that discussed in your 1364 [1634], October 8, noon. In your conversations with the Foreign Minister you should stress the fact that quinine products are urgently needed for the armed forces of the United Nations and that all quinine received in this country is allocated solely for that purpose. Diversion of quinine, even in small quantities, to civilian use in a neutral country is thus clearly counter to the war effort of the United Nations, which Bolivia has joined.

The latest information available to the Department as to the Argentine stock position in anti-malarials is that 6 years' supply of quinine salts was on hand in Argentina in November 1942 and almost 2 years' supply of atebirin in May 1943. Argentina is probably in a better position as regards anti-malarials than any other country. The complete adequacy of its supply is indicated by the fact that offers for sale abroad of quinine are being made frequently by Argentine interests. There would thus appear to be no valid reason why Argentina cannot meet its needs for anti-malarials from present stocks for several years. The Department feels that any shipments could be used only for stockpiling or speculative purposes. Should Argentina in the future face a legitimate shortage of anti-malarials, the appropriate agencies of this Government will, of course, be prepared to consider sympathetically meeting its essential requirements within the limitations of available supply.

The Department desires you to present the foregoing considerations to the Foreign Minister. It hopes that with full knowledge of the

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<sup>97</sup> Foreign Economic Administration.

facts he will agree that his country can contribute materially to the war effort by discouraging additional accumulation of quinine in Argentina. OEW concurs.

HULL

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811.20 Defense (M) Bolivia/1322b : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 4, 1943—5 p. m.

1394. This is to amplify a telegram of the Department of today's date.<sup>98</sup> It is FEA's desire to emphasize that the proposal submitted to Etchenique<sup>99</sup> which is contained in the draft contract cannot be regarded as a commitment which is definite or for an unlimited time. The longer the delay the more difficult it is to continue the offer; therefore, it should be made clear that it is necessary to arrive at prompt conclusion, by which is suggested the completion of negotiations during the next few weeks. We may feel compelled to withdraw this offer after such a time, because of rapidly changing circumstances. It is FEA's desire to further emphasize that the proposal is contingent upon a simultaneous exchange of notes between the Department of State and the Bolivian Ambassador in Washington, as outlined in the memorandum delivered to the Bolivian Ambassador on September 22 by the Department.<sup>1</sup>

In the Embassy's telegram of November 21, 1910,<sup>2</sup> instructions were requested concerning quota of antimalarials which we may allow Bolivia to reserve for Argentina in the over-all agreement. FEA is still strongly opposed to the reservation by Bolivia for export to other countries of any quantity whatsoever. Our information is not only to the effect that Argentina has a large supply of quinine sulphate but also that Argentina is licensing quinine sulphate for export. In view of these circumstances, it is clear that a quota of antimalarials for Argentina is not in order. The issue never would have arisen had the agreement been signed in reasonable time. Therefore, we do not consent to any quota for export to Argentina or any other country by Bolivia. The Department concurs with the above which is from Scheuer, FEA,<sup>3</sup> to the Ambassador and Kazen.<sup>4</sup>

HULL

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<sup>98</sup> No. 1393, not printed; this telegram authorized simultaneous settlement of the quinine, cinchona, and tin agreements (811.20 Defense (M) Bolivia/1322a).

<sup>99</sup> Miguel Etchenique, representative of the Bolivian Development Commission.

<sup>1</sup> For the substance of this memorandum, see telegram No. 1180, September 22, to the Ambassador in Bolivia, p. 571.

<sup>2</sup> Not printed.

<sup>3</sup> Sidney H. Scheuer, Assistant to the Director in Charge of Imports.

<sup>4</sup> Philip A. Kazen, representative of the Board of Economic Warfare in Bolivia.

811.20 Defense (M) Bolivia/1326a : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, December 10, 1943—5 p. m.

1417. You should be governed in your discussions of tin and quinine with the Bolivian authorities by the position of the Department and FEA as set forth in the Department's 1393, December 4, 4 p. m.,<sup>5</sup> and 1394, December 4, 5 p. m., rather than by the suggestions made in your 1872, December 2, 6 p. m.<sup>6</sup> The Department feels that pressing for conclusion of rubber air agreement<sup>7</sup> and promulgation of replacement decree at this time might encourage the Bolivians to believe that a 65-cent price for tin would be forthcoming as a *quid pro quo*. It is becoming increasingly difficult to justify even the 63½-cent offer already made in view of the general tendency toward decreases in metals prices, especially as tin deliveries have kept up since July notwithstanding the Bolivian thesis that they could not be maintained with a 60-cent price. This Government is, however, willing to keep its offer open for a reasonable period and is confident that the Bolivian Government will meet its long-standing commitment to conclude an over-all quinine and cinchona agreement.

In the course of the conversations at New York in May, the then Bolivian Foreign Minister<sup>8</sup> informed representatives of the Department and BEW that the draft quinine agreement prepared in consultation with him was satisfactory to him and President Peñaranda but that as a matter of form it would be submitted to the Minister of Agriculture on their return to La Paz. He stated that the agreement would be presented to the Bolivian Congress for approval, that the memorandum of understanding drawn up at the same time to cover the interim period would be signed promptly, and that the Bolivian Government would immediately promulgate a decree in furtherance thereof prohibiting the shipment of quinine or cinchona to countries other than the United States. None of these promises have been kept. The Department is of the opinion that no useful purpose would be served by transferring the quinine negotiations to Washington.

The Department and FEA would of course be glad to receive Carrasco either as the representative of the Bolivian Government or of the tin producers in further tin discussions but feel that his proposed trip would be of doubtful utility as the positions of all parties to the negotiations have been made amply clear in the last 6 months.

<sup>5</sup> See footnote 98, p. 575.

<sup>6</sup> No. 1872 not printed.

<sup>7</sup> Reference is to an agreement between the Rubber Development Corporation and Lloyd Aereo Boliviano which provided air transport to the Iténez area where the former had a considerable investment.

<sup>8</sup> Tomás Manuel Elío.

The Department and FEA feel that inclusion of part A of the labor clauses in the form contained in the draft tin contract handed to Etchenique is essential from the point of view of both Governments. Otherwise it will appear that Bolivia and the United States have no interest in the labor problem and that the Magruder Mission report has been in effect abandoned. These labor clauses provide in essence that tin producers shall comply with local laws, pay wages no less than the generally prevailing scales for similar work, furnish laborers with adequate protection against accidents, disease, et cetera, and see that they get shelter, water, and food at reasonable rates. Similar provisions have been included in other procurement contracts in Bolivia and no reason is seen why a fair employer should object to them.

HULL

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811.20 Defense (M) Bolivia/1330 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

[Extracts]

LA PAZ, December 17, 1943—9 p. m.

[Received December 18—2:30 a. m.]

1974. There has been no further progress in the discussions of the draft of the quinine agreement although there are indications that the Government has been trying to establish its own position for such discussions (see Department's telegram 1348, November 18, 9 p. m., and my 1921, December 8, 6 p. m.<sup>9</sup>).

The Foreign Minister officially and the Minister of Agriculture on a personal basis told me today that a decree had been drafted for the President's signature tomorrow prohibiting all exportation of bark and quinine products from Bolivia excepting by permit or excepting where an international agreement might exist and that this decree would be promulgated tomorrow.

The arrangement contemplated in the decree for the issuance of permits will probably be represented to the Argentine Ambassador as a [plan] by which they can continue to get some quinine if they reverse their position prohibiting wheat and other commodities to Bolivia. The measure as a whole is illustrative of Bolivia's struggle to maintain their footing between two opposing influences, that of the U. S. to obtain quinine for armed forces of the United Nations of which Bolivia is a member, the demand of Argentina to obtain quinine for speculators or for the Argentine Government which has adopted a menacing position with regard to their food and other supplies.

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<sup>9</sup> Neither printed.

The Bolivians have evidently done their best to place themselves in a negotiating position with both parties through the device of export permits at the same time yielding part way to our insistence that free export to neighboring countries be suspended.

BOAL

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**EFFORTS TO SECURE COOPERATION OF THE BOLIVIAN GOVERNMENT  
IN THE CONTROL OF FINANCIAL TRANSACTIONS INVOLVING THE  
AXIS**<sup>10</sup>

740.00112A European War 1939/23174 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, January 7, 1943—5 p. m.

[Received 9:03 p. m.]

27. Department's No. 5, January 1, 8 p. m.<sup>11</sup> Replacement of Proclaimed List firms. Embassy understands from Egger<sup>12</sup> that Mersereau, general counsel for the Export-Import Bank, is traveling to Ecuador soon leaving by January 11 and that Egger has discussed with him the possibility of his coming also to La Paz to advise on the basic organization of the Bolivian Development Corporation. I consider this an excellent idea and strongly recommend that if possible Mersereau do this both to discuss corporation problems with Egger and to discuss the replacement of Proclaimed List firms with the Embassy and the question of having an Export-Import Bank expert here. I hope Mersereau will be able to arrange his plans accordingly.

In the meantime while there is no formulated plan for replacement of Axis firms the attitude of the Bolivian Government on the issue of liquidation of Proclaimed List concerns remains unresponsive. I believe that with a definite plan for replacement Bolivian authorities may be expected to receive with more sympathy suggestions for strong action against such concerns. At the same time it seems necessary for us to establish a stronger motivation for this since at the present time Bolivian authorities apparently perceive no necessity or even desirability to move against Proclaimed List firms advancing that they are deemed essential to the national economy. Such motivation could be based on restrictions on sales of foreign exchange to Proclaimed List nationals and on the transportation of Proclaimed List

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<sup>10</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 615-631.

<sup>11</sup> Not printed; this telegram indicated that United States aid in the form of sending an expert must be preceded by concrete evidence of Bolivia's desire to eliminate Axis firms (740.00112A European War, 1939/22242).

<sup>12</sup> Rowland A. Egger, Manager of the Bolivian Development Corporation.

goods by common carriers; both of these subjects are receiving attention of the Embassy and will be reported on in the near future.

See also our telegram 26, January 7, 3 p. m.<sup>13</sup>

BoAL

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740.00112A European War 1939/22041 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, January 11, 1943—4:10 p. m.

A-238. Reference your undated despatch no. 942<sup>14</sup> concerning a general policy with respect to the sale, purchase or lease by acceptable firms or persons of property belonging to Proclaimed List nationals.

The Department believes that it is not practicable to attempt to formulate any precise principles governing the type of situation referred to in the Embassy's despatch under reference. The consideration referred to by the Embassy, to wit: the unusual economic value of goods and commercial properties in Bolivia during the present curtailment of international trade, should be weighed against the undesirability of permitting Proclaimed List nationals to dispose of properties which have a depreciating value, due to their inclusion in the List, for cash which may be used for pro-Axis activities and in the light of all other considerations. Cases of this nature will probably have to be dealt with largely on an *ad hoc* basis and the Embassy is therefore requested to report the pertinent facts of each case to the Department.

HULL

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840.51 Frozen Credits/8882 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, January 18, 1943—6:45 p. m.

A-251. Reference is made to the Embassy's despatch no. 1011 of December 19, 1942,<sup>15</sup> and in particular to the concluding paragraph thereof, in which it is suggested that the Department consider the licensing of all transactions of the Banco Central which affect its dollar accounts on deposit with its correspondent in the United States.

Careful consideration has been given to the Embassy's suggestion and conversations have been held with representatives of the Treasury

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<sup>13</sup> Not printed; this telegram concerned the shipment of two locomotives destined to move nonessential Proclaimed List commodities (811.20(D) Regulations/9474).

<sup>14</sup> Not printed; actually, the despatch was dated December 9, 1942.

<sup>15</sup> Not printed.

Department and of the Board of Economic Warfare. Despite the desirability of restricting the granting of foreign exchange to Proclaimed List firms by the Banco Central, it is not considered either practicable or feasible to impose the suggested sanction at the present time or to intimate to the Bolivian Ambassador that it may prove necessary to impose such a sanction unless the Banco Central refuses its exchange facilities to such firms.

This conclusion is based on the following considerations:

1. Effective control over all dollar transactions of the Banco Central would require the licensing not only of transfers of dollars which were obviously tied up with foreign exchange transactions, but also all transfers of dollars in the United States in order to make certain that no foreign exchange transaction was indirectly involved. This could be achieved only by *ad hoc* freezing the Banco Central and then issuing a general license permitting a few clearly defined transactions which could in no way involve foreign exchange manipulations, such as payment of charges of United States banks, payments for the account of individual United States exporters to Bolivia, et cetera. A recent proposal to *ad hoc* freeze certain government owned banks in Argentina (not including, however, the Central Bank) was rejected by the Department because of the delicate political considerations involved.<sup>16</sup> If for no other reason, the Department is opposed to applying a sanction against the Central Bank of a sister American republic, which has at least severed relations with the Axis, which it is not prepared to apply against government owned banks of another sister American republic which has not even severed such relations. Furthermore such action against the Banco Central might have unfortunate repercussions on our program of imports of strategic materials from Bolivia.

2. The desired result of preventing Proclaimed List firms in Bolivia from obtaining foreign exchange, particularly Argentine pesos, could be substantially achieved by threatening to freeze Argentine banks that refused to give an undertaking not to extend their facilities to Proclaimed List nationals but, as has been pointed out, this proposal has recently been rejected by the Department and it is not possible to reopen this question at the present time.

3. The only other method of imposing restrictions on the ability of the Banco Central to use its dollar accounts in the United States to grant foreign exchange facilities to Proclaimed List firms would be to have the Treasury monitor such accounts. Under such a system all proposed transfers from such accounts over a specified figure would be referred to the Treasury. If the purpose of any such transfer was not clear, the Treasury would inform the United States bank involved that a license would be necessary before the transfer could be consummated and that the purpose of the underlying transaction would have to be disclosed in any application for a license.

If the specified figure were low, monitoring would approximate *ad hoc* freezing; in other words such a system approximates *ad hoc*

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<sup>16</sup> See the undated memorandum prepared by James H. Mann, on aid to the Axis through use of Argentine financial facilities, p. 480.

freezing in direct proportion to the relation of the specified figure to zero. If the specified figure were high, it could easily be circumvented by the Banco Central's effecting transfers in amounts below the specified figure. The result would probably merely irritate the Bolivians without accomplishing the purpose intended.

4. It is not considered advisable to represent to the Bolivian Ambassador that sanctions might be employed against the Banco Central unless we are prepared to implement such representations.

For your information, even if the Department were prepared to approve such a sanction, licenses would necessarily have to be determined and issued by the Treasury, although the Embassy's recommendations would be sought in each case. Administratively, it would be impossible for United States banks to operate under a system where the licenses were issued by the Embassy.

The Department fully realizes that one of the keys to a solution of the problem of the replacement of Axis firms in Bolivia is a drying up of the sources of the foreign exchange which furnish the basis of importations of supplies by such firms from Argentina. It is the Department's belief, however, that a workable program for the replacement of Axis firms must be submitted to the Bolivian Government before the imposition of the suggested sanction on the Banco Central is further considered.

HULL

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840.51 Frozen Credits/9257

*The Ambassador in Bolivia (Boal) to the Secretary of State*

No. 1174

LA PAZ, January 21, 1943.

[Received January 29.]

SIR: I have the honor to refer to the Department's circular airgram of November 25, 1942, 7:30 p. m.,<sup>17</sup> concerning arrangements understood to be in existence between the Vichy Minister of Finance and Vichy representatives in foreign countries to facilitate the transfer of private funds to France.

In accordance with the Department's instruction under reference, this information was brought to the attention of the Bolivian Minister of Foreign Affairs. The Minister of Foreign Affairs has now replied, in a note of January 13, 1943, a translation of which is enclosed,<sup>18</sup> stating that this information has been given to the Bolivian Ministry of Finance in order that appropriate security measures may be taken.

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<sup>17</sup> Not printed; in this airgram the Department urged caution in accepting the report that France was prepared to accept local currency from people wishing to transfer money to France (840.51 Frozen Credits/8219).

<sup>18</sup> Not printed.



The Oficial Mayor (chief officer) of the Ministry of Finance telephoned me on January 19, 1943 and said that the Ministry of Finance desired to inform the banks and warn the public regarding the possible misuse of Vichy funds and prohibitions which the Bolivian Government would make regarding such funds, and asked if there were any objection to publishing the information in the note without mentioning the Embassy as the source. I told him that this publication could be made for the purposes mentioned.

The Ministry of Finance has now issued a public notice concerning this matter which was published in the La Paz newspapers on January 20, 1943. A translation of the public notice is enclosed <sup>20</sup> for the information and files of the Department.

Respectfully yours,

PIERRE DE L. BOAL

840.51 Frozen Credits/8882

*The Secretary of State to the Ambassador in Bolivia (Boal)*

No. 612

WASHINGTON, February 19, 1943.

The Secretary of State refers to the Embassy's despatch no. 1089, dated January 7, 1943,<sup>20</sup> and to the Department's airgram A-251, dated January 18, 1943.

The position of the Department on the second proposal <sup>21</sup> made in the Embassy's despatch under reference with regard to controlling foreign exchange transactions by the Banco Central was set forth in the Department's airgram A-251. The political difficulties involved in freezing the Banco Central's accounts in this country are, as the Embassy notes, serious, and are regarded by the Department as insurmountable, at least until such time as a practicable program for replacing the Axis firms has been submitted to the Bolivian Government.

The first alternative proposed by the Embassy <sup>22</sup> has been explored by officers of the Department and representatives of the Board of Economic Warfare, Metals Reserve and Treasury. A memorandum of

<sup>20</sup> Not printed.

<sup>21</sup> The essence of this proposal was that "The Banco Central would be advised that in the future, in order to use its dollar accounts in the United States for the purchase of other foreign exchange (Argentine pesos, Chilean pesos, Peruvian soles, and so on), it would have to secure licenses from the Embassy." (840.51-Frozen Credits/9183)

<sup>22</sup> This alternative was as follows: "The recommended plan would call for that portion of the payment by the Metals Reserve Company to the producers of minerals exported to the United States, which under Bolivian law must be turned over to the Banco Central as free foreign exchange, to be released by the Metals Reserve Company for the account of the Bank only upon signature by the Banco Central of an agreement that no portion of the amount involved would be made available for the purchase of Argentine currency or any other foreign currency without the express prior approval of the United States' Treasury authorities in each instance." (840.51 Frozen Credits/9183)

conversation covering the discussion is enclosed <sup>23</sup> for the information of the Ambassador and the files of the Embassy. As indicated therein, it was felt that this plan would in effect amount to freezing the Banco Central's accounts, and was therefore open to the same objections on political grounds as direct freezing. Certain other practical objections were raised, as the Embassy will note, against using the metals contracts as a vehicle for implementing the Proclaimed List except as a last resort.

The Embassy's attention is directed to the query as to the mechanism by which the mining companies finance their purchases of supplies in the Argentine. This point has never been checked, but if the Embassy is of the opinion that the companies may be trading with Proclaimed List firms in the Argentine, controls might be instituted on their dollar balances here.

The Embassy's attention is also directed to the plan proposed by the Treasury which is outlined in the attached memorandum. The Embassy will note that this is a variation of the monitoring plan. Its chief advantage over freezing is that it would be handled by the New York bank without the appearance of direct governmental intervention, although the Central Bank would probably know that the Treasury Department was behind the action. It would not be proposed to do more than tie up the transaction while cables were exchanged, unless the Banco Central should reply that the Argentine pesos would be made available to Proclaimed List firms, without offering any justification, a contingency which seems extremely unlikely. It is the Department's present position that this plan does not avoid the political difficulties inherent in any action directed at an agency of a friendly American government. In this connection, unless the Department were prepared to approve the freezing of the Central Bank's accounts in the United States, (in the event that the Bolivian Government failed to cooperate in the development of a program to eliminate Proclaimed List firms in Bolivia) holding up such a transaction and then permitting it to go through, despite the existence of Proclaimed List interests, would probably be construed as a sign of weakness by the Bolivians and seriously hamper our ability to carry out many of this Government's objectives in Bolivia. Nevertheless, the Department would appreciate the views of the Embassy as to whether, in the Embassy's opinion, any real advantage would be gained by adopting tactics of nuisance at this time. Since Mr. Ramsey,<sup>24</sup> who is fully aware of the Department's views, is expected to leave for La Paz within the week, the Embassy may wish to delay its

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<sup>23</sup> Not printed.

<sup>24</sup> Henry C. Ramsey, Board of Economic Warfare, on detail to the Foreign Funds Control Division of the Department.

reply until such time as officers of the Embassy have had an opportunity to discuss the problem of foreign exchange with him.

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740.00112A European War 1939/28781a : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, April 10, 1943—9 p. m.

535. Upon the basis of your report <sup>25</sup> that participation by the Development Corporation will be politically acceptable, the Department and Export-Import Bank approved in principle your suggestion as to the use of the Development Corporation and the creation of a subsidiary.

As we understand it, the subsidiary will perform the following functions: (a) it will act as a conduit for the transfer of Proclaimed List firms; (b) it will finance the purchase of such firms by desirable firms; (c) it will act as a lender of funds to desirable firms for the purpose of implementing the replacement program in its early stages; and (d) it will be the agency charged with the responsibility for administering the replacement program with full powers to force transfers or liquidation of Proclaimed List firms and to appoint and supervise interventors. We believe that the formation of a bank which would operate generally as a commercial bank would be politically inexpedient. We request, therefore, that the use of the name "bank" be avoided and that the subsidiary's functions be limited to those specified above.

In connection with (c) above, we have some doubts as to the advisability of providing working capital for desirable firms during the interim period in addition to capital needed for the purchase of the Axis firms. We are, however, prepared to see a \$500,000 short term credit established for this purpose, if necessary, but a detailed airgram <sup>26</sup> which will follow in the next 2 days will raise various problems in this connection for your careful consideration.

The Department and Export-Import Bank believe that initially a \$2,000,000 credit will be sufficient for financing the purchase of Axis firms. This figure can, of course, be revised upwards if future investigations prove that additional funds are necessary.

HULL

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<sup>25</sup> Airgram No. A-228, March 19, not printed.

<sup>26</sup> No. A-427, April 16, p. 586.

740.00112A European War 1939/28911 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, April 15, 1943—3 p. m.

[Received 5 :21 p. m.]

737. For Bonsal.<sup>27</sup> Reference Embassy's 730, April 14, 5 p. m.<sup>28</sup> I have asked Ramsey to prepare some further basic data as to possible methods of control of Axis and Proclaimed List interests in Bolivia which might be open to the Bolivian Government in view of the step it has taken looking to an eventual formal declaration of war.<sup>29</sup>

Such measures might include the establishment of a Bolivian Proclaimed List on which Axis or cloaking firms might be placed progressively as replacement for them is organized. It might also include the appointment of an alien property custodian and the idea of arriving at the naming of a person who could be relied on to act effectively. It might further include if that is possible a transfer of some of the existing controls, particular[ly] financial controls, to that person.

I hope to have Ramsey's conclusions by tomorrow night to be in a position to approach the Government the day after tomorrow or April 19. I will appreciate having your views on the subject of such an approach and on the matters brought up in Mr. Ramsey's No. 730, April 14, 5 p. m., before initiating these discussions.

We contemplate the possibility of arriving at an understanding involving a statement by the Bolivian Government of what it might be willing to do either prior to or subsequent to the meeting of Congress and requesting replacement financial assistance from the United States so that the matter may be on Bolivian initiative rather than ours.

Therefore, if anything is to be accomplished [apparent omission] in the form of an approach by the Bolivian Government and a subsequent memorandum of understanding during President Peñaranda's departure. In fact as the Development Corporation is having a meeting on April 26 at which a representative of the Export-Import Bank will be present it would really be necessary to have this groundwork laid before that time so as to be fully informed of the measures the Development Corporation will take before President Peñaranda's departure. Under these circumstances if it is desired that I make the approach conversations should be begun as soon as possible.

BOAL

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<sup>27</sup> Philip W. Bonsal, Chief of the Division of the American Republics.

<sup>28</sup> Not printed.

<sup>29</sup> For correspondence concerning steps leading to Bolivia's declaration of war, see pp. 543 ff.

740.00112A European War 1939/27812 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, April 16, 1943—6:30 p. m.

A-427. Your A-228, March 19,<sup>30</sup> which was not received in the Department until March 30, and Department's telegram no. 535, April 10.

1. Upon the basis of the information set forth in your airgram we are in complete agreement that Proclaimed List firms in Bolivia cannot be eliminated solely through competition by desirable firms and that the cooperation of the Bolivian Government is a *sine qua non* to achieving our ultimate objective. You are, therefore, authorized to maintain the position that we are not interested in financing a replacement program unless such cooperation is forthcoming. We believe that as a minimum this cooperation should be evidenced by the following: (a) the enforcement and (to the extent necessary) the amendment of existing decrees against the sale of foreign exchange to Proclaimed List firms so as to guarantee that no Proclaimed List firms either within or without Bolivia will obtain any such exchange for any purpose whatsoever; (b) the promulgation of a decree prohibiting all transport over Bolivian railroads of goods consigned to or by Proclaimed List firms or persons acting therefor; (c) the promulgation of a decree providing for the forced transfer or liquidation of Proclaimed List firms within a period not to exceed 6 months, and providing for the appointment of interventors, with full powers to effect such liquidation or forced sale, to supervise and manage the activities of the firms during the interim period, to discharge undesirable employees, etc.; (d) amendment to the existing freezing controls so as effectively to freeze the present assets of the Proclaimed List firms, the proceeds of liquidation or forced sale and the personal assets of the individual undesirable owners of such firms; and (e) the effective enforcement of the foregoing provisions. We recognize that for the time being exceptions from the foreign exchange and transportation decrees may have to be made to enable certain essential supplies to be imported from Argentina (e.g. drugs) where the sole source of such supplies is Proclaimed List firms. We believe, however, that any decision on this latter point should be reserved until further survey of the Argentine supply situation has been made.

2. As pointed out in our telegram, the Department and Export-Import Bank approve your suggestion that the Bolivian Development Corporation operating through a subsidiary should be a part of the plan which you propose to the Bolivian Government for its consider-

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<sup>30</sup> Not printed.

ation. In this connection we assume that the only objection to the Development Corporation's participation would arise from the possibility that the public might assume that credits established for development purposes were being diverted to finance the replacement program and that this objection will be met by establishing a subsidiary with a supplementary line of credit. If you believe that popular opposition on any other basis might be anticipated, please advise us.

As pointed out in our telegram, we feel strongly that the subsidiary should not be called the "bank" and that its functions should be limited to those specified in our telegram.

We also believe it is important that the subsidiary be designated as the agency charged with full responsibility for administering the replacement program and that it be given full power to force the transfer or liquidation of the Proclaimed List firms and to appoint and supervise the interventors. We believe that unless the administration of the replacement program is handled by the subsidiary the probabilities are that the program will fail.

3. The Department and the Export-Import Bank agree that the financing of the replacement program should take the form of a new agreement for a supplemental credit rather than an amendment to the existing agreement which would provide for rotating credit. In view of the fact that your suggested figure of \$4,000,000 to \$5,000,000 appears to be based upon preliminary estimates only, we would prefer that the initial credit be in the sum of \$2,000,000 with the understanding that this will be increased if future circumstances so require. We believe that the theory that a \$4,000,000 or \$5,000,000 credit would give the subsidiary "stability" is related to a desire on the part of Crespo<sup>31</sup> to see an institution established which would perform regular commercial banking functions. As we have already indicated, we believe that the establishment of such an institution financed by United States Government funds would be extremely unpopular and therefore politically inexpedient. Accordingly, to counteract any possible intentions along these lines on the part of Crespo we believe that the credit should bear some reasonable relationship to the probable demands in connection with the replacement of Proclaimed List firms.

An appropriate agreement to provide for this credit can be arranged so as to permit the full utilization of the funds made available.

4. As we understand it, under the plan which will be proposed to the Bolivian Government, the subsidiary will be organized and we will agree to establish the credit before the necessary action by the

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<sup>31</sup> Alberto Crespo, President of the Bolivian Development Corporation.

Bolivian Government is taken. The actual establishment of the credit and the making of funds available thereunder would, however, not take place until the Bolivian Government had taken such action.

5. In its broad outline, the financial pattern which you describe seems satisfactory. However, we would like you to detail the manner in which necessary imports into Bolivia, which are presently handled by Proclaimed List firms, are going to be financed during the transition period. In this connection, we understand that while existing stocks in the hands of Proclaimed List firms may be sufficient to take care of the consumer needs during the transition period, the flow of imported goods into Bolivia must be maintained at normal levels in order to protect the Bolivian economy and to provide an adequate supply when the transition period is ended. Several possible alternatives suggest themselves:

(a) Since your replacement program calls for prohibiting the granting of foreign exchange to Proclaimed List firms, we gather that you contemplate that desirable firms will take up the slack in imports. One way this could be accomplished is by the expansion of W. R. Grace and Company in the import field. As subsequently noted we are opposed to this course; we believe that the assumption by W. R. Grace and Company of a position of major importance in the import field would render us particularly vulnerable to charges of imperialism because of the potential power that can be exercised by any firm which dominates the Bolivian import picture. Another way is to have desirable Bolivian firms do the necessary importing. In view of the apparent lack of financial resources this would presumably require financing on our part. However, as we indicated in our telegram, we have some doubts as to whether such a procedure would be advisable. In the first place, it seems to us that it will be impossible to be absolutely certain which desirable firms will replace which Proclaimed List firms. As a result, we might find ourselves financing imports by desirable firms who may never replace any Axis firm. Added to this is the fact that in some cases we might be called upon to finance imports by two competing desirable firms both claiming (possibly with some degree of plausibility) that the imports were necessary to maintain the economy of a particular area in Bolivia. In the second place, we understand that there are some areas in Bolivia where the Proclaimed List firms are the only firms doing business. If our financing is confined to the desirable firms who are going to replace such Proclaimed List firms, such desirable firms either must find other warehouse facilities in the area which they will subsequently take over or store the imports in other places where they are presently operating and reship the goods into the area in question at a later date. The

first alternative may be impossible of achievement because of the lack of warehouse facilities; the second alternative seems to us to create not only warehousing problems but transportation problems which may be insurmountable in view of the congested state of the Bolivian railways. In the third place, financing of desirable firms, if widespread, may deter the transfer of the intervened firms to desirable purchasers. Desirable firms might figure that with credit facilities to finance imports so readily available there is little advantage in assuming the long-term obligations that will necessarily be involved in taking over the Proclaimed List firms.

(b) The interventors of the Proclaimed List firms could be allowed to import the supplies necessary to maintain the Bolivian stock pile under appropriate licenses. We recognize that this would require a relaxation of the proposed ban on the sale of foreign exchange to Proclaimed List firms and that, if the licenses were to be issued by the Banco Central, it would probably be difficult to keep the number of licenses down to a minimum. However, it would seem that the exercise of appropriate control by the subsidiary over the interventors would minimize any problem in this latter connection. We also recognize that the ability to import would increase the authority of the interventors and, by enabling them to replenish depleted stocks, increase their desire to postpone the day of final liquidation or forced sale and that due to the probable scarcity of reliable interventors you believe it advisable to limit their authority as much as possible. However, if the subsidiary exercises the contemplated control over the interventors, the difficulties on this score should not be insurmountable.

If the interventors are permitted to import, the problem arises as to how these imports will be financed. If the interventors are given custody of the cash assets as well as the physical assets of the Proclaimed List firms, the cash assets could be used for this purpose and no financing on our part would appear necessary. If, however, title to physical assets only is transferred to the interventor, as agent for the subsidiary, and notes for the value of such physical assets are issued at the time the intervention starts, presumably financing from Export-Import Bank funds will be necessary. Under this latter procedure, the cash assets of the Proclaimed List firms would presumably be completely immobilized until the end of the war. In this connection, we believe that it would be preferable to have such cash assets put to use and would appreciate your views as to the manner in which it is contemplated that this problem would be handled.

As stated in our telegram, we are prepared to see a \$500,000 credit established for the purpose of financing imports during the transition period. We feel that the term of this credit should be 6 months or



some other short period, since the turnover of the imports should take place quickly. Also, it may be advisable to make the rate of interest on loans from this credit comparatively high so as to help keep the amount of funds advanced at a minimum. However, before a final decision is reached on this point or on the question of the manner in which these funds should be made available, we should appreciate receiving your comments on the various problems raised in this section.

6. We assume from your airgram that it will be necessary for the entire financing requirements of the program to be met from the new credit, and that the Bolivian Government's participation will be limited to its guarantee of repayment. As you know, we prefer that purchasers under the plan make some cash investment of their own, and it might be desirable from the point of view of the Bolivian Government, since it sustains the entire risk of ultimate loss, to state as a general requirement that the prospective purchaser put up a certain percentage of the necessary capital. Such a requirement would, of course, have to be subject to waiver by the Development Corporation in cases where financing by the purchasing firm is impracticable for one reason or another.

7. We note that part of your program calls for a detailed analysis not only of the Proclaimed List firms to be liquidated or replaced, but also of the desirable Bolivian firms to be expanded and that you expect to enlist the aid of interested firms and business men in Bolivia in the preparation of such an analysis. We are sure that you realize the necessity of exercising extreme caution in working along these lines in order to avoid being subject to the charge that you are playing favorites among the desirable firms. If that eventuality should occur, you, of course, realize that it might cause the entire replacement program to backfire. Accordingly, we believe that in so far as possible you should let the Bolivians take the initiative in deciding which desirable Bolivian firms should replace which Proclaimed List firms. Especial care should be exercised, of course, in dealing with the problem of permitting W. R. Grace and Company, or any other American firm, to expand its operations into areas of trade now dominated by the Axis. The Bolivians would probably consider any large scale participation by American interests in the replacement program to be inconsistent with the Bolivian objective of restoring dominance of the Bolivian economy to Bolivians. Since we take it that the desirability of the replacement program from the Bolivian point of view will be urged on the basis of this nationalistic feeling, it will be necessary that Bolivian concurrence be gained for any American participation.

8. With respect to the type of controls which the Bolivian Government should be asked to promulgate, we are wondering whether it would be possible to obtain a decree requiring Proclaimed List nationals in Bolivia to repatriate their funds from Argentina. Such a decree could be justified by the fact that most if not all of the funds probably found their way to Argentina in violation of the existing Bolivian controls. Such a decree, if enforced, would have obvious advantages from our point of view and we would appreciate your comments as to the possibility of obtaining it.

9. Your proposal concerning the use of promissory notes, properly circumscribed, to pay for the assets of the Proclaimed List firms appears satisfactory, although there would seem to be one basic difficulty which you should bear in mind. As you point out, the use of such notes will make the amount of funds required from the Export-Import Bank credit practically negligible. On the other hand, the Bolivian Government may reason that they are passing decrees at our request, risking possible dislocation of the Bolivian economy by replacing established Proclaimed List firms with new or less well established firms, and assuming a substantial risk of loss, without gaining any compensating advantages. As a consequence, you may wish to explore the possibility of requiring the subsidiary to pay in cash for the assets of the Proclaimed List firms. The Bolivian Government could then issue a decree requiring the investment of these funds in a special issue of Government bonds which could be made subject to the same circumscribing conditions as the notes. This would give the Bolivian Government funds for use in expanding certain of its activities and might make the replacement program more attractive. This is merely a tentative suggestion on which the Department would appreciate your comments. Accordingly, you should not include such a procedure in any program you may evolve unless you have received further word from the Department on the subject.

Whether notes or bonds are used, we believe that provision should be made so that such notes and bonds should be held by the subsidiary in special custody accounts rather than delivered to the interventors or to Bolivian banks for custody. This would assure us that the blocking would be effective.

10. We see no objection to the deletion from the Proclaimed List of Bolivian employees of Proclaimed List firms, where the sympathies of such employees are unquestioned and when the firms have been liquidated or sold to desirable Bolivian nationals.

We will await further word from you concerning the details of your replacement plan before taking any further action.

HULL

740.00112A European War 1939/28911 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, April 19, 1943—8 p. m.

575. Your 730, April 14,<sup>32</sup> and your 737, April 15. We are, of course, desirous of seeing the replacement program in Bolivia put into effect promptly. We understood, however, that you believed it advisable to defer any approach to the Bolivian authorities until you could present a fairly detailed outline of a replacement program for their consideration. We also understood that this attitude was predicated upon the belief that the Bolivians would not be disposed to act unless we were first able to make some concrete suggestions as to how the problem of supplying Bolivian import needs could be handled and that vague references to United States financial assistance would not be sufficient.

Nevertheless, we recognize that the basic question is one of timing in the light of local conditions. You are therefore authorized in your discretion to approach the Bolivian authorities immediately, having in mind the above-mentioned considerations.

We do not believe that the approach should be made jointly with the British. However, in view of the British interest in the transportation problem, we would have no objection to the British taking independent but parallel (as distinguished from joint) action. We do not believe that the Brazilian or Mexican representatives should be brought into the picture.

We believe that at present your approach should be informal and should be directed merely toward exploring the possibilities of obtaining the cooperation of responsible Bolivian officials in working out the details of a replacement program. We do not wish you to present any formal plan or reach any understanding until you have had an opportunity to consider and to report fully your comments on the views expressed in a detailed airgram which has just gone forward.<sup>33</sup>

While we recognize that a Bolivian Proclaimed List may be a helpful adjunct to an effective local control and replacement program by publicly indicating the firms to be subjected to control, we do not believe you should make it a *sine qua non* of our assistance in the replacement program. A local List, which generally connotes public stigmatization and public boycott, is usually the last step in the development of effective local controls and is designed to take care of firms which are inherently bad, which are not essential to the local economy and which therefore should be liquidated. The problem in Bolivia is

<sup>32</sup> Not printed.

<sup>33</sup> Airgram No. A-427, *supra*.

what to do with firms which are essential to the local economy and the solution to this problem appears to lie in effective vesting or forced sale provisions rather than in a local List. Accordingly, in any conversations you may have we believe you should stress the importance of evolving effective controls over essential firms, whether or not they are publicly branded as undesirable, rather than press for the establishment of a local List. Similarly, we believe you should proceed cautiously on the subject of an Alien Property Custodian. Such a Custodian, unless he were clearly the right person, might turn the whole replacement program into a political football and prevent the subsidiary of the Development Corporation from doing an effective job. In this connection, the establishment of an Alien Property Custodianship might result in a decision on the part of the Bolivian Government to operate the Proclaimed List firms as government enterprises for a substantial period of time, which we understood it was not equipped to do and which might delay the taking of effective clean-up measures. While our economic warfare objectives might be better achieved if the Bolivian Government were to adopt a replacement program which left open the question of ultimate compensation for Proclaimed List properties, you will realize that this can be accomplished by appropriate legislation which need not necessarily involve an Alien Property Custodian.

HULL

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740.00112A European War 1939/29925a : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, April 26, 1943—9 p. m.

607. From Acheson.<sup>34</sup> Your 780, April 22, 6 p. m.<sup>35</sup> We are not specifically aware of Ramsey's proposed economic defense board and question advisability of urging establishment at this time of any Bolivian Government agency which would participate in replacement program (other than subsidiary of Development Corporation). Such agency might arrogate to itself the job of replacing Proclaimed List firms and prevent establishment of proper functioning of subsidiary, which we believe indispensable to effective replacement program. However, you are authorized to recommend to Bolivian authorities that some Bolivian Government agency, separate from Banco Central and Ministry of Finance, be established to act as nucleus for planning replacement program and with full authority to dispose of applications for foreign exchange by Proclaimed List firms during interim period provided you are satisfied that (1) there is real need for such

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<sup>34</sup> Dean Acheson, Assistant Secretary of State.

<sup>35</sup> Not printed.

agency and agency will effectively limit sales of foreign exchange to essential imports; (2) agency will be assigned competent staff and (3) agency will not endanger contemplated position of subsidiary in replacement program.

We do not believe it would serve any useful purpose to approach Bolivian Ambassador here. Previous talks with him have been on basis of prohibition against all sales of foreign exchange to Proclaimed List firms. Now we recognize need for temporary exceptions and, since he is probably not acquainted with recent developments, talking to him along lines you suggest would only confuse situation. Final decision must be made in La Paz and you are in best position to obtain desired result. [Acheson.]

HULL

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740.00112A European War 1939/29926 : Telegram

*The Chargé in Bolivia (Woodward) to the Secretary of State*

LA PAZ, May 1, 1943.

[Received May 1—10:05 p. m.]

832. The Department's 607 of April 26, 9 p. m. The Bolivian Cabinet late yesterday promulgated a decree which establishes an Economic Defense Board to study the matter of implementing certain of the recommendations of the Washington Conference on Systems of Financial and Economic Control.<sup>36</sup>

The text of the decree follows:

"Considering that in accordance with the Resolutions of the Third Meeting of the Foreign Ministers of the American Republics held in Rio de Janeiro in January of 1942<sup>37</sup> and of the Inter-American Conference on Systems of Financial and Economic Control held in the same year and in accordance with the supreme decree of April 7, 1943 means must be sought by which the Government of Bolivia will be able to attain the objectives on the above mentioned Resolution in conformity with the situation created by the supreme decree cited on [*sic*] Council of Ministers, it is decreed.

Sole article. There is hereby established a board designated as Economic Defense Board of Bolivia composed of the Ministers of Foreign Relations, of Finance, of National Economy, the Chief of the General Staff, a representative of the National Chamber of Commerce, and another from the National Chamber of Industries which shall be entrusted with the recommendation of procedures by [which?]

<sup>36</sup> For comment on this Conference, June 30–July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff. For text of recommendations, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942).

<sup>37</sup> For correspondence concerning this meeting, see *Foreign Relations*, 1942, vol. v, pp. 6 ff. For text of the resolutions, see Department of State *Bulletin*, February 7, 1942, pp. 117 ff.

the supreme decrees of June 20, 1941, of December 10, 1941 and of July 15, 1942 may be applied as well as with the duty of bringing to the consideration of the supreme Government the plans and regulations which may be necessary. The Ministers of Foreign Relations, of National Economy, and of Finance are hereby charged with the execution and compliance with supreme decree."

Comment on this decree is contained in the Embassy's 833.<sup>38</sup>

WOODWARD

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740.00112A European War 1939/29899 : Telegram

*The Chargé in Bolivia (Woodward) to the Secretary of State*

LA PAZ, May 1, 1943—2 p. m.

[Received 8:40 p. m.]

833. For Meltzer and Tonnenwald [*Tannenwald*]<sup>39</sup> from Ramsey. Embassy's 832, May 1. The Ambassador was informed last evening by the Foreign Minister that the decree transmitted in the telegram under reference will serve as the basis for a proposed exchange of notes between the Bolivian Government and the Department of State while the Foreign Minister is in Washington. As I understand it the Bolivian Government will take the formal initiative to ascertain through the proposed exchange of notes what financial assistance if any the United States is prepared to offer in connection with the proposed replacement of Proclaimed List firms in Bolivia.

In my opinion the decree furnishes no hopeful basis from which Bolivia's intentions with respect to an effective replacement program may be deduced. In the first place the Board created is controlled by the Government and more specifically by officials whose recent actions indicate a lack of sympathy in an effective replacement program. This aspect will be explained fully in a despatch being prepared for the May 4 pouch. In the second place a literal interpretation of the decree renders the Board impotent to study or plan an effective program. The decree of June 20, 1941 imposes certain controls on international commerce. The decree of December 10, 1941 freezes the funds of Japanese individuals and firms in bank accounts and securities, imposes controls over postal telegraphic and radio telegraphic communications and authorizes military surveillance of mining enterprises, railroads, air ports, radio telegraphic stations, oil wells, factories, et cetera. The decree of July 15, 1942 prohibits Axis nationals from transferring property except with the approval of Superintendent of Banks. The Board's functions, strictly speaking, are

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<sup>38</sup> *Infra*.

<sup>39</sup> Bernard D. Meltzer and Theodore Tannenwald were officials of the Department's Foreign Funds Control Division.

limited to an implementation of these decrees. The decree under reference conspicuously omits assigning the Board any functions with respect to the supreme decrees of December 11 and December 12, 1941 which have [*sic*] German and Italian nationals and which contain the most restrictive controls which Bolivia has thus far imposed on inimical interests. [Ramsey.]

WOODWARD

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740.00112A European War 1939/29899 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, May 7, 1943—noon.

658. Your 833, May 1, 2 p. m. The Bolivian Foreign Minister <sup>40</sup> has informed the Department that he has telegraphed to La Paz, urging the issuance of a supplementary decree extending functions of Economic Defense Board of Bolivia to cover implementation of supreme decrees of December 11 and 12, 1941. As soon as such a decree is promulgated, please telegraph text to the Department urgently with your comments as to whether it meets satisfactorily the second objection raised by Ramsey to the decree of April 30, 1943.<sup>41</sup>

HULL

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740.00112A European War 1939/31033 : Telegram

*The Chargé in Bolivia (Woodward) to the Secretary of State*

LA PAZ, May 22, 1943.

[Received May 22—2:15 p. m.]

959. For Foreign Funds Control Division. The interim Foreign Minister <sup>42</sup> in an interview published in *Ultima Hora* May 21 is quoted as having said :

“Faithful to its tradition of respect for formal agreements the National Government will carry out scrupulously its international promises. Concretely insofar as this may refer to the practical application of the recommendations adopted by the Inter-American Conference on Systems of Economic and Financial Control which we signed in Washington in July of last year the Government is studying carefully their application. We will very shortly take the first step to make effective that control in accordance with the constitution the laws and the special regulations under which foreign industry and commerce are carried on within the country. There is then no reason for lack of confidence nor for impatience. The executive will submit at the proper

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<sup>40</sup> Foreign Minister Elio accompanied President Peñaranda on his visit to Washington.

<sup>41</sup> For text, see telegram No. 832, May 1, from the Chargé in Bolivia, p. 594.

<sup>42</sup> Pedro Zilveti Arce.

time to the legislature other analogous measures designed to fulfill its obligations under those recommendations."

WOODWARD

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740.00112A European War 1939/31477 : Telegram

*The Chargé in Bolivia (Woodward) to the Secretary of State*

LA PAZ, May 29, 1943—noon.

[Received 6:48 p. m.]

994. For Hiss<sup>43</sup> from Ramsey. The Minister of Hacienda<sup>44</sup> informed me last night that the Bolivian Government will today or Monday intervene 19 Axis firms (including branches) and will officially promulgate the decrees governing interventorship which have been transmitted as enclosure 11 to despatch 1679 under date of May 14 and enclosure 2 to despatch 1712 under date of May 21.<sup>45</sup> Interventors have been recommended by the Economic Defense Board and will be appointed by the interim President.<sup>46</sup> In response to questions on my part Espada stated (*a*) that rules and regulations will be issued which will assure the interventors full powers of management and control, (*b*) that receipts of the intervened businesses will be blocked in accordance with the Washington Conference, (*c*) that no foreign exchange or credits will be granted in respect of intervened firms except to the interventor, (*d*) that the Superintendent of Banks will rigidly enforce the supreme decree of July 15, 1942, to prevent owners of the intervened firms from transferring the assets or obtaining money by loans against such assets, and (*e*) that the intervention will be gradually tightened and broadened toward the end of transferring the assets of intervened firms pursuant to a constitutional law to be approved by the Bolivian Congress. The firms to be intervened include all of the essential listed firms recommended to the Economic Defense Board by the Embassy and transmitted with despatch 1689, May 14,<sup>47</sup> except Gundlach and Company, Imprenta Antoniana, and Helmuth Abel (whose only important asset, a launch, has recently been sunk). The branches of such firms will not be intervened by separate interventors at present but Espada assured me that selections will be made in the near future if such seems desirable or is recommended by the Embassy. He stated that he would work closely with the Embassy in selecting additional interventors or in selecting

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<sup>43</sup> Donald Hiss, Chief of the Foreign Funds Control Division.

<sup>44</sup> Joaquín Espada.

<sup>45</sup> None printed.

<sup>46</sup> Waldo Belmonte Pool was Acting President from April 30, 1943, to July 5, 1943, during the absence of President Peñaranda.

<sup>47</sup> Not printed.



additional firms or branches to be intervened or in replacing interventors who proved ineffective. He said that we should not be too concerned if "the lid were not nailed down too tight on the German firms at present" and that we might rely on his cooperating with us in making the interventorships thoroughly effective. He stated further that the interventors would be directly responsible to the Superintendent of Banks and that he would superintend their activities rigidly through that official. He also said that he would immediately investigate whether any of the intervened firms had been guilty of exporting capital and that if [he] found any firm guilty of such offense he would give it the alternative of returning such capital to Bolivia or having its assets confiscated immediately. Espada showed me a list of 18 interventors who had been selected for appointment. Espada has stated that they may be replaced for cause if their actions do not prove satisfactory. He stated that six of the interventors had been of his own selection and that five more were equally competent men; he further stated that he was fearful of only one interventor on the ground that he was suspected of being favorably inclined toward Kyllmann, Bauer y Compañía.

We consider this step together with Espada's assurances of continued cooperation as a heartening step forward in proposed replacement program. [Espada?] also indicates the desirability of remaining on the job and working closely with the Bolivians during this critical interventorship stage and toward the end of stimulating more effective controls and preparing the stage for the presentation of a forced transfer law to the Bolivian Congress.

Wynn requests that Rosenthal, Lazo, Oppenheimer, Stone, and Kazen of BEW be advised of this development. [Ramsey.]

WOODWARD

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740.00112A European War 1939/31550 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, June 15, 1943—6:30 p. m.

A-545. Your despatch 1762 of May 25.<sup>48</sup> Statement page 4 enclosure no. 1, despatch under reference about use by Bolivian Government of portion of blocked accounts to be deposited in subsidiary in exchange for bonds implies subsidiary is to be a depository of funds. This is not believed to be desirable.

In the first place, Department and Export-Import Bank are both opposed to commercial banking functions on the part of subsidiary; secondly, under the present set-up the interventors will be entirely free from even the indirect control over them by the subsidiary which

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<sup>48</sup> Not printed.

earlier plans had contemplated. Under the proposed interventorship decree, the interventors seem to have the function of controlling operations involving cash and blocked accounts, with responsibility to the Superintendent of Banks. Accordingly, the Department is opposed to the administration of funds by the subsidiary.

Espada's concern over immediate organization of subsidiary and use of blocked funds, as reported in despatch under reference, suggests that he contemplates that the subsidiary's financing of the replacement program will create blocked funds which will be available to the Bolivian Government. Is it his thought that the subsidiary will advance funds to purchasers to enable them to buy Axis firms and that these funds will be deposited in blocked accounts and that the Bolivian Government, by appropriate decree or law, will force investment of those funds in Bolivian bonds? <sup>49</sup> When such a possibility was mentioned in the Department's A-427 of April 16, it was merely a tentative suggestion made at a time when it was believed that the subsidiary would be the agency in charge of administering the replacement program and that it would therefore be in position to protect any cash it advanced. Under the present set-up this feature no longer prevails and the Department now sees political and fiscal dangers in creating funds which the Bolivians might use for purposes unrelated to the replacement program. Moreover, if payment in full from the purchasers would be required at the time of the transfer, the funds needed would be large in amount and would exceed \$2,000,000 credit which the Export-Import Bank is willing to make available. This is the figure mentioned in the present draft of notes to be exchanged here with the Bolivians. Alternatively, to get the Bolivians to agree not to use funds in blocked accounts in the names of the former owners raises the following objections:

(1) Such demands would be politically embarrassing and would leave an unfavorable impression which might prejudice the replacement program;

(2) There is no assurance that complete immobilization would be observed by the Bolivians once the funds are in Bolivia;

(3) Complete freezing would in effect confer no further benefit on the Bolivians than a stand-by credit and therefore hardly constitutes an added inducement; and

(4) A frozen account in the name of Axis sellers creates an implication of definite, although not immediate, obligation to those Axis interests in the amount in question and has therefore greater credit potentialities for the former owner.

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<sup>49</sup> In airgram No. A-516, July 16, the Chargé confirmed that this was Espada's plan, but contended that the United States would not be involved in the moral problems implied. He observed that the intent was for the subsidiary to engage in investment, not commercial banking, and that there would be little for it to do if the Department contemplated affording it merely a stand-by credit. (740.00112A European War, 1939/34102)

While an actual down payment by the purchasers at the time of transfer, not financed by the Export-Import Bank, is desirable, and even essential, in order to establish their good faith and stake in the enterprise and an incentive to prudent management, as well as to provide funds for necessary living expenses of displaced owners, the Department and the Bank feel that with respect to the balance of the purchase price transfers to purchasers can be made on the basis of credit extended by the Bolivian Government and that the latter in turn is not faced with the necessity of immediate payment of cash to the Axis firms. Therefore, the extent of financial assistance needed from the Bank is only a stand-by credit to meet eventual future payments to displaced owners not covered by payments theretofore made by the purchasers. The present draft of notes to be exchanged here with the Bolivians proceeds on the basis of a stand-by credit, under which arrangement, of course, no pool of blocked funds as conceivably contemplated by Espada will be created. Department appreciates that implications of stand-by credit in an exchange of notes might be misinterpreted and that Bolivian newspapers and possibly other circles will look upon the financial commitment as creating an immediate prospect of available funds.

The whole tenor of Espada's remarks as reported in despatch under reference indicates a feeling on his part that adoption of the replacement program is a concession which this Government is asking of the Bolivians and for which this Government must pay a price, rather than appreciation on his part of the fact that this Government is willing to aid financially if the Bolivians sincerely want to effectuate a replacement program.

Any such belief that may have arisen in Espada's mind should be dispelled, and it should be made clear that while the Development Corporation is making efforts to obtain the road and other equipment for its various projects for Bolivia, replacement of Axis firms is a wholly separate program entitled to stand or fall on its own merits.

Your views on these points would be appreciated.

HULL

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740.00112A European War 1939/33970 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, July 21, 1943—2 p. m.  
[Received 8:42 p. m.]

1263. For Latty, Foreign Funds Control.<sup>50</sup> I called on the Foreign Minister today at his request accompanied by Woodward and Ramsey.

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<sup>50</sup> Elvin R. Latty, of the Department's Foreign Funds Control Division.

We discussed the functioning of the interventors and the Foreign Minister and his advisers appeared disposed to bring about a greater scope of control by the interventors than now exists. The Foreign Minister has evidently had no word from Ambassador Guachalla regarding the projected exchange of notes and aid which might be granted through the Export-Import Bank and the Development Corporation. He asked me what progress had been made on this matter up to the time I left Washington. I told him discussions on the subject were progressing favorably when I left.

Please telegraph me what has been done on this matter since July 2 whether it has been taken up with Guachalla and whether notes have been exchanged or if not when they will be exchanged. If exchange of notes has been agreed upon with Guachalla, please telegraph them in full to the Embassy here as no confidential airmail drafts of the notes have been received.

BOAL

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740.00112A European War 1939/33970 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, July 29, 1943—2 p. m.

969. Your 1263, July 21, 2 p. m. The text of the proposed exchange of notes in regard to the program for replacement of Axis firms was discussed by the Department July 22 with Ambassador Guachalla, who has telegraphed his Foreign Office requesting permission to enter into the exchange.

[Here follows the substance of a note from the Bolivian Ambassador dated September 16, printed on page 604, and of the reply dated October 4, printed on page 605.]

You will note that it is not contemplated that any credits would be made available under the present intervention scheme but only in connection with a replacement program in cases in which the Export-Import Bank was satisfied with the reorganization of a particular business enterprise. In your conversations with the Bolivian authorities, you should make it clear that the figure of \$2,000,000 is an aggregate total and that the actual amounts to be made available would depend on the demonstrated needs for outside capital in each case. It is not envisaged that large credits will necessarily be required.

HULL

740.00112A European War 1939/35037 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, August 14, 1943—11 a. m.

[Received 4:19 p. m.]

1369. A proposed law was introduced in the Bolivian Senate yesterday which would place all Axis nationals with 30 years residence in Bolivia or with 20 years residence and a native born Bolivian wife or with 10 years residence and Bolivian born sons on an equal status with Bolivian nationals. The proposed measure also provides that Axis nationals meeting any one of these three conditions would be permitted full constitutional immunities and guarantees accorded Bolivian nationals and would further be permitted the development freely and normally any businesses owned or controlled by them. The measure further provides that economic warfare measures would not apply to such Axis nationals. Sponsors of the proposed law include three Senators from Santa Cruz and one Senator each from the Beni and Pando all of whom are members of either the dominant Liberal or Republican Socialist Parties. The political affiliations of the sponsors indicate that the law has good possibilities for passage unless the administration intervenes against it.<sup>51</sup> It is currently under consideration by the Senate Committee of Justice and Diplomatic Affairs.

We have been confidentially advised that the proposed law is a counter-offensive launched against the proposed replacement program by Proclaimed List nationals who would be most severely affected. As the Department knows the owners of the essential intervened Proclaimed List firms are almost entirely Axis nationals. The provisions of the law are skillfully designed to exclude from the operation of the proposed replacement program the principal spearheads of Axis penetration in Bolivia. The Embassy has also pointed out to the Department the difficulty of persuading the Bolivian authorities to bring Bolivian nationals within the scope of the proposed replacement program and other economic warfare measures.

The Embassy intends (unless otherwise instructed) to inform Foreign Office and Minister of Finance Espada informally that passage of the proposed law would serious[ly] jeopardize and might entirely preclude the proposed financial cooperation of the United States in connection with the replacement program.

BOAL

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<sup>51</sup> See telegram No. 1705, October 28, 10 a. m., from the Ambassador in Bolivia, p. 606.

740.00112A European War 1939/35037 : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, August 17, 1943—6 p. m.

1041. Your 1369, August 14. You are authorized to inform appropriate Bolivian officials informally that while adoption of proposed law is, of course, a matter for the Bolivian Government to decide, its passage would probably in large part render unnecessary United States financial aid which was based on the assumption of replacement of leading Axis firms seemingly exempted by proposed law.

HULL

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740.00112A European War 1939/35265 : Airgram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, August 30, 1943—7:30 p. m.

A-710. Reference your despatch no. 2083 of August 13<sup>52</sup> and the memorandum of conversation enclosed therewith. From Espejo's<sup>53</sup> remarks that \$2,000,000 will not get very far in the replacement program, it would seem that he has the expectation that the replacement program is to be financed by United States funds substantially to the full amount of the purchase price of the Axis properties to be transferred. It is probable that this expectation is being reflected in the Bolivian Congress. While your exposition of the financing procedure may have largely revised Espejo's expectations, the Department believes that it should be made entirely clear to the Bolivians that this Government sees no necessity for financing to that extent with United States funds.

It will be recalled from the conversations held while you were in Washington that the Department favors the exercise of considerable caution in making immediately available Export-Import Bank funds where a stand-by credit would be adequate to meet the exigencies of the replacement program. However, it will also be recalled that as a result of those conversations the Department agreed that various factual situations might arise requiring a flexible approach and that, therefore, the Department and the Export-Import Bank are ready to give sympathetic consideration to proposed financial arrangements in specific cases of replacement, even if such proposal should involve some immediate advance of Export-Import Bank funds beyond the amount that might theoretically be absolutely necessary over and

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<sup>52</sup> Not printed.

<sup>53</sup> Raúl Espejo, Chief, Commercial Section, Ministry of Foreign Affairs, and Chairman, Subcommittee of Economic Defense Board.

above a stand-by credit, provided that the proposed financial arrangement is recommended by you and is satisfactory to the appropriate officials of the Development Corporation from the angle of securing adequately the Bank.

The Department does not anticipate that in each specific case of replacement actual cash from the Bank will be advanced (beyond the needs of such payments as must be immediately or presently made to the vendors) simply to create a frozen account of an amount roughly equivalent to the aggregate value of all properties being transferred. It is believed that it might be worthwhile to clarify this point with the Bolivians to avoid the danger of a misapprehension on the part of the Bolivian Congress which may lead to recriminations and failure to push the replacement program in the event that the mistakenly expected financial aid is not forthcoming.

You are authorized to clarify the above point of view with the appropriate Bolivian authorities in event that you should feel that, despite the explanations which you have already made, some possibility of misinterpretation on their part still exists.

HULL

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740.24112 RP/9

*The Bolivian Ambassador (Guachalla) to the Secretary of State*

WASHINGTON, September 16, 1943.

[Received September 18.]

EXCELLENCY: In accordance with the resolutions of the Third Meeting of the Foreign Ministers of the American Republics held in Rio de Janeiro in January of 1942, and of the Inter-American Conference on Systems of Economic and Financial Control held later in the same year in Washington, my Government promulgated the supreme Decree of April 30, 1943, which created an Economic Defense Board and envisaged the ultimate taking of concrete measures to eliminate from the economy of Bolivia those private interests whose continued existence endangers the security of the country.

In achieving the above-mentioned result it will be necessary, *inter alia*, to effect the transfer of interests in business enterprises essential to the economy of the country from undesirable parties identified with the Axis nations to acceptable persons or firms. The Government of Bolivia is desirous of promptly effecting this transfer. It is anticipated that appropriate measures, legislative and otherwise, to this end will be instituted by the Government of Bolivia.

The Government of Bolivia envisages the possibility that the successful consummation of the foregoing replacement program will require financial resources beyond those which the Government of Bolivia or private sources within the country will be able to furnish. I therefore have the honor to inquire, on behalf of my Government, whether the Government of the United States would be prepared to render financial assistance in carrying out the replacement program when such appropriate measures have been undertaken.

I avail myself [etc.]

LUIS GUACHALLA

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740.24112 RP/9

*The Acting Secretary of State to the Bolivian Ambassador  
(Guachalla)*

WASHINGTON, October 4, 1943.

EXCELLENCY: I have the honor to acknowledge receipt of Your Excellency's note of September 16, 1943 relative to the elimination from the economy of Bolivia of those private interests whose continued existence endangers the security of Bolivia.

This Government has noted the intentions and desires of the Government of Bolivia to effect a prompt transfer of interests in certain business enterprises essential to the economy of Bolivia from undesirable parties identified with the Axis nations to acceptable persons or firms.

In accordance with the request set forth in the note under reference, this Government hereby gives its assurance that it is prepared through the Export-Import Bank to establish credits, not to exceed in the aggregate \$2,000,000, to assist the replacement program in the event that this program may require financial resources beyond those which the Bolivian Government or private sources within Bolivia may be able to furnish. The credits will be made available, in the discretion of the Export-Import Bank, at a time and in a manner approved by the Bank, through the Bolivian Development Corporation or other channels acceptable to the Bank in cases in which the reorganization of a business enterprise falling within a replacement program, based upon effective legislative and other appropriate measures, has either been consummated or has progressed to a point satisfactory to the Bank.

Accept [etc.]

A. A. BERLE, JR.



740.24112 RP/15 : Telegram

*The Acting Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, October 27, 1943—8 p. m.

1286. Your despatch no. 2320, October 1, 1943.<sup>54</sup> Department believes that communication on defects in present Bolivian controls and on suggestions for replacement program would be better received if: (1) invitation to submit such a memorandum were given by the Bolivian Government; or (2) the memorandum were worked out by a Bolivian official, working with the assistance of officials of the Embassy. The Department feels that the presentation of an unsolicited memorandum by the Embassy might be considered by the Bolivians as unjustified intervention.

It is believed that the procedure suggested above would minimize political difficulties which might otherwise arise, and that Bolivian sponsorship of the memorandum would aid its chances for acceptance.

The Department believes that the status of Bolivian controls does not warrant a relaxation of the Proclaimed List and, therefore, if a memorandum is requested by the Bolivian Government, no reference should be made to the considerations set forth in the Department's circular instruction of August 20, 1943.<sup>55</sup>

Please inform Department of developments.

STETTINIUS

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740.24112 RP/19 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, October 28, 1943—10 a. m.

[Received 12:58 p. m.]

1705. The Bolivian Senate yesterday rejected a draft law which would have removed from economic warfare sanctions certain Axis subjects with long residence in Bolivia or with Bolivian children. The text of this proposed law was transmitted to the Department with despatch No. 2249 of September 17.<sup>56</sup>

BOAL

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<sup>54</sup> Not printed; in this despatch the Ambassador reported Bolivian fear that United States and British firms would take over Axis companies, and he proposed to address to the Bolivian Government an account of the weaknesses of its controls.

<sup>55</sup> Not printed.

<sup>56</sup> Not printed; but see telegram No. 1369, August 14, p. 602.

**THE JOINT UNITED STATES-BOLIVIAN COMMISSION OF LABOR  
EXPERTS**

824.504/61a : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, January 9, 1943—10 p. m.

40. The Bolivian Ambassador <sup>57</sup> has presented to the Department a request for:

“1. The sending of experts appointed by the Government of the United States to undertake, together with Bolivian authorities appointed for the purpose, a study of the situation of the laborer in Bolivia and, in particular, of the mine worker, with a view to the betterment thereof.

2. The study resulting therefrom will serve as the basis for the decisions and determinations which the two interested governments or their authorized agencies may consider it suitable to adopt with the double end of improving the conditions of labor in Bolivia and assuring a steady production of strategic materials for the United States.

3. Although, for fear of restricting it, it is not necessary here to indicate the field of this investigation it is useful to note that it must take into account a number of problems, such as problems of transportation, supplies, prices, health and hygiene, mine safety and other similar problems.”

The Department is accepting this invitation and it is hoped that the United States members of the Commission, numbering probably four, accompanied by some advisers, will be able to leave Washington within a week.<sup>58</sup> You are requested to advise the Department promptly of the persons selected by the Bolivian Government to serve on its section of the Commission.

The primary interest of the United States in the problems to be considered arises from its need for the strategic minerals produced in Bolivia and its vital concern in seeing that production is maintained and increased. In keeping with its established policy, this Government has, of course, no intention of intervening in any way in the internal aspects of the Bolivian labor situation. It is, however, glad to furnish expert advice on labor conditions at the request of the Bolivian Government.

With reference to your 25, January 7, noon,<sup>59</sup> the Department understands, as a result of your telephone call on January 8, that no action on or reply to that telegram is necessary. The BEW<sup>60</sup> desires that

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<sup>57</sup> Luis Fernando Guachalla.

<sup>58</sup> The departure date was January 28, 1943.

<sup>59</sup> Not printed.

<sup>60</sup> Board of Economic Warfare.

Kazen<sup>61</sup> endeavor to secure as rapidly as possible by all appropriate means the data requested which will be of use to all the members of the Commission, and the Department wishes you for the same reason to continue your efforts to get the data requested in the Department's telegram no. 975 of December 26, 1942.<sup>62</sup> Please forward the data requested by the Department and the BEW as compiled on any particular point, not waiting to include it in a report answering all questions at once.

HULL

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824.504/131 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, February 4, 1943—noon.

[Received 11 p. m.]

248. For Duggan<sup>63</sup> from Trueblood.<sup>64</sup> The Mission accompanied by the Ambassador called yesterday on President,<sup>65</sup> the Foreign Minister<sup>66</sup> and the Minister of Labor.<sup>67</sup> These officials expressed satisfaction that the Mission had come, emphasized importance of problems to be considered and offered fullest cooperation in carrying out the survey. The Minister of Labor promised names of members of Bolivian Mission this morning.

President Peñaranda expressed the hope that the survey would not be restricted to mining but that it would take in rubber, petroleum, agriculture and in short all important phases of the country's economy as affecting the status of labor. The Minister of Labor made this more specific by suggesting three itineraries: (1) a survey of mining to take place from February 11 to February 27; (2) a survey of industrial labor and petroleum from February 11 to February 22; and (3) a survey of rubber, cattle and agriculture from February 20 to March 3. He stated it would be difficult because of transportation and housing difficulties for the entire group to travel together hence for each of the three trips he proposed that our Mission designate two members. He himself proposes to accompany the mining and rubber survey parties and other members of the Bolivian Mission would be distributed among the three groups.

Our Mission discussed the Minister's proposals at length last night and while we have decided with the Ambassador's concurrence that

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<sup>61</sup> Philip A. Kazen, BEW representative in Bolivia.

<sup>62</sup> Not printed; this telegram requested data on wages, living costs, tin production and costs, and the strike situation in the mines (824.5045/33).

<sup>63</sup> Laurence Duggan, Adviser on Political Relations.

<sup>64</sup> Edward G. Trueblood, Secretary of the Commission of Labor Experts.

<sup>65</sup> Gen. Enrique Peñaranda.

<sup>66</sup> Tomás Manuel Elío.

<sup>67</sup> Juan Manuel Balcazar.

it will probably be necessary to accept them in greater part we plan to make certain that the major emphasis remains on the mining survey.

Obviously there will not be time for thorough investigation of the country's labor problems other than mining. The rapid surveys proposed by the Minister should serve, however, to give the Mission a better integrated view of the whole situation and possibly permit the information [*formation*] of some preliminary recommendations in these fields. Our plan which we will discuss today with Minister of Labor is as follows: To devote our first week here to interviews with Government officials, labor leaders (including possibly some now in prison), employers and only [*other?*] persons interested in labor problems (the Minister of Labor has promised full cooperation in arranging interviews with anyone we want to see); the second week we hope to spend as a group in certain mines where we can all be accommodated (this will cover large, medium and small mines); the third week we will split up into two groups and visit smaller mines where the entire party could not be accommodated; about February 22 one group (tentatively Judge Magruder,<sup>68</sup> Watt,<sup>69</sup> Hook<sup>70</sup> and myself) will fly to Beni for 10 day trip to rubber area with intermediate stops and a second group (Mathews,<sup>71</sup> Giardino<sup>72</sup> and Kyne<sup>73</sup>) will spend a similar length of time studying industrial conditions and visiting petroleum fields. About March 3 all will reassemble in La Paz and be prepared to devote the next 2 weeks to study of findings and reaching of agreement on conclusions. (Watt and Hook are insistent that they should leave here at end of 6 weeks or about March 16 and Judge Magruder is of a like opinion but prepared to stay on of course if absolutely necessary.)

Judge Magruder hopes the Mission may be able to formulate and transmit after we finish trip to mines (about February 22) certain preliminary recommendations which you might wish to discuss with the Coordinator<sup>74</sup> in light of Rockefeller's letter of January 2.<sup>75</sup> If I can advance matters any by staying on in La Paz while the two

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<sup>68</sup> Calvert Magruder, Judge of the First Judicial Circuit, United States Circuit Court of Appeals at Boston, Chairman of the Mission.

<sup>69</sup> Robert J. Watt represented the American Federation of Labor on the Mission.

<sup>70</sup> Charles R. Hook of the Rustless Iron and Steel Company represented employers on the Mission.

<sup>71</sup> Robert E. Mathews, B. E. W. member of the Mission.

<sup>72</sup> Alfred Giardino, Department of Labor representative on the Mission.

<sup>73</sup> Martin J. Kyne, representative of the Coordinator of Information.

<sup>74</sup> Coordinator of Inter-American Affairs, a position held by Nelson A. Rockefeller.

<sup>75</sup> Not printed; it was addressed to Under Secretary of State Welles and indicated that the Institute of Inter-American Affairs had authorized the use of \$1,000,000 for food and rehabilitation of Bolivian labor (824.504/124).

groups make rubber and petroleum trips I shall do so possibly working with Blleloch.<sup>76</sup>

We are expecting Kyne on the 8th but would like to know when Blleloch will arrive.

We will see the Minister of Labor again this morning and I will send further report following this interview. [Trueblood.]

BOAL

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824.504/67

*The Secretary of State to the Chairman of the Joint United States-Bolivian Labor Mission (Magruder)*

WASHINGTON, February 5, 1943.

MY DEAR JUSTICE MAGRUDER: In amplification of the Department's letter to you of January 22, 1943<sup>77</sup> concerning your designation as chairman of the mission of labor experts which this Government is sending to Bolivia on the invitation of the Government of that country, I enclose herewith for your information copies of communications on this general subject exchanged between the Bolivian Ambassador to the United States and Mr. Laurence Duggan, Adviser on Political Relations of this Department.<sup>78</sup>

I believe that a study of these communications will reveal clearly the motives underlying this Government's acceptance of the invitation of the Bolivian Government as well as define the scope of the proposed inquiry. As the Bolivian Ambassador states, cooperation between Bolivia and the United States has thus far embraced a number of important fields but that of labor conditions has not been touched upon. We recognize the vital importance of this factor in Bolivia's internal economy and the bearing which it has on the production of the strategic metals which are today needed for the war effort.

The penultimate and final paragraphs of Mr. Duggan's communication give the Department's view as to the scope of the survey and subsequent procedure for executing the recommendations which may be reached by the Bolivian and American commissions. The final paragraph makes it clear that the function of the American mission is to cooperate in a fact-finding survey with the persons designated by the Bolivian Government and that the initiative for carrying out the recommendations rests solely with the Bolivian Government.

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<sup>76</sup> David H. Blleloch, Adviser to the Mission from the International Labor Office.

<sup>77</sup> Not printed.

<sup>78</sup> Letter from Mr. Duggan to the Bolivian Ambassador not found in Department files; letter from the Bolivian Ambassador to Mr. Duggan not printed. For portion of the latter, dated January 2, 1943, see telegram No. 40, January 9, 10 p.m., to the Ambassador in Bolivia, p. 607.

Even though this Government has been invited by the Bolivian Government to make a study of what is a matter of internal concern, nevertheless it is important that you and the members of your mission discharge your duties with extreme care so as not to give any grounds for charge that this Government is intervening in the internal affairs of Bolivia.

On the basis of the letters exchanged with the Bolivian Government it is clear that it is the desire of the Bolivian Government that this fact-finding survey be a joint affair, and it is also clear that the Bolivian Government desires that the report be the joint product of the investigations of the two commissions, Bolivian and United States. I am confident that with tact and discretion you will be able to bring about the adoption of a joint report satisfactory to you and your colleagues as well as to the members of the Bolivian commission.

You will, I am sure, wish to confer with the American Ambassador to Bolivia, who, in view of his responsibility for the conduct of our relations with Bolivia, should be kept informed as to the general progress of your activities. I am requesting him to make fully available to you his own knowledge of conditions in Bolivia as well as that of members of his official staff. I feel certain that you may count on all possible cooperation in this connection.

While it is of course essential that the mission carry out its survey with complete autonomy and independence, I am sure you and the members of the mission will at all times be receptive to appropriate suggestions and guidance from the Ambassador on matters of policy and procedure affecting our general relations with Bolivia.

If the Bolivian Government on the basis of recommendations submitted by the two commissions requests the presence there of technical experts in certain fields, relating to your inquiry, the Department will make every reasonable effort to arrange to send them to La Paz.

In closing, I should like to express my sincere hope that your mission will be able to discharge successfully its delicate and important task and that as a result of its endeavors, recommendations will be formulated the execution of which will eventually bring improvement in the social, working and living conditions of Bolivian mine labor.

Sincerely yours,

[File copy not signed]

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824.504/158b : Telegram

*The Secretary of State to the Ambassador in Bolivia (Boal)*

WASHINGTON, February 6, 1943—6 p. m.

187. For Justice Magruder. Amplifying the views expressed to you by telephone this afternoon, the Department believes that the

primary focus of the inquiry into labor conditions should be in the mining industry since the time element will probably preclude a thorough study of labor problems in all fields. Moreover, relations between the mining companies and their employees seem to be more acute than similar relations in either other industrial enterprises such as the YPFB <sup>79</sup> or in agriculture.

Furthermore, it will obviously be far easier to secure immediate responsive action here to remedy conditions in the mining industry where our war effort is directly affected by our ability to receive strategic minerals than in other fields. It would seem desirable, of course, that you be responsive to the request of the Bolivian Government for advice in other fields than the mining industry; but at all times it should be borne in mind that our ability to help may be limited by war needs.

Since preparing the foregoing your telegram 248, February 4, noon, has arrived. It is noted that the views of the mission and those of the Department in substance coincide. It is hoped that the Minister of Labor will agree with the program outlined in your telegram under reference.

HULL

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824.504/195 : Telegram

*The Ambassador in Bolivia (Boal) to the Secretary of State*

LA PAZ, February 19, 1943—4 a. m.

[Received February 21—2:33 a. m.]

359. For Duggan from Magruder. On returning to La Paz upon completion of visits to various mining areas we had a full session of Joint Commission yesterday afternoon. We presented to our Bolivian colleagues the topics we regarded as of paramount importance and arranged for the preparation of memoranda on special topics such as education, social security, housing, nutrition, sanitation, et cetera, by American experts in conjunction with authorities of appropriate Bolivian Governmental departments. We hope these memoranda will be available for our consideration upon our reassembling after the trip to the Beni region starting today. Giardino will remain in La Paz to coordinate these activities.

At the meeting yesterday afternoon we did most of the talking. We did not succeed in eliciting from the Bolivians what lay in their own minds as to the direction our recommendations should take. They evidently expect us to prepare the preliminary draft of the report.

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<sup>79</sup> Yacimientos Petrolíferos Fiscales Bolivianos.

From the difficulties which the Minister of Labor had in filling out the Bolivian personnel on the Commission it may be inferred that there has been some reluctance on the part of the Bolivians to be associated too deeply with the work of the Commission because of possible political repercussions. For the same reasons there may be difficulties in achieving a joint report signed by both delegations. Responding to inquiries some days ago the Minister of Labor—who was designated Chairman of the Joint Commission by presidential decree—stated that he would not be expected to sign the report because he would receive it somewhat in a judicial capacity and be responsible for advising the Bolivian Government as to the extent to which our recommendations should be followed out. Victor Andrade has also stated that he will not sign the report because being a member of Parliament he wants to retain his freedom of action. Andrade at first expressed his purpose to join us in part of the visits to mining areas but he failed to do so. Capriles,<sup>80</sup> Lozada,<sup>81</sup> and del Villar<sup>82</sup> who accompanied us throughout the visits and who with the Minister of Labor sat with us in the joint session, will presumably join in the report if they find it acceptable.

We decided against making an interim recommendation along the lines of Rockefeller's letter to Welles, dated January 2, 1943.<sup>83</sup> The Commission found it necessary to subdivide itself in visits to the mining areas and we have not yet sufficient opportunity to organize our views in joint session. Furthermore, before calling for the despatch to Bolivia of various types of specialists mentioned in Rockefeller's letter we thought we ought to have a better idea of the appropriate organization of this work and of its general scope. [Garbled word] Payne of the Servicio Inter-Americano de Salud Pública is formulating a program of sanitation and nutrition work for our consideration. In addition to the foregoing we felt that without knowing what final report we might get the Bolivians to agree to such a report might be in the nature of an anti-climax if we made the preliminary recommendations as originally contemplated.

We do not anticipate that we will be able to make any dramatic recommendations which will quickly enhance the standards of living and the productivity of Bolivian laborers. It will have to be a long-range program approached from any [*many*] angles. It will cost money apart from the technical advice and assistance we are prepared to contribute. If this cost is to fall upon the mining companies

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<sup>80</sup> Remberto Capriles Rico.

<sup>81</sup> Jesus Lozada replaced Gaston Arduz as a member of the Mission, representing the Ministry of Labor.

<sup>82</sup> Humberto del Villar represented the Ministry of Economy on the Mission.

<sup>83</sup> See footnote 75, p. 609.



or the Bolivian Government or in part upon each they will inevitably ask us (as some have already intimated) how they can be expected to sustain such a program of education, housing, public health, sanitation, social security, et cetera if the United States cannot give them any assurance that their market for minerals upon which their economy is at present based will be maintained for a reasonable period after the war. The program recommended in the Bohan report<sup>84</sup> and now just being put in operation by the Bolivian Development Corporation<sup>85</sup> contemplates the ultimate removal of Bolivian economy during the primary dependence on minerals but the [apparent omission] perpetuated many years. Meanwhile, there is something to be said for extending the mineral contracts for a period, say, of for 5 or 10 years with prices gradually stepped down from the present high. Our mission offers no opinion on this suggestion at the present time but we do feel it will be most unfortunate if we should make such a recommendation and then have our Government turn it down. On the other hand if in our report we ignore this consideration which looms so large in Bolivian thoughts it may be expected that the Bolivian Government before starting to put into effect our long-range recommendations will ask the United States Government what assurances it is prepared to give along this line. In one way or another the question will be back in our laps. In fact control in recommendations would naturally be affected by which assumption we make—a long-term minerals industry or a part time industry collapsing after the war. If we should recommend a long-range program which would be used only in case the industry remains stabilized for a considerable period of years the Bolivian Government might well read into our report the tacit assumption that we expect the United States to make such stabilization possible.

I should appreciate the Department's observations on the foregoing for our guidance by the time we reassemble in La Paz with the Ecuadoran Government February 25.

Agreeable to the Department's instructions our mission has kept in closest touch with the American Ambassador. In all instances we have followed his advice which we have found to be uniformly sagacious and well-informed. The Ambassador after making a close study of conditions here for many months is if anything more optimistic than some of us have been inclined to be on the chances of ac-

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<sup>84</sup> Not found in Department files. For substance of the recommendations of the United States Economic Mission to Bolivia, see the Department's note of August 14, 1942, *Foreign Relations*, 1942, vol. v, p. 603. Merwin L. Bohan was Chief of the Mission.

<sup>85</sup> For correspondence on the Bolivian Development Corporation, see *ibid.*, pp. 592 ff.

completing something really significant toward the betterment of labor conditions in Bolivia.

I have tried to keep the mission out of the spotlight. I have refused to give press interviews and have only given one brief innocuous press release. I urged the Minister of Labor not to take along newspaper reporters on our visits to the mines. Our silence or secrecy has been the subject of some kidding and critical comment in the local financial institutions. Though the papers keep referring to the "Magruder Mission" I have tried to emphasize that the Minister of Labor is the Chairman of the Joint Commission and that he should do the talking. [Magruder.]

BOAL

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824.504/222: Telegram

*The Second Secretary of Embassy (McConaughy) to the Secretary of State*

LA PAZ, March 2, 1943—11 a. m.

[Received 1:40 p. m.]

416. For Duggan from Trueblood. Entire mission now reassembled in La Paz following successful trips to Cotabamba [*Cochabamba?*] and Beni District. Preparation of final report <sup>86</sup> now under way and we hope to complete in time to permit departure for the United States on March 15. [Trueblood.]

MCCONAUGHY

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<sup>86</sup> The report was submitted on March 3, 1943, to the Bolivian Government. The preface of the report outlined the creation of the Commission and listed the studies pursued. The body of the report contained sections on collective bargaining, minimum wages, hours of work, social insurance, free public employment services, housing, health, and organization of cooperating activities. (824.504/264)

## BRAZIL

### COOPERATION BETWEEN THE UNITED STATES AND BRAZIL ON CERTAIN MEASURES FOR HEMISPHERE DEFENSE<sup>1</sup>

832.24/1223 : Telegram

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

WASHINGTON, December 31, 1942—midnight.

4136. Your no. 5444, December 22, 5 p. m.<sup>2</sup> Investigation discloses that neither the Brazilian Military Attaché<sup>3</sup> nor the Brazilian Commercial Counselor<sup>4</sup> made any request for assistance to the Department upon the denial by the Board of Economic Warfare of the export licenses under reference. In fact, Colonel M. L. Brett, the United States War Department Liaison Officer with the Brazilian Military Commission, to whom the Department was referred on this matter by Lieutenant Colonel Stenio Lima, stated that he was quite familiar with the case and at his request the Brazilians here had refused to support appeal applications. This action was taken because of the understanding between the Brazilian Military authorities and the Office of Lend Lease Administration which is now supplying the Brazilian Arsenals' requirements for zinc and aluminum.<sup>5</sup> Mr. Paul Sturm of the Office of Lend Lease Administration confirmed this statement.

Colonel M. L. Brett also supplied the following figures on the assistance already rendered and to be given to the Brazilian Arsenals:

1) The 1942 Brazilian Arsenals' requirements were approved, allocations for these were received, Lend Lease requisitions were sent to the Treasury Department, and Treasury Department contracts have been made with suppliers.

The Treasury Department contracts for zinc to fill the balance of 1942 needs were made in September for 440,000 lbs. or 200 metric tons. Of this amount 110,000 lbs. (50 metric tons) have already been shipped, 220,000 lbs. (100 metric tons) are now in New York ready

<sup>1</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 632-674.

<sup>2</sup> Not printed; this telegram reported that the Brazilians claimed that export licenses had been denied by the United States for 100 tons of zinc and 200 tons of aluminum needed by Brazilian arsenals for shell caps and cases.

<sup>3</sup> Lt. Col. Stenio Lima.

<sup>4</sup> Walder Sarmanho.

<sup>5</sup> For correspondence concerning the negotiation of a Lend-Lease Agreement, see *Foreign Relations*, 1941, vol. vi, pp. 528 ff.

for shipment, and the balance is covered by American Smelting and Refining contracts and it is expected to be ready for shipment very soon.

The Treasury Department contracts for aluminum to fill the balance of 1942 needs was placed with Alcoa <sup>6</sup> on October 8, 1942 and called for delivery of 476,000 lbs. (approximately 216 $\frac{1}{3}$  metric tons) by December 31, 1942. Of this amount 122,000 lbs. (about 55 $\frac{1}{2}$  metric tons) have already been shipped, 256,000 lbs. (about 116 $\frac{1}{3}$  metric tons) are ready for shipment, and the balance should be delivered according to contract;

2) The 1943 Brazilian Arsenals' requirements presented by Colonel Stenio Lima as Chief of the Brazilian Military Commission have been submitted by the War Department to the Office of Lend Lease Administration and this office has presented them for the consideration of the American Requirements Committee.

Lend Lease and War Department officials have very strong feelings on this matter. They claim to have received General Portella's <sup>7</sup> full 1942 and 1943 requirements for the Arsenals and, therefore, feel that General Portella, by placing orders on the side through ordinary commercial channels, has not played the game with them. Not only have they offered him the services of the War Department for procuring certain scarce items and the services of the Office of Lend Lease Administration for procuring other type materials but they also can and have obtained these materials for him at considerable savings. If the Brazilian Arsenals' requirements for 1943 are now greater than those originally submitted, they feel that General Portella should advise them in the premises in order that their requests to the American Requirements Committee may be amended.

The American Requirements Committee estimates total available supply of scarce material in the United States and then allocates its use to the claimant agencies by specific amounts. The American Requirements Committee has been told that the Office of Lend Lease Administration will present through the Board of Economic Warfare and be responsible for the requirements of the Brazilian Arsenals. Inasmuch as some requirements purporting to be for these Arsenals are being presented by commercial firms direct to the Board of Economic Warfare, the Board feels that this is an unjustified duplication. As it is not policy to furnish more than minimum essential requirements, the Board of Economic Warfare has been denying these commercial requests. Also, any commercial applications which the Board of Economic Warfare has approved or may approve will

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<sup>6</sup> Aluminum Company of America.

<sup>7</sup> Director of the War Materials Division of the Brazilian War Department.

be charged to the allocation set up to cover the needs of the Brazilian Arsenals thus reducing the amounts to be obtained through Lend Lease.

General Amaro Soares Bittencourt <sup>8</sup> is said to be conversant with this United States supply picture.

HULL

832.348/56 : Airgram

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

WASHINGTON, January 5, 1943—6:35 p. m.

A-725. Your A-947, December 28, 10 a.m.<sup>9</sup> As you are aware, the Joint Brazil-United States Defense Commission,<sup>10</sup> Washington, recommended in its no. 12<sup>11</sup> the allocation of 14 Navy patrol bombers to the FAB.<sup>12</sup> This equipment is extremely tight. Navy approved the allocation of seven PBV-5's.

The Navy Department states that the first two of the seven should be en route to Brazil with United States Navy crews within a few days. The remainder, at the rate of one or two a month, should be similarly delivered by about April. The Department learns from the Navy Department that two Brazilian crews are now in training in the Northeast for operation of the first two PBV-5's. As you know, the United States Navy retains control over and responsibility for these planes until they are fully turned over to the Brazilian crews.

HULL

832.24/1326a : Telegram

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

WASHINGTON, February 11, 1943—midnight.

520. In view of report that until July 1 the Brazilian Military Arsenals are working only 8 hours a day and 26 days a month, the War Production Board has informed the Department that pending the receipt of further information as to immediate need, it is holding up the shipment of copper destined to the Brazilian Arsenals. Please cable the Department as soon as possible the answer to the following questions:

<sup>8</sup> Brazilian Military Attaché in Washington until October 1942.

<sup>9</sup> Not printed; this airgram made reference to 12 PBM planes and 12 PBV-5A planes, anticipated for use on submarine patrol duty.

<sup>10</sup> For origins of this Commission, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 317-319.

<sup>11</sup> Not printed.

<sup>12</sup> Brazilian Air Force.

1. How much Chilean copper actually arrived in Brazil pursuant to the sale of 2,621 short tons of electrolytic copper to Merry del Val Company for Brazilian Ministry of War.

2. How much copper actually arrived in Brazil pursuant to the fourth quarter 1942 allocation of 1,320 short tons to the Lend-Lease Administration for account of the Brazilian Military Arsenals.

3. What are the present copper and zinc stock piles of Brazilian Arsenals.

4. Is the lack of materials the reason for Arsenals' working only 8 hours a day.

5. Does the Directorate of War Material plan any increase in the production schedule of the Arsenals if the necessary materials were available.

6. What are the Embassy's comments.

HULL

S32.24/1340 : Telegram

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

RIO DE JANEIRO, February 25, 1943—7 p. m.

[Received 11:10 p. m.]

965. Referring to Department's telegram No. 520, February 11, 11 p. m. [*midnight*]. The following replies are made to the questions asked:

(1) The Chilean copper under the sale of 2,621 short tons of electrolytic copper to the Brazilian Ministry of War by the Merry del Val Company arrived in Brazil during December and January and was unloaded from the steamship *Antofagasta* (1,179 metric tons) and steamship *Angol* (1,198 metric tons) in the port of Santos.

(2) Actual copper arrivals in Brazil under the fourth quarter 1942 allocation of 1,327 short tons for the account of the Brazilian Military Arsenals to the Lend-Lease Administration totaled 450 metric tons.

(3) Stocks of copper and zinc of the Brazilian Arsenals are not yet known, but the information is expected shortly. The War Ministry has indicated that zinc supplies are critically low. Additional information in reply to question number 3 will be submitted as soon as it becomes available.

Preliminary comments on questions 4, 5 and 6 are as follows: Communications from the Ministry of War indicate that difficulty is being experienced in maintaining an 8 hours per day working schedule in some of the Arsenals. Shortage of zinc and aluminum are stated to have slowed up the production of primers and cartridge cases and the Ministry is anxiously awaiting the arrival of zinc and aluminum on order.

The production of powder and explosives is reputed to be handicapped because of a lack of toluol. Consequently the Ministry was compelled to reduce production of trotyl.

The Ministry reports that it has placed an order with the Brazilian Military Commission in Washington for 2 metric tons of tetryl urgently needed for production of detonators.

Additional information is expected from the Ministry of War which will permit complete replies to the questions raised in the Department's telegram 520 and Embassy will supplement this telegram as promptly as possible.

CAFFERY

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832.24/1223 : Airgram

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

WASHINGTON, March 10, 1943—7 p. m.

A-1040. Reference seventh paragraph of Department's 4136, December 31, 1942 concerning Brazilian arsenal requirements and section 6 of the Decentralization Agreement.<sup>13</sup>

The Department is in receipt of a communication from the War Production Board which states that the Chemicals Division has been asked to make available a series of five critical chemicals for the manufacture of explosives in Brazil. All of these cases have been supported by Certificates from Lieutenant Colonel Stenio Lima, Chief of the Brazilian Military Commission in Washington. The communication states further:

"Our first recommendation, which was repeated to Colonel Lima few days ago, was that if these are genuine direct military requirements they should be made part of the Lend-Lease Program for Brazil and handled as Lend-Lease requisitions. The Brazilian Military Commission has been unable to comply with this request for the reason that the Brazilian Government apparently makes a practice of making arrangements directly with the representatives of U. S. exporters either in Rio or in this country. In the case of the chemicals in question, the applications have been handled in a highly irregular way by two companies, Tuteur & Company, Inc., 60 Wall St., New York, N.Y., and the U. S. Ordnance Engineers, Inc., 3650 East 93rd Street, Cleveland, Ohio. . . .

"It is perfectly possible that the materials requested represent a military need of some urgency. We would therefore recommend that the State Department make the strongest possible representations to the Brazilian Military Commission and the Government of Brazil that they cease handling their requirements through such concerns. This would be a gain for Brazil and a great saving of time and nervous energy for officials of the WPB,<sup>14</sup> BEW,<sup>15</sup> etc. It would be much better if Brazil would put the handling of all its important requirements in the hands of its own commission in Washington who

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<sup>13</sup> This agreement established a procedural arrangement of decentralizing many phases of export control. It required the Brazilian importer to apply to a branch of the Bank of Brazil for a permit to import, a permit which then had to meet the approval of the American Embassy in Rio de Janeiro and the Board of Economic Warfare in Washington.

<sup>14</sup> War Production Board.

<sup>15</sup> Board of Economic Warfare.

could then learn the proper procedures and be in a position to expedite applications in the case of difficulties such as the present.

"In the case of the present applications, since considerable delay might be involved in the passing of these through the Office of Lend-Lease Administration, we suggest that the BEW be asked to issue immediately new export licenses covering the same materials, but made out in the name of the appropriate Brazilian agency in town here."

With reference to the last suggestion of the War Production Board, the Board of Economic Warfare has now issued Current Control Bulletin 75 which implements the Decentralization Agreement and states that applications for "all shipments to Brazil on which individual, SP, or WP licenses" have not been issued before March 1, 1943 will not be accepted at the Board of Economic Warfare unless they are presented under cover of "Preference Requests" and the procedure set up for Decentralization.

Section 6 of the Decentralization Agreement states that the system will cover "the importation from or by way of the United States of all materials other than arms, munitions, and implements of war." An interpretation of what will be excluded from the necessity of obtaining a Preference Request from the Bank of Brazil under the term "implements of war" must be made clear. According to the President's Proclamation of April 9, 1942<sup>16</sup> only those items which are licensed by the State Department are included in such a definition. For these items, the Brazilian Military Commissions are registered and can make application while Lend-Lease shipments have been exempted from the license procedure.

For requirements of other materials, the Department desires to remind the Embassy that the American Requirements Committee sets separate allocations for civilian needs and Lend-Lease requirements. The estimate of supply which the Bank of Brazil receives is based upon the civilian allocation. The Office of Lend-Lease Administration's allocations are based on its request to the American Requirements Committee which has been obtained from information submitted to it by the various Brazilian military commissions. When export licenses are issued, they are charged to one or the other of these allocations depending on whether they are presented through commercial channels or through the Office of Lend-Lease Administration. If the military authorities are allowed to present export license applications directly to the Board for purchases from commercial firms, these supplies will be charged to the civilian allocation thus reducing the available supply against which the Carteira<sup>17</sup> may issue

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<sup>16</sup> Department of State *Bulletin*, April 11, 1942, p. 323.

<sup>17</sup> Carteira de Exportação e Importação of the Bank of Brazil.



Preference Requests. Obviously, military requirements must either be handled through Lend-Lease Requisitions and cash reimbursements, or through the Carteira of the Bank of Brazil and be accompanied by approved Preference Requests.

The Embassy is requested to take this matter up immediately with the proper Brazilian officials and advise the Department of the results of its conversation.

The chemicals covered by the applications pending at the War Production Board are:

Sodium Azide  
Diamylphthalate  
Phthalic Anhydride  
Monoethylaniline  
Phosgene (in Cylinders)

If there is an urgent need for them, please cable how the Brazilian authorities desire to handle their obtainance, through Lend-Lease or through Preference Requests. Phosgene (in cylinders), unless applied for through Lend-Lease, will have to be handled separately as to licensing only since it is considered an "implement of war" and will require a State Department license for exportation.

WELLES

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832.24/1223 : Airgram

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

WASHINGTON, March 20, 1943—2:40 p.m.

A-1111. Reference Department's telegram 4136, December 31, 1942 and airgram 1040, March 10, 1943. Despite the information sent to the Embassy in the Department's telegram under reference concerning the attitude of the Office of Lend-Lease Administration and the Board of Economic Warfare to the obtainance of supplies for the Brazilian arsenals through normal commercial channels as a duplication to the requisitions made by the Office of Lend-Lease Administration, the Department notices that Certificate of Necessity no. 4212 was jointly recommended by the Embassy and the Carteira for the 100 metric tons of zinc which were the subject of the above-mentioned telegram. The application for export license for this material has been sent to the Board of Economic Warfare for consideration under Decentralization and as an approved Preference Request.

The Brazilian Military Attaché also submitted to the Department for transmittal to the Board of Economic Warfare an application for the 200 tons of aluminum which were also the subject of the telegram under reference. This application was unaccompanied by a Certifi-

cate of Necessity or Preference Request and is being returned to the Brazilian Military Attaché as not complying with the Decentralization procedure.

HULL

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832.00/4366

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

No. 10509

RIO DE JANEIRO, March 22, 1943.

[Received March 30.]

SIR: I have the honor to refer to my strictly confidential despatch No. 10284 of February 27, 1943<sup>18</sup> reporting a number of accomplishments of the Embassy in all types of activity and to say that although the situation in Brazil is obviously satisfactory from our standpoint it is at the same time delicate if not explosive.

On the one hand, we have obtained vital military and naval concessions the most spectacular and important of which is the air transport "corridor" referred to sometimes as the "springboard to victory". On the other hand, President Vargas in public utterances has referred to the indispensability of this route, and the extensive ancillary installations that make its use practicable, for the successful prosecution of the war in Africa and other theatres; recently the Under Secretary of Foreign Affairs, Ambassador Leão Velloso, in refuting the suspicion in some quarters of United States aims to maintain permanent bases in the Hemisphere, made public declarations in the same tenor; and João Alberto,<sup>19</sup> following precisely the same line and emphasizing also our essential need of Brazilian strategic materials such as quartz crystal, mica, etc., has recently been indulging in pointed criticisms that the United States has not been providing, and apparently is not disposed to provide, anything like an equitable *quid pro quo*. The point is simply that many Brazilians in high places are not unaware of Brazil's trenchant contributions; and some of them pretend to find it difficult to square this fact with our alleged failure to deliver minimum essential requirements of the national economy as we have agreed to do (newsprint, coal, etc., etc.).

That is the general situation leading to a general diminution of enthusiasm for the United States which is helped along in various other ways. For example, while the Brazilian is receiving no appreciable increase in salary and wages, supplies of civilian goods throughout the nation are diminishing and prices rising precipitously; and the Brazilian, all the way from Manáos to Santos, has to observe the naturally not (to him) pleasant spectacle of increasing numbers of

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<sup>18</sup> Not printed.

<sup>19</sup> Brazilian Coordinator of Economic Mobilization.

Americans, both civilians and in the armed forces, receiving "handsome" wages with which to outbid him and outbuy him in his own land.

I simply record these observations, which have been reported before, for the purpose of emphasizing that our Government must continuously be on the alert to avoid the appearance here of complacency, which might be disastrous, in the face of notable gains. It is a military axiom that it is sometimes easier to take a fortress than to hold it; and German propaganda will take full advantage of our shortcomings.

Respectfully yours,

JEFFERSON CAFFERY

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811.24532/18

*The Under Secretary of State (Welles) to the Under Secretary of War (Patterson)*

WASHINGTON, March 29, 1943.

MY DEAR MR. SECRETARY: I enclose for your information a copy of despatch no. 159 of February 24, 1943,<sup>20</sup> received in this Department from the American Consul at Para, Brazil recommending the withdrawal of the United States Army detachment at Manáos, Brazil. There are also enclosed paraphrases of telegrams<sup>20</sup> exchanged between the Department of State and the American Ambassador at Rio de Janeiro on this subject.

In the light of the comment made by Ambassador Caffery in his telegram no. 1438, March 23,<sup>21</sup> concerning the continued presence in Manáos of this Army detachment, I believe that you may wish to investigate the desirability of assigning this unit to other duty. I should appreciate being informed of any action taken by the War Department in this regard.

Believe me,

Sincerely yours,

SUMNER WELLES

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832.248/466

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

No. 10613

RIO DE JANEIRO, March 30, 1943.

[Received April 7.]

SIR: Referring to my strictly confidential despatch No. 10604 of March 29, 1943,<sup>22</sup> reporting that on Admiral Beauregard's behalf I

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<sup>20</sup> Not printed.

<sup>21</sup> Not printed; the Ambassador recommended that the air forces remain one more month in Manáos, and he reported the rise of some resentment among Brazilians at the continued presence of the Americans.

<sup>22</sup> Not printed; Adm. A. T. Beauregard, Chief of the American Naval Mission in Brazil, complained that the Brazilian Air Ministry was not making the best use of planes at its disposal (832.248/462).

had taken up certain matters with President Vargas, I have the honor to report that yesterday Admiral Beaugregard brought to my attention another letter from Admiral Ingram,<sup>23</sup> in which he requested Admiral Beaugregard to endeavor to obtain from the Air Minister action in eight different cases. With this in mind, Admiral Beaugregard addressed a pertinent communication to Dr. J. P. Salgado Filho in which the eight different cases were set out in lettered paragraphs "a" to "h", a copy of which I transmit herewith.

In accordance with Admiral Beaugregard's desire, I shall bring this memorandum also to the attention of President Vargas this afternoon.

Respectfully yours,

JEFFERSON CAFFERY

[Enclosure—Translation]

*The Chief of the American Naval Mission (Beaugregard) to the  
Brazilian Minister of Aeronautics (Salgado)*

F

NOB Serial 501

RIO DE JANEIRO, March 29, 1943.

DEAR MR. MINISTER: I have just received from Vice Admiral Ingram a letter in which he sets forth the following:

(a) The urgent necessity for an officer of the F. A. B. to be detailed to his staff, in order to achieve by this means practical operations of the F. A. B. in the present situation, which is critical.

(b) The seven PBY's should enter immediately into operations against the enemy for the protection of Brazil itself.

(c) The two PBY's delivered several weeks ago are not yet in operating condition. They should be made ready.

(d) Crews for the remaining five, not yet delivered, are not ready or prepared. He himself should operate them, with his own forces, because of the critical situation. This matter should be settled urgently.

(e) Combat training appears to be weak. He believes that combat training should be given at Natal, and turned over to the "Combat Wing Commander" at Natal.

(f) Operational cooperation against the enemy is still lacking; in order to achieve the desired results the F. A. B. should operate vigorously under the orders of the Allied Commandant in the South Atlantic.

(g) The delay in connection with general authorization for the use of dirigibles in Brazil, and for the necessary bases, is prejudicing the arrival of these dirigibles which are so necessary to combat the growing threat of the enemy.

(h) He believes that the basing of some B-24's on the Island of Fernando Noronha is very important, and requests the necessary authorization.

<sup>23</sup> Vice Adm. Jonas H. Ingram, Commander of the South Atlantic Force.

I avail myself of this opportunity to renew the expressions of my high consideration and esteem.

A. T. BEAUREGARD  
*Rear Admiral, USN*

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832.248/467

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

No. 10668

RIO DE JANEIRO, April 3, 1943.  
[Received April 10.]

SIR: Referring to my despatches Nos. 10604 of March 29, 10613 of March 30 and 10614 of March 30, 1943,<sup>24</sup> regarding efforts I have been making with President Vargas to secure compliance with requests made by Admiral Beauregard on behalf of Admiral Ingram, I have the honor to transmit herewith a copy of a self-explanatory memorandum<sup>25</sup> handed to the Embassy this morning by Admiral Beauregard with the request that I bring it also to the attention of President Vargas.

I shall take steps to do this.

Respectfully yours,

JEFFERSON CAFFERY

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811.24532/25

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

No. 10866

RIO DE JANEIRO, April 17, 1943.  
[Received April 23.]

SIR: Referring to recent reports concerning additional concessions in Brazil desired by our Navy, I have the honor to transmit herewith a copy of part of a memorandum<sup>26</sup> prepared for me by Rear Admiral Beauregard giving a summary of the main recommendations "made by the blimp board which were forwarded to Washington with Admiral Ingram's concurrence and recommendation for earliest possible commencement of work."

Respectfully yours,

JEFFERSON CAFFERY

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<sup>24</sup> Nos. 10604 and 10614 not printed.

<sup>25</sup> Not printed; Admiral Beauregard indicated in this communication that he awaited authority to base and use blimps, station planes on Fernando Noronha, and man PBY planes with American personnel if the Brazilians were not ready.

<sup>26</sup> Not printed; recommendations were to establish a blimp base at Maceió and mast facilities at seven other places, and to establish partial facilities at each base for one ship in earliest possible time.

832.30/517

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

No. 10931

RIO DE JANEIRO, April 21, 1943.

[Received April 27.]

SIR: Referring to my recent reports having to do with requests made to the Air Ministry by Admiral Beauregard on behalf of Admiral Ingram, I have the honor to report that I brought to President Vargas' attention the fact that the Air Ministry was not being very cooperative with Admiral Beauregard. The President took the matter up with the Minister of Air and sent me word by his confidential secretary that he had instructed Minister Salgado to revise his attitude to Admiral Beauregard and to adopt a more cooperative attitude.

Personal pique on the part of some of the members of the Air Minister's "Gabinete" had brought about this situation; not any fault of Admiral Beauregard's.

Respectfully yours,

JEFFERSON CAFFERY

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740.00118 European War 1939/1920*The Ambassador in Brazil (Caffery) to the Secretary of State*

No. 10948

RIO DE JANEIRO, April 22, 1943.

[Received April 30.]

SIR: I have the honor to report that Aranha<sup>27</sup> told me today that the Brazilian Government hopes that the Brazilian Military Mission now in North Africa (my telegrams Nos. 906 of February 22, 5 p. m. and 1229 of March 12, 4 p. m.)<sup>28</sup> will be allowed to remain there indefinitely. He added that he hoped that a rumor that had reached him that they would be permitted to stay only six weeks was untrue.

Respectfully yours,

JEFFERSON CAFFERY

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740.00114 European War 1939/3284*The Secretary of State to the Ambassador in Brazil (Caffery)*

No. 4405

WASHINGTON, May 1, 1943.

SIR: Reference is made to a number of prisoners of war captured by the United States armed forces who it is understood have been

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<sup>27</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>28</sup> Neither printed.

transferred to the custody of the Brazilian Government. You are requested to inquire whether, in order to effect economies in transportation, the Brazilian Government would consider accepting, with the full rights and obligations of the Captor Power, the transfer to its custody of additional prisoners of war captured by the United States armed forces, the total number of prisoners of war transferred not to exceed three thousand.

You should inform the appropriate Brazilian authorities that all prisoners of war held by the United States authorities receive the treatment provided for by the Geneva Prisoners of War Convention<sup>29</sup> to which the United States Government is a party and that it is understood that since the Brazilian Government also is a party to this Convention like treatment is extended to prisoners of war held by that Government.

You are requested also to inform the appropriate Brazilian authorities that the United States would be grateful if the Brazilian Government would give this matter sympathetic consideration and to transmit to the Department by air mail despatch a detailed report of the Brazilian Government's reply.

Very truly yours,

For the Secretary of State:  
BRECKINRIDGE LONG

740.00114 European War 1939/3861 : Airgram

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

RIO DE JANEIRO, May 28, 1943—1 p. m.  
[Received June 4—5 p. m.]

A-1045. Aranha tells me that the Brazilian Government will receive the prisoners under the conditions set out in the Department's instruction No. 4405 of May 1, 1943. He suggested that I send a representative to talk about details to Fraga de Castro.<sup>30</sup>

CAFFERY

740.00114 European War 1939/3902 : Airgram

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

RIO DE JANEIRO, May 31, 1943—2 :30 p. m.  
[Received June 7—3 p. m.]

A-1070. With reference to Embassy's airgram A-1045 of May 28, 1 p. m. advising the Department that Aranha had told me that the

<sup>29</sup> Signed July 27, 1929, *Foreign Relations*, 1929, vol. 1, p. 336.

<sup>30</sup> Edgar Fraga de Castro, official of the Ministry for Foreign Affairs.

Brazilian Government would receive war prisoners under conditions set out by the Department, there is quoted herewith a memorandum prepared under today's date by Mr. Simmons of this Embassy describing his conversation at the Foreign Office concerning the practical possibilities of carrying out this plan on the part of the Brazilian Government.

"I talked to Fraga this morning at the Foreign Office about working out details for the acceptance by the Brazilian Government of 3000 prisoners of war from North Africa. Fraga said that while the Brazilian Government was taking the position in principle that it would accept these prisoners, he felt that as a matter of fact there would be no possibility of their giving practical effect to such action. He said that he was speaking 'off the record' and he knew that the Brazilian Department of the Marine had given its consent but that the Ministry of War had not yet done so; that he did not see how they would be able to recommend favorable action except in the sense of a kind of gesture and expression of their willingness to cooperate in the war effort.

"Practically speaking, he said, there is no place to put these prisoners. They have no barracks, installations, barbed wire, kitchen equipment, beds, and the various items which would be necessary for such an operation.

"He also made the comment that, even were such accommodation to our wishes practically possible, sanitary conditions in the north of Brazil would in themselves make this impossible, and the political situation in the south of Brazil would make it unwise to place the prisoners there. He thought it best for them to go somewhere in the state of Minas Gerais, always assuming (and he doubted that such assumption would be justified) that Brazil would be in a position to actually accept these prisoners."

CAFFERY

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740.00114 European War 1939/3284

*Memorandum by Mr. Randolph Harrison of the Division of the American Republics to the Chief of the Division (Bonsal)*

[WASHINGTON,] June 10, 1943.

#### PRISONERS OF WAR IN BRAZIL

MR. BONSALE: SD's <sup>31</sup> instruction no. 4405 of May 1 to Rio inquired if the Brazilian Government would accept "with the full rights and obligations of the captor power", in accordance with the Geneva Prisoners of War Convention, Axis prisoners captured by U.S. forces up to a total of 3,000. This instruction was aimed specifically at the problem arising from the captured crew of a German submarine landed by the United States Navy in Brazil and turned over to the Brazilian authorities for safekeeping. . . .

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<sup>31</sup> Special Division of the Department of State.



The Brazilian Government has not yet agreed unequivocally to our request as is shown by A-1075, June 1,<sup>32</sup> and A-1070, May 31, attached hereto.<sup>33</sup>

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740.00114 European War/6-1743 : Airgram

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

RIO DE JANEIRO, June 17, 1943—11 a. m.  
[Received June 21—3 p. m.]

A-1256. My A-1075, June 1, 1 p. m.<sup>32</sup> Aranha still contends that he will be able to arrange for the reception of the prisoners here; but he has not yet been able to work out the details.

The truth of the matter is that he is meeting with some opposition even in the Itamaraty<sup>34</sup> because they do not believe that they are equipped to take care of 3000 prisoners.

CAFFERY

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832.857/160a : Telegram

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

WASHINGTON, July 1, 1943—10 p. m.

2460. The Navy Department advises that inquiries have been received from representatives of the Brazilian Navy concerning charges to be claimed by the United States Navy for assisting in the salvage of the Brazilian Naval Cruiser *Rio Grande do Sul* near Recife.

You are directed to inform the appropriate Brazilian authorities that any rights accruing to the United States Government by reason of the salvaging of the *Rio Grande do Sul* are waived.

For your own information and not for incorporation in your official communication to the Brazilian Government, this decision was made because

- (a) no commercial interests are involved, and
- (b) this same exceptional treatment was accorded the Argentine vessel *Victoria* in April, 1942.

Please communicate with the Department as soon as the reaction of the Brazilian Government is known, since the Navy Department requests confirmation of the waiver.

HULL

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<sup>32</sup> Not printed.

<sup>33</sup> *Supra.*

<sup>34</sup> Building of the Brazilian Ministry for Foreign Affairs.

832.24/2303

*The Chief of the Brazilian Military Commission (Lima) to the  
Liaison Officer of the Department of State (Wilson)*

WASHINGTON, July 8, 1943.

DEAR MR. WILSON: During a recent understanding between Mr. Kempter of the Lend-Lease Administration, and the Brazilian Military Commission, the latter was informed that a meeting will soon be held at the State Department between representatives of the War Production Board, the Board of Economic Warfare, the Lend-Lease Administration and your Department, for the purpose of discussing and working out a coordinated inter-agency plan for servicing the requirements of essential raw materials for the Brazilian Army Arsenals.<sup>35</sup>

It is indeed gratifying to me to know that something may soon be done to solve what, for such a long time, has been a problem of deep concern to this Commission, and I should like to personally thank you in advance for your interest, on behalf of my Government.

I hope that I may be permitted to remind you that under the overall defense program, developed early in 1941, for the military defense of Brazil, the contingent necessity of continued arsenals production of ammunition and matériel was deemed to be of imperative importance. However, due to irregular and insufficient deliveries of the necessary materials our carefully planned schedules of production have suffered severely. If the desired complete cooperative effort of my Government with the Allied nations is to be rendered possible it is very important that this flow of materials be resumed and maintained in accordance with the concept of the overall program.

I should also like to inform you that between my Government, the Brazilian Military Commission, and the Lend-Lease Administration it has been agreed that: (1) All requests for military materials to be furnished under Lend-Lease shall be submitted by the Brazilian Ministry of War to the Brazilian Military Commission which, in turn, shall submit requisitions directly to the Lend-Lease Administration. (2) That prior to submitting such requirements to the Brazilian Military Commission the Brazilian Ministry of War shall have previously examined the possibilities of procurement of the material from either domestic or other nearby sources.

With assurances that the Brazilian Military Commission will spare no effort to act always in a spirit of most frank and sincere cooperation, I am

Most sincerely yours

STENIO LIMA

<sup>35</sup> For the Department's reply, see letter of September 18, p. 638.

732.62114/2a : Airgram

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

WASHINGTON, July 13, 1943—8:10 p. m.

A-1823. Reference Department's instruction No. 4405 of May 1, 1943 and Embassy's airgrams Nos. A-1045 of May 28, A-1070 of May 31, A-1075 of June 1<sup>38</sup> and A-1256 of June 17 regarding attitude of Brazilian Government toward accepting custody of prisoners of war captured by United States armed forces, please make it clear to Brazilian authorities that it is not the intention of this Government to transfer to Brazilian custody 3000 prisoners of war now in American hands but rather it is hoped that the Brazilian Government will assume custody of, and become the responsible holding power for, American-captured prisoners of war to a maximum of 3000 who may be turned over to Brazil by United States Navy from time to time to effect economies in transportation. Please emphasize that this Government has no intention of delivering to Brazil in one shipment the maximum number of 3000 and that this number might never be reached but that this Government wishes to obtain Brazilian consent to accept custody of prisoners of war taken by United States naval forces during the course of the war who can be more conveniently landed at Brazilian ports and whose transfer to the United States might require diversion of shipping.

Airgram report on attitude of Brazilian authorities requested.

HULL

732.62114/3 : Airgram

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

RIO DE JANEIRO, July 21, 1943—3 p. m.

[Received July 26—5 p. m.]

A-1617. Department's airgram A-1823, July 13, 8:10 p. m. Aranha agrees to accept custody of the prisoners of war taken by United States naval forces during the course of the war who can be more conveniently landed at Brazilian ports and whose transfer to the United States might require diversion of shipping.

CAFFERY

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<sup>38</sup> No. A-1075, June 1, not printed.

832.20/540

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

No. 12167

RIO DE JANEIRO, July 31, 1943.

[Received August 7.]

SIR: I have the honor to report that Aranha told me this morning that preparations are going ahead for preparing the Brazilian expeditionary forces to go overseas. "They can go to Africa or Europe or Asia or wherever you want them to go" he said.

He added that General Dutra<sup>39</sup> is authorized to discuss details at Washington.

Respectfully yours,

JEFFERSON CAFFERY

832.7962/83a : Telegram

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

WASHINGTON, August 24, 1943—6 p. m.

3180. The Department has had discussions with the War Department, including General Bragdon<sup>40</sup> and General Walsh,<sup>41</sup> and with officials of Pan American Airways concerning the desirability of proposing to the Brazilian Government an extension of decree-law no. 3462 of July 25, 1941.<sup>42</sup>

The Pan American Airways officials and the War Department expressed the hope that the decree-law could be extended; the former because of a natural and understandable desire to protect for as long a period as possible the priority of its position, and the latter because of the fear that any change in present arrangements would cause complications and delays in the completion of the work now going on.

The Department would be disposed to support an extension and modification of decree-law no. 3462. In any event, there should be an endeavor to secure (1) a satisfactory definition of "accessory facilities" and (2) some assurances that facilities installed by Panair do Brasil with its own funds will not be jeopardized by the interpretation of "facilities" advanced by General Gomes.<sup>43</sup> It is also important

<sup>39</sup> Eurico Gaspar Dutra, Brazilian Minister of War.

<sup>40</sup> Gen. John S. Bragdon, Division Engineer, South Atlantic Division.

<sup>41</sup> Gen. Robert L. Walsh was responsible for liaison work on aviation activities in northeastern Brazil.

<sup>42</sup> The decree authorized Panair do Brasil, a subsidiary of Pan American Airways, to construct or improve certain airports in northern Brazil and to establish accessory installations.

<sup>43</sup> Gen. Eduardo Gomes appears to have represented Brazil in the planning of the construction of the eleven air bases.

that any renewal of the decree be so worded and generalized that all rights and privileges obtained by Pan American Airways or Panair do Brasil through expenditures made by United States Government funds would be extended to any other United States flag airlines which may be certificated to operate in Brazil. There is considerable question of the propriety of this Government's urging or supporting any arrangement which would enable a single United States company to obtain special advantages over other United States companies in the use of facilities paid for with United States public funds, unless it be impossible to secure the rights at all in any other way.

The War Department is anxious that present arrangements with respect to construction work, as covered in decree-law no. 3462, be continued until all the work is terminated, possibly within 4 months. The War Department points out that to change the administrative or supervisory arrangements at this time would probably lead to inefficiency just when it is most necessary to complete the construction with a minimum of delay.

The War Department also feels it is highly important that for the duration of the war the maintenance of the ADP<sup>45</sup> fields (that is, navigation aids, meteorological aids, fueling facilities, upkeep of the runways and other installations, et cetera) should be supervised, at least in so far as military flights are concerned, by Panair do Brasil as at present. The War Department believes the war effort would be impaired by any changes now in the present system.

Arrangements for the maintenance of *status quo* in the supervision of the construction until the construction is finished and in the maintenance of facilities for the use of military aircraft would presumably be handled by an exchange of notes with the Foreign Office or an exchange of memoranda with the Air Minister. If necessary, an informal understanding between you and the Brazilians will be satisfactory.

Please inform the Department by telegram of your views concerning the possibility of concluding with the Brazilian authorities at the present time an extension of the decree-law along the suggested lines and, whether an agreement, or exchange of notes, could make necessary provision for the continuation of present arrangements as desired by the War Department.

The foregoing is urgent. The Department is working on an instruction to you setting out the various American commercial aviation expenditures and interests in respect of which we should like to protect the American position by appropriate agreement.

BERLE

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<sup>45</sup> Airport Development Program.

[The Secretary of State, in telegram No. 3248, August 28, 1943 (740.00119 European War 1939/1627a), indicated that the United States and the United Kingdom had agreed with others of the United Nations that the Allied Commander in Chief should be empowered to sign with the Italian Government an instrument of surrender stipulating seventeen points. The Secretary expressed the hope that Brazil would agree to this arrangement. It appears that there were special reasons for including Brazil in the consultation which were not valid for the other American Republics. In his telegram No. 4149, August 30, 1943, Ambassador Caffery reported: "The Brazilian Government agrees" (740.00119 European War 1939/1628).]

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832.20/544

*The Liaison Officer (Wilson) to the Ambassador in Brazil (Caffery)*

WASHINGTON, September 1, 1943.

DEAR JEFF: As Mr. Welles is absent from Washington, I am enclosing, as of interest to you, a copy of Recommendation No. 16 dated August 21<sup>46</sup> of the Joint Brazil-United States Defense Commission which recommends the organization of a Brazilian Expeditionary Force composed of an Army Corps of three Infantry Divisions and suitable corps troops.

The annex to this recommendation, which is also enclosed, contains information concerning the matériel and training of this Expeditionary Corps.

Sincerely yours,

ORME WILSON

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832.7962/86

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

No. 12564

RIO DE JANEIRO, September 2, 1943.

[Received September 10.]

SIR: I have the honor to refer to Department's telegram 3180 of August 24, 6 p. m. and to my telegram 4137 of August 28, 1 p. m.<sup>47</sup> in which I reported that the Air Minister<sup>48</sup> had assured us orally that the present arrangements with regard to the Airport Development Program in Brazil would be maintained.

There is attached for the Department's prior approval the proposed *aide-mémoire*<sup>49</sup> for delivery to the Air Minister formalizing our

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<sup>46</sup> Recommendation, together with annex, not printed.

<sup>47</sup> Latter not printed.

<sup>48</sup> J. P. Salgado Filho.

<sup>49</sup> Not printed.

understanding of the conditions under which Panair do Brasil may continue the construction and operation of installations on behalf of the War Department.

I have not sought extension of Decree Law 3462 for the reason that it is inherently not renewable. The Decree Law envisaged the construction of a specific set of installations budgeted at a particular amount and takes into account a set of factors which no longer prevail. My request of the Air Minister is therefore solely for the maintenance of the *status quo*. That, it seems, is essentially what the War Department and Pan American Airways desire.

I am taking up the matter of defining "accessory facilities" independently of the ADP arrangements. Otherwise the decision on the ADP may be delayed by being tied in with what appears to be a controversial issue. It may interest the Department to know that Mr. George Rihl, on his own initiative, has stated that all of the facilities in question have been constructed with United States Government funds. There is, therefore, no immediate need for the assurances requested by the Department that the facilities installed by Panair do Brasil with its own funds should not be jeopardized.

Respectfully yours,

JEFFERSON CAFFERY

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832.7962/77

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

No. 4962

WASHINGTON, September 4, 1943.

SIR: Reference is made to the Department's telegram no. 3180 of August 24, 1943, 6 p. m., concerning the possible extension and modification of Brazilian Decree Law No. 3462 of July 25, 1941, which has now expired, and suggesting that certain collateral problems relating to United States aviation interests in Brazil might also be protected by appropriate agreement. Whereas the Department's telegram was intended to deal primarily with the extension of this decree from a military standpoint, the following comments refer mainly to the civil or commercial aspects of the problem.

It is noted from your telegram 3623 of July 28, 1943, 2 p. m.,<sup>50</sup> that the commercial benefits extended to Pan American Airways and Panair do Brasil by Decree 3462 are strongly opposed by Brigadeiro Gomes. General Walsh also feels that Brigadeiro Gomes may be inclined to hold up certain arrangements needed for military purposes because of their projection to future unilateral and special rights for Pan American Airways interests. Therefore, it has been suggested that, rather than jeopardize the objectives sought by the War Depart-

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<sup>50</sup> Not printed.

ment, the non-military aspects arising out of this decree should be dealt with separately. . . .

In an endeavor to analyze this problem, the Department is summarizing below what it understands to be the present status of the principal rights and privileges in Brazil accruing to United States commercial aviation interests.

*Pan American Airways:* The Department is not fully acquainted with the terms of all of the Brazilian authorizations applying to this United States air carrier, although its commercial services appear to be operated under a series of executive decrees, decree laws, and departmental orders. Occasionally these have been supplemented by informal arrangements such as the verbal permission (later overruled) for increasing the number of international services via the cut-off route.

*Airport Development Program:* If decree 3462 may be considered as a guide, the principal direct benefits accruing to United States commercial aviation interests are (1) the provision for exemptions from (or amortizations of) any future taxes or fees if and when imposed at the specific airports constructed or improved under the A. D. P. program, and (2) the use of A. D. P. airport "accessory facilities", the definition of which is now subject to controversy. Incidentally, whereas decree 3462 extended these benefits to Pan American Airways and Panair do Brasil, the Department's telegram 3180, August 24, 1943, 6 p. m., pointed out the desirability of generalizing these privileges to include any United States air carrier certificated to operate in Brazil.

*Rubber Development Corporation:* The air-rubber agreement entered into with Brazil by the Rubber Development Corporation<sup>51</sup> provides for the construction of an airport at Manáos, as well as at other appropriate places to be determined. At the present time it appears that, apart from small "landing areas" already provided for, Manáos will be the only airport to be constructed under this agreement. Upon termination of the air-rubber agreement (the date of which depends on various factors), the airport at Manáos and any other places covered by the agreement, together with the accessory airport and landing area facilities, will revert to the Brazilian Government, without provision for exemption from any future airport taxes, as provided for in the A. D. P. arrangement.

*Servicos Aereos Cruzeiro do Sul, Limitada:* Under an agreement signed on March 25, 1943, the Defense Supplies Corporation agreed to sell American airplanes and parts to Cruzeiro. There is also provision for American technical assistance for a period of at least eighteen months.

The protection or reinforcement of whatever rights and privileges now accrue under the aforementioned points, as well as the extension or amplification of any such rights and privileges to include additional

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<sup>51</sup> For information on this agreement, see *Foreign Relations*, 1942, vol. v, p. 719, footnote 87.



benefits which may be desirable for United States commercial aviation in the future, may be dealt with either by means of piecemeal negotiations or by some form of a general agreement. Your early comments as to which of these methods would be the more practicable, as well as any other suggestions pertinent to this subject, would be greatly appreciated.

Very truly yours,

For the Secretary of State:  
A. A. BERLE, JR.

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832.24/2303

*The Liaison Officer (Wilson) to the Chief of the Brazilian Military Commission (Lima)*

WASHINGTON, September 18, 1943.

MY DEAR COLONEL STENIO LIMA: I refer to my letter of July 23<sup>52</sup> in regard to the method of procurement of certain essential raw materials required by the arsenals of the Brazilian Army in which I stated that the appropriate organizations of this Government were giving this matter their sympathetic consideration in the light of Lend-Lease agreement with Brazil and of such other information which might be available.

I now desire to inform you that at a meeting attended by representatives of this Department, the Office of Economic Warfare, the War Production Board, and the Office of Lend-Lease Administration, these officials concurred in the opinion that, while this Government should fulfill any commitments made by it under the Lend-Lease agreement with Brazil, the raw materials in question, which consist of non-ferrous metals, may be supplied from United States sources and under Lend-Lease terms only in the event that they prove to be unobtainable from sources either in Brazil or in nearby countries. In pursuance of this decision it was agreed that the Brazilian Military Commission may submit requests for such materials to the Office of Lend-Lease Administration which shall then ascertain whether available supplies exist in nearby countries and inform the Commission of the result of this investigation in order that the Brazilian Government may, if such metals are available, take steps to obtain them through direct purchase.

It is believed that the foregoing proposed procedure is substantially in accordance with the views expressed to me in your letter of July 8,

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<sup>52</sup> Not printed.

and it is consequently hoped that it will meet with the concurrence of the Brazilian Military Commission.

Sincerely yours,

ORME WILSON

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832.7962/86

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

No. 5077

WASHINGTON, September 25, 1943.

SIR: The Department refers to the Embassy's despatch no. 12564 of September 2, 1943 (and to instruction no. 4962 of September 4, 1943) enclosing for the Department's approval a proposed *aide-mémoire* for delivery to the Air Ministry, formalizing the understanding of the conditions under which Panair do Brasil may continue the construction and operation of airports and facilities on behalf of the United States Government.

The Embassy's proposed *aide-mémoire* has been given careful consideration in this Department and in consultation with a representative of the War Department. In view of Pan American Airways' interest in the matter the company was given an opportunity to present its views. For your information and the files of the Embassy a copy of a memorandum of the conference with representatives of Pan American Airways is enclosed, together with a copy of the proposed *aide-mémoire* with suggested revisions.<sup>53</sup>

The representatives of Pan American Airways objected strongly to the disclosure of the fact that at the inception of the airport development program, the company was working as "an agent in fact of the United States War Department", saying that this work was conducted under a secret contract with the War Department, the secrecy of which the company had carefully preserved. The State and War Department representatives pointed out that the interest of the United States armed services in the airport construction program is well known in Brazil, and under the circumstances it was felt that the company was unduly concerned on this point. Nevertheless, no particular disadvantage was seen in making certain changes in the draft *aide-mémoire* with the view to meeting the company's objections so far as possible. Therefore, it will be noted that the fourth paragraph has been revised accordingly, and that subsequent references to Panair's activities as "agent" of the United States Army have been revised to read "on behalf of the Government of the United States".

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<sup>53</sup> Neither printed.

It is believed by the Department that the seventh paragraph of the proposed *aide-mémoire* should be expanded in order to cover more explicitly both construction that might have already been started and construction that might be required in the future. The Department feels that it should also be made clear that construction at points other than the airports specifically named in Decree Law no. 3462 is to be covered by the proposed *aide-mémoire*. For the same reason, it is suggested that numbered paragraph (2) of the Embassy's draft should be of broader application and made to refer to all the construction included in the scope of the *aide-mémoire*.

Numbered paragraph (5) has been revised with the principal purpose of obtaining a more definite assurance as to equality of treatment to any United States air transport lines that may be authorized to operate in Brazil, and no special reason was perceived for retaining the phrase "for account of the United States Government". It has not been thought desirable to make mention of Brazilian lines in this respect, as it appears to be quite evident that the Brazilian Government would be in a position to insist upon any necessary safeguard so far as Brazilian national lines may be concerned.

Since paragraph (6) seems to be a repetition of matter appearing in other places in the *aide-mémoire* its deletion is suggested.

The Department will be glad to have you give careful consideration to the suggested amendments and report whether you feel that any of them would be inadvisable.

While the Department concurs with the Embassy's views on the subject, the Pan American representatives were very much disappointed at the Embassy's suggestion that present negotiations not be complicated by an insistence at this time upon a definition of "accessory facilities". They expressed concern about the possibility of losing control over certain fueling, radio and meteorological installations, and again claimed that some of the radio facilities had been installed with company funds. In view of the importance of this matter, it is assumed that the Embassy has in mind the necessity of obtaining a satisfactory definition of "accessory facilities" as soon as possible after reaching an agreement on the matters covered in the proposed *aide-mémoire*.

Possibly a clarification of the desires of Pan American Airways and of the interest of this Government in the subjects raised in the proposed *aide-mémoire* will assist in dispelling any reluctance which General Gomes and other Brazilian officials might have in agreeing to a satisfactory definition of the term "accessory facilities".

Very truly yours,

For the Secretary of State:  
A. A. BERLE, JR.

740.0011 European War 1939/31419 : Telegram

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

RIO DE JANEIRO, October 4, 1943—4 p. m.

[Received 6:41 p. m.]

4695. I have in mind the confidential conversations at which I assisted in Natal between President Roosevelt and President Vargas <sup>54</sup> concerning the sending abroad of Brazilian military forces; and subsequent correspondence.

My Military Attaché <sup>55</sup> received on Saturday a telegram from Colonel Hertford <sup>56</sup> asking him to ascertain how the Brazilians would receive a suggestion to send to North Africa, for training purposes, a Brazilian division during the month of December; another division a little later. Inquiry was also made as to the pertinent part to be played by the Brazilian Air Forces.

Hertford said that in the event the Brazilian reaction were favorable, an appropriate recommendation would then be made to the Combined Chiefs of Staff.

I have brought this matter to President Vargas' attention and hope to have an early definite reply in relation to the whole Brazilian policy in connection with an expeditionary force.

CAFFERY

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740.0011 European War 1939/31420 : Telegram

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

RIO DE JANEIRO, October 4, 1943—7 p. m.

[Received 10:10 p. m.]

4707. My 4695, October 4, 4 p. m. President Vargas says that he likes the suggestion for sending a division to Africa in December and accepts it in principle. (Under those circumstances he assumes that our War Department does not desire that the Generals, who were to proceed to the United States in a few days, to proceed now.)

As reported in my 4694, October 4, 3 p. m.,<sup>57</sup> President Vargas is going tomorrow to Rio Grande do Sul for a few days. When he returns he will take up the details.

CAFFERY

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<sup>54</sup> For correspondence on this meeting, see pp. 653 ff.

<sup>55</sup> Col. Claude M. Adams.

<sup>56</sup> Col. K. F. Hertford, Caribbean-Latin American Section, Operations Division, War Department.

<sup>57</sup> Not printed.

740.0011 European War 1939/31419 : Telegram

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

WASHINGTON, October 6, 1943—11 p. m.

3790. The War Department hopes that there will be no change in the plans to send the Generals mentioned in your 4707, October 4, 7 p. m. and cadres of officers to the United States since the training they will receive here is an essential preliminary to possible joint operations. According to present very tentative plans, the second Brazilian division would not be sent for several months, probably not until next spring.

It should be thoroughly understood that plans for sending Brazilian troops overseas will have to be approved by the Combined Chiefs of Staff and that problems of availability of shipping and the like are not yet resolved. Colonel Hertford's inquiry, covered by your 4695 of October 4, 4 p. m., was intended solely to ascertain whether the Brazilians were prepared to send an expeditionary force in order that appropriate recommendation to the Combined Chiefs of Staff might be prepared. No formal proposal can, of course, be made until that body has taken action.

HULL

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740.0011 European War 1939/31617a

*The Adviser on Political Relations (Duggan) to the Ambassador in Brazil (Caffery)*

WASHINGTON, October 8, 1943.

DEAR MR. CAFFERY: Phil Bonsal<sup>58</sup> and I today had a long talk with Colonel Hertford with regard to the idea that Brazil might send troops to the European combat zones.

Your telegram that this proposition is agreeable in principle, plus what General Dutra stated when he was here, seem a pretty clear indication that Brazil would like to send troops. The question is when and under what conditions. General Dutra told General Marshall<sup>59</sup> that he would like to send over three divisions next summer, all in one expeditionary force. From the Brazilian point of view one can see many reasons why this would be the best procedure. From the War Department point of view there are a number of difficulties, one of which seems controlling. The principal difficulty is the impossibility

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<sup>58</sup> Chief of the Division of the American Republics.

<sup>59</sup> Gen. George C. Marshall, Chief of Staff.

of making available sufficient shipping to transport in one expedition three divisions with all of their equipment. This would be a major operation that would require diversion of too much shipping. The War Department, which has a general shipping schedule planned out for a year in advance, could probably transport one division in December or early next year and another division during the spring. These divisions would be given three months' intensive training in North Africa, so that they would arrive in the combat zones as well prepared and trained as our own troops.

In addition to this shipping problem, which the War Department insists is controlling, there is another consideration that suggests strongly the desirability of Brazil's following the War Department indication if it is really interested in sending troops into combat areas: that is, the present willingness of our Army leaders to employ Brazilian troops. Colonel Hertford says that General Eisenhower <sup>60</sup> and General Clark <sup>61</sup> say they would be glad to have them and could use them. General Marshall is in favor of it. There therefore exists at this time a good atmosphere in the War Department, but this atmosphere may change, depending upon the progress of the war. For one or another reason General Marshall and General Eisenhower may lose interest.

It is therefore my belief that if Brazil is really interested it should make known its interest now and in general accept the pattern of the operation suggested by the War Department.

Our telegrams have made clear that the utilization of Brazilian troops must have the approval of the Combined Chiefs of Staff. If the proposal is strongly supported by General Marshall and General Eisenhower this approval should, of course, be forthcoming. The War Department is unwilling to put the proposition before the Chiefs of Staff, however, until it knows that Brazil actually does want to send troops into combat areas and finds acceptable the pattern of operation suggested.

In giving you this background my idea is not to convey to you any impression that we think Brazil should be persuaded that it should send troops but rather that if this is the Brazilian decision it would be well for them to accept the outline suggested by the War Department and proceed accordingly, since otherwise no assurance can be given when a Brazilian expeditionary force might be transported.

Yours very sincerely,

LAURENCE DUGGAN

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<sup>60</sup> Gen. Dwight D. Eisenhower, Commander in Chief, Allied Forces in North Africa.

<sup>61</sup> Gen. Mark W. Clark, Commander, United States Fifth Army.

740.0011 European War 1939/31644 : Airgram

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

RIO DE JANEIRO, October 13, 1943—1:30 p. m.

[Received October 20—2 p. m.]

A-2321. My telegram 4760, October 8, 11:00 a. m.<sup>62</sup> General Dutra says that he understands that no definite plans can be made without the approval of the Combined Chiefs of Staff. However, he says, Brazil is making all preparations and will be ready to send the first division in December.

CAFFERY

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732.62114/5 : Airgram

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

WASHINGTON, October 27, 1943—7 p. m.

A-2497. Department's A-2051, August 13, your despatch 12094 July 26,<sup>63</sup> and A-1617 July 21, 3 p. m. Department has been informed by Admiral Leahy, Chief of Staff to the Commander in Chief of the United States Army and Navy, that very few prisoners of war captured by the United States Naval Forces have been transferred to the custody of the Brazilian Government. In view of this fact and the fact that it would appear from the exchange of correspondence between the Department and the Embassy that the retention of these prisoners might inconvenience the Brazilian Government, you should inform the Brazilian Government that this Government will transfer these prisoners to the United States for permanent internment as soon as feasible if they can be assembled at either Belem, Recife, or Natal, where they can be shipped on vessels returning to the United States from supplying American installations at those points.

You should also inform the Brazilian Government that this Government would be grateful if the arrangement whereby the Brazilian Government agreed to accept, with the full responsibility of the captor Power, prisoners of war captured by the United States Naval Forces, could be continued as a means for providing temporary custody for such prisoners of war who can be more conveniently landed at Brazilian ports.

An early reply by airgram is requested.<sup>64</sup>

STETTINIUS

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<sup>62</sup> Not printed.

<sup>63</sup> Neither printed.

<sup>64</sup> In airgram No. A-2476, November 3, 1 p. m., Ambassador Caffery reported: "Brazilian Government agrees". (732.62114/6)

832.7962/94 : Telegram

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

WASHINGTON, October 30, 1943—2 p. m.

4054. Department refers to your telegrams numbered 4912, 4913 and 4914 and dated the 19th of October, 1943.<sup>65</sup> After full consideration, Department feels that it should endeavor to obtain equal treatment for all United States airlines and does not feel that Pan American Airways' insistence that these installations, including accessory facilities, shall be for exclusive use of Pan American Airways and Panair do Brasil can be justified in view of the fact that these installations were constructed with United States public funds.

Draft *aide-mémoire* <sup>66</sup> is being forwarded today by air mail.

STETTINIUS

832.20/583

*The Ambassador in Brazil (Caffery) to the Adviser on Political  
Relations (Duggan)*

RIO DE JANEIRO, November 4, 1943.

[Received November 13.]

DEAR LARRY: I send you herewith copy and translation of a proposed amplified agreement <sup>67</sup> which Aranha handed me this morning, most informally he said, to be put before our authorities as a possible addition to the political-military agreement we signed on May 23, 1942.<sup>68</sup> He insisted that there was nothing formal about the presentation of this; he wants to know what we frankly think of it.

I trust that you will let me know.

With all good wishes,

Very sincerely yours,

JEFFERSON CAFFERY

<sup>65</sup> None printed.

<sup>66</sup> Not printed.

<sup>67</sup> Not printed; under this supplementary proposal Brazil was to prepare an expeditionary force, the head of which was to be fully authorized to discuss its transportation and use with the American Command. This force was to be used as an indivisible unit with supporting aircraft, artillery, and vehicles supplied by the High Command. Its transportation, food, supplies, and pay were to be provided by the United States. The War Department concluded that a formal agreement of this sort was unnecessary but that a working agreement covering the operations of the Brazilian Expeditionary Force was appropriate.

<sup>68</sup> For information on this agreement, entered into by an exchange of notes dated May 23 and May 27, 1942, at Rio de Janeiro, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the official Army history *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 317-319.



832.20/583

*The Adviser on Political Relations (Duggan) to the Ambassador in Brazil (Caffery)*

WASHINGTON, November 20, 1943.

DEAR MR. CAFFERY: I have discussed with the General Staff Aranha's draft of an agreement to cover Brazilian participation in military operations in the Mediterranean theater, which you enclosed with your letter of November 4, 1943. As you will undoubtedly have noted yourself, Aranha's proposal contains a number of features which could hardly be acceptable to the War Department and others which have no place in an agreement between the two Governments or Armies.

When General Dutra was here, he discussed with the Joint Brazil-United States Defense Commission the question of Brazilian operations overseas and authorized General Carvalho<sup>69</sup> to work out a draft agreement with General Ord<sup>70</sup> to be submitted to the War and Navy Departments here and to the Brazilian Government. The Defense Commission prepared a rough draft which was sent down by General Carvalho about a month ago for General Dutra's comments. I am enclosing a copy of this draft<sup>71</sup> as further revised. The enclosed draft has been approved by General Carvalho subject to confirmation by his superiors with the exception of the underlined words at the end of Recommendation 3(a), which has not yet been taken up with General Carvalho but which should be satisfactory.

You will see that the Defense Commission's draft is far simpler than Aranha's and that it provides for Brazilian cooperation within the framework of combined operations under the Allied Commander in Chief in the Mediterranean without all of the objectionable and impossible features of negotiation in the field contained in Aranha's proposal. I imagine that Aranha has the Defense Commission's draft but that he or General Goes Monteiro wished to alter it in order to get concessions for Brazil which are not practicable.

It seems to me that the only thing to do is to tell Aranha that the Brazilian and American members of the Defense Commission have been discussing the terms under which Brazilian troops would be used for over two months and have reached agreement in principle on the enclosed draft subject to confirmation by their respective Govern-

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<sup>69</sup> Gen. Leitão Carvalho, Chief of the Brazilian delegation of the Joint Brazil-United States Defense Commission.

<sup>70</sup> Maj. Gen. J. G. Ord, Chairman, Joint Brazil-United States Defense Commission.

<sup>71</sup> Not found in Department files.

ments and that we feel the negotiations should be kept within this framework. You might present the Commission's draft to him in confidence pointing out that it is, of course, still in tentative form and not yet submitted to our War and Navy Departments since General Carvalho has been awaiting General Dutra's comments and had asked that presentation here be delayed until he received a reply. I think it would be far preferable to keep these negotiations, dealing properly only with technical military matters, in military channels. You might consequently suggest to Aranha that the Defense Commission is awaiting General Dutra's comments and will be glad to expedite action by the War Department as soon as they are received.

With best wishes,

Yours very sincerely,

LAURENCE DUGGAN

711.32/193 : Telegram

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

RIO DE JANEIRO, November 25, 1943—4 p. m.

[Received 8 p. m.]

5476. For Duggan. In connection with my telegram 5462, November 24, 6 p. m.,<sup>72</sup> Colonel Hobbs<sup>73</sup> tells me that he notes some apprehension in the Brazilian War Department that we may be losing interest in the Brazilian Expeditionary Force. Also Colonel Moulton,<sup>74</sup> who arrived a few days ago, brings word from Washington that there is a tendency in some quarters to slow up in connection with supplying Lend-Lease material to Brazil.

There is an intensified whispering campaign going on against us now all over the country, growing out of the pressure of so many thousands of us in Brazil. The charge is being made that we are here to stay, that this is conquered territory, and so on. (Third, fourth and fifth paragraphs of my 5419, November 22.)<sup>75</sup>

No one in the highest quarters really believes these stories but the more people in the lower reaches who believe them, the more difficult it is for those in the higher places. I repeat that the stories up to now have had no effect on President Vargas and most of the important members of his Government, who continue to give us all the cooperation we ask for.

<sup>72</sup> Not printed.

<sup>73</sup> Member of the Joint Brazil-United States Military Commission.

<sup>74</sup> Another member of the Commission.

<sup>75</sup> Not printed; it reported student unrest, dissatisfaction with the Brazilian Expeditionary Force, and suspicion of the United States (832.00/4502).

Also, I would like again to commend the highly satisfactory position, attitude and cooperation of our own military and naval authorities here.

CAFFERY

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832.7962/99

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

No. 13726

RIO DE JANEIRO, December 6, 1943.

[Received December 11.]

SIR: I have the honor to refer to the Department's instruction 5287 of November 10, 1943 <sup>76</sup> enclosing a memorandum with regard to the possible usefulness of negotiating at this time an agreement with the Brazilian Government on commercial aviation.

During Mr. Livingston Satterthwaite's <sup>77</sup> visit here, he, together with members of my staff, had discussed this matter with General Walsh, both in Rio de Janeiro and at his headquarters. In addition, the Embassy has had the opportunity to consult Mr. William Robertson, Regional Manager at Atlanta of the Civil Aeronautics Administration; and Mr. C. J. Tippet, also of the CAA, now on assignment here.

There is, in this connection, attached advance copy of a letter <sup>78</sup> General Walsh proposes to address to me. He informed Messrs. Tippet and Walmsley <sup>79</sup> during a visit to Natal and Recife with Mr. Satterthwaite December 1 and 2 that he expected clearance by telephone the morning of the 3rd from Colonels Hertford and Brownell of the War Department. He had no objection, however, to my submitting this advance copy in order to expedite my reply to the Department's instruction 5287.

I am in accord with the Department and General Walsh as to the timeliness of reaching agreement with Brazil on these matters.

I have informed General Walsh that although the plan for the Joint Commission has definite merit, the chances of its acceptability to the Brazilian Government will decrease, not increase, as time passes. The General feels optimistic that if we can open negotiations at once, the

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<sup>76</sup> Not printed; it indicated the timeliness of negotiating a commercial aviation agreement.

<sup>77</sup> Of the Division of the American Republics.

<sup>78</sup> Not printed.

<sup>79</sup> Walter N. Walmsley of the Division of the American Republics.

Brazilian Government will be responsive to the proposed Joint Commission.

I am therefore in general accord with General Walsh's draft letter.

I requested Mr. Walmsley to suggest to General Walsh at Natal last week, that the important selling points for an agreement with Brazil should include the following:

*a)* An offer to train selected Brazilian personnel under CAA<sup>80</sup> sponsorship in airport operation in the United States (see Embassy's airgram 2616 of November 22, 1943).<sup>81</sup>

*b)* The inauguration at the airports by the Army of a training program for Brazilian airport personnel, particularly after those trained under *(a)* have returned to Brazil.

*c)* The loan of American technical personnel to the Air Ministry for the transition period between the withdrawal of the United States Army and the assumption of control of the airport facilities by Brazil.

With reference to *(b)*, there is enclosed a copy of a memorandum of November 27<sup>81</sup> prepared by Lt. Colonel Barton of General Walsh's staff with regard to a training program for Brazilian personnel. General Walsh informed Mr. Walmsley that his command is selecting around fifty Brazilians per week from the men now being discharged (with the completion of major construction) for training side by side with United States Army personnel. In other words, the General states, a training program for Brazilians in the lower brackets is already in progress.

In regard to an air agreement in general, the Air Minister and Brigadeiro Gomes have both expressed approval of the principle of reciprocity. Brigadeiro Gomes, however, again raised, on his own initiative when talking to Messrs. Tippet and Walmsley, his objections to inland routes for foreign carriers. I enclose a memorandum of this conversation<sup>81</sup> as of interest to the Department, the War Department, the CAA, etc.

As the Department correctly appreciates, few if any Brazilians are aware of the fact that as matters now stand Brazil may be denied reciprocal rights for those Brazilian airlines it desires to have enter the United States. The exclusion of Brazilian airlines desiring to fly to the United States would obviously have a serious effect on our aviation interests.

I shall be glad to enter discussions, in conjunction with General Walsh, with the Brazilian authorities upon receipt of appropriate instructions.

Respectfully yours,

JEFFERSON CAFFERY

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<sup>80</sup> Civil Aeronautics Administration.

<sup>81</sup> Not printed.

832.24/2655

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

No. 13817

RIO DE JANEIRO, December 11, 1943.

[Received December 17.]

SIR: With reference to my despatches No. 13552 of November 26 and No. 13816 of December 11, 1943,<sup>83</sup> concerning the Brazilian Government's desire to purchase all of the surplus United States Army engineering and construction equipment in Brazil, I have the honor to transmit herewith a translation of a pertinent letter I have just received from the Foreign Minister.<sup>84</sup>

This is the letter to which allusion is made in the last paragraph of page 1 of the enclosure to my despatch No. 13552 of November 26; the Brazilian Government is herewith making a formal request for (a) all of the surplus United States Army engineering and construction equipment available in Brazil and (b) the assignment to Brazil of United States Army engineers to assist in the planning and supervision of a public works program.

I have sent a translation of the letter to General Walsh.

Respectfully yours,

JEFFERSON CAFFERY

832.20/567 : Telegram

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

RIO DE JANEIRO, December 13, 1943—3 p. m.

[Received 5:14 p. m.]

5686. On the same occasion that President Vargas spoke to me about my 5684, December 11, 8 p. m.<sup>85</sup> (1) he asked me when we would be ready to transport the first contingents of the Brazilian expeditionary force to North Africa. He said he hopes that a rumor which had reached him mentioning the month of June is not correct. (2) He said also that a rumor had reached him from Washington that we would be unable to continue to carry out our "commitments" under Recommendation No. 14<sup>86</sup> of the Joint Brazil-United States Military [Defense] Commission. He strongly hopes that this is untrue.

CAFFERY

<sup>83</sup> Neither printed.

<sup>84</sup> Letter not printed.

<sup>85</sup> Not printed.

<sup>86</sup> This recommendation of January 20, 1943 (not printed), outlined the number and location of Brazilian military units and established priorities for the supplying of these forces by the United States with military matériel (832.20/488).

711.32/193

*The Adviser on Political Relations (Duggan) to the Ambassador  
in Brazil (Caffery)*

WASHINGTON, December 15, 1943.

DEAR MR. AMBASSADOR: I think that the best reply which I can make to your letter of November 24, 1943,<sup>87</sup> regarding the apprehension of certain Brazilian officers as to a possible slackening of our interest in a Brazilian expeditionary force, is by enclosing a copy of an informal memorandum<sup>87</sup> prepared for me by Colonel Hertford, on which my telegram no. 4408 of November 29, 11 p. m.,<sup>88</sup> in reply to your 5476 of November 25, 4 p. m., was based. I may say for your own information that the equipment for the three Brazilian Expeditionary Force divisions is included in the War Department's 1944 overseas supplies programs. You will thus see that the War Department is definitely counting on a Brazilian expeditionary force.

It seems to me that it should be easy for the Brazilian Government to overcome the whispering campaign to the effect that we do not want a Brazilian expeditionary force, that we are not going to equip it properly, et cetera.

I understand that the whispering campaign has taken such lines as that the Brazilian troops will not be properly equipped, will be taken over in old Brazilian ships without a convoy, et cetera. All of these rumors are of course completely false. The Brazilian troops are receiving adequate training equipment in the same manner as American troops in the United States. In the case of American troops, most of their equipment goes overseas with them but in freight vessels instead of troop carriers with some new equipment being issued overseas. In the case of the Brazilian troops, they will be even better treated since the training equipment will be all left behind and they will be entirely re-equipped with brand new battle matériel in North Africa. They will be transported abroad in the same sort of troop carriers as American troops and under the same security conditions. The point which should be stressed to the Brazilians is that their troops will be given exactly the same status as our own troops.

Reports have come to us from several sources indicating that there is some disagreement within the Brazilian Army itself as to the advisability of sending an expeditionary force and that certain factions within it want to get the maximum possible amount of Lend-Lease material in Brazil and hold it and the troops there, being

<sup>87</sup> Not printed.

<sup>88</sup> This telegram (not printed), pointed to the amount of equipment made available, training facilities provided, and opportunities for observation given, as evidence of continued United States interest (711.32/193).

influenced perhaps by the fear of possible Argentine aggression. I wonder whether some of the completely unjustified Brazilian complaints are not founded on this situation and internal troubles in the Brazilian Army itself. . . .

Yours very sincerely,

LAURENCE DUGGAN

P.S. : Today brings the announcement from Algiers of the Brazilian Expeditionary Force and the request of the DIP <sup>92</sup> that this announcement not be carried over Portuguese language broadcasts beamed on Brazil. What's up?

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832.20/567 : Telegram

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

WASHINGTON, December 22, 1943—midnight.

4659. Definite plans cannot be made for the transportation of the First Division of the Brazilian Expeditionary Force, with reference to your 5686, December 13, 3 p. m., until that Division has been assembled and organized in one place, received basic training, and familiarized itself with basic weapons, none of which has yet been done. These steps will take several months. The Brazil-United States Defense Commission has been advised that transports will probably not be available before May because of commitments for other purposes. However, there is much that can be done in Brazil and the efforts there will materially assist planning here to arrange for participation as soon as possible. You will thus see that the schedule necessarily depends largely upon how actively and promptly the Brazilian Government takes the necessary preliminary steps.

If there are no further delays in the assembling of the fighter squadron, it should be ready for participation in early spring and the transport of this air unit would not present the same problem as a division.

With regard to Recommendation No. 14 of the Brazil-United States Defense Commission, you will recall that it was based upon the strategic situation of danger to the hemisphere which then still existed but has disappeared with the elimination of Axis forces from Africa. It also provided that the bases for delivery of the material mentioned in it would be (1) availability with due consideration to needs in active theatres; (2) organizational readiness of units in Brazil to receive the equipment; and (3) a list of priorities for delivery set merely as an objective, it being clearly stated in the Recommendation that it was realized that the availability of material was not such as to permit full compliance. The War Department's letter ap-

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<sup>92</sup> National Department of Press and Propaganda (Brazil).

proving the Recommendation made it clear that it was accepted purely for planning purposes subject to changing conditions and that there was no "commitment".

Nevertheless, this Government has furnished training equipment for one division, which was diverted to Rio de Janeiro by agreement instead of being used in the northeast as contemplated in Recommendation No. 14, and a large amount of extra artillery equipment. Much of this matériel has not yet been distributed in Brazil and the units to receive it have not been fully organized. As soon as the detailed requisition for training matériel for a second division is submitted by the Brazilian Mission here, active steps will be taken to supply the training needs within the limitations of availability of equipment. The War Department points out that there is considerable lend-lease equipment already in Brazil which could be used temporarily in training the divisions instead of delaying until the receipt of additional equipment. This Government is thus making every effort to meet Brazil's defense requirements as fully as possible, despite the changed circumstances since Recommendation No. 14.

Please inform President Vargas in confidence of the substance of the foregoing.

For your own information, it may be said that the War and Navy Departments and this Department are reviewing the policy of Lend-Lease to the other American republics with the probability that it will in the future largely be restricted to ends directly connected with the active prosecution of the war. Since Brazil is directly cooperating in this effort, deliveries to it would obviously not be affected to any material degree, as they probably will be to other countries which are not such active participants in the war.

HULL

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**CONFERENCE BETWEEN PRESIDENT ROOSEVELT AND PRESIDENT  
VARGAS OF BRAZIL AT NATAL**

832.001 Vargas, Getulio/1343 : Telegram

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

RIO DE JANEIRO, January 6, 1943—5 p. m.

[Received 5:25 p. m.]

65. For the Under Secretary. Aranha <sup>93</sup> tells me Martins <sup>94</sup> reports President Roosevelt told him to invite President Vargas "to meet him at Trinidad" (when, not known).

President Vargas says he will be glad to do it.

CAFFERY

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<sup>93</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>94</sup> Carlos Martins, Brazilian Ambassador in the United States.



832.001 Vargas, Getulio/134§

*Memorandum by President Roosevelt to the Under Secretary  
of State (Welles)*

WASHINGTON, January 8, 1943.

I merely told Martins that if I went to the West Indies this Winter I hoped much President Vargas could meet me in some central location like Trinidad. Nothing further.

F[RANKLIN] D. R[OSEVELT]

740.0011 European War 1939/27475 : Telegram

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

RIO DE JANEIRO, January 26, 1943—4 p. m.

[Received 4:48 p. m.]

401. For the Under Secretary. Aranha showed me telegrams this morning giving very interesting and graphic accounts of North African Conference.<sup>95</sup>

I leave in the morning with Oswaldo's boss<sup>96</sup> to meet you know whom.<sup>97</sup>

I should be back here Friday.<sup>98</sup>

CAFFERY

740.0011 European War 1939/27586 : Telegram

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

RIO DE JANEIRO, January 29, 1943—6 p. m.

[Received 9:30 p. m.]

463. For the Under Secretary. My telegram 400 [401<sup>9</sup>], January 26, 4 p. m. President Vargas with two aides, Admiral Beauregard,<sup>1</sup> and I went with Admiral Ingram<sup>2</sup> by plane to Natal where we arrived Wednesday evening. We proceeded at once to the destroyer *Jouett* where we stayed the night. No one at Natal knew that President Vargas was there nor indeed anything of what was going on. It was easy to keep the secret at Rio de Janeiro because it was generally

<sup>95</sup> Meeting between President Roosevelt and British Prime Minister Churchill, with their advisers, at Casablanca, Morocco. Correspondence relating to this Conference is scheduled for publication in a subsequent volume of *Foreign Relations*.

<sup>96</sup> The Brazilian President.

<sup>97</sup> President Roosevelt.

<sup>98</sup> January 29.

<sup>1</sup> Rear Adm. Augustin Beauregard, U. S. Naval Attaché.

<sup>2</sup> Vice Adm. Jonas H. Ingram, U.S. Commander, South Atlantic Force.

believed that President Vargas was at São Paulo where [he] had remained after the festivities in connection with the anniversary of the founding of the city on account of his son's coming down with infantile paralysis.

President Roosevelt arrived at 8:00 Thursday morning and proceeded to the destroyer *Humboldt* where he remained the day and night.

I had a pertinent conversation with President Roosevelt before he saw President Vargas who came to the *Humboldt* at noon. President Roosevelt had a luncheon party in his honor after which we proceeded to visit the American and Brazilian Air, Army and Navy installations. Only at that time were President Vargas' authorities notified of his presence. The two Presidents were recognized by a good many people on the streets and a good many of the respective armed forces. We returned to the *Humboldt* for dinner where the two Presidents, Harry Hopkins<sup>3</sup> and I talked over a number of things of which I shall tell you in a separate telegram.<sup>4</sup> At that time a joint communiqué was agreed upon as well as a separate statement by President Roosevelt<sup>5</sup> which is to be released for the tomorrow morning's papers.

The meeting was eminently successful from all points of view.

CAFFERY

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740.0011 European War 1939/27588 : Telegram

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

RIO DE JANEIRO, January 30, 1943—5 p. m.

[Received 8:15 p. m.]

491. For the Under Secretary. My telegram number 463 of January 29, 6 p. m.

1. In the conversation I had with the President before he saw President Vargas, it was agreed that he would tactfully bring up the United Nations matter. I told President Roosevelt that in my opinion President Vargas was prepared to join. (Aranha let me read his 10-page letter of advice to Vargas.)

2. President Roosevelt told me that our military authorities were not especially interested in having Brazilian troops sent to North Africa; <sup>6</sup> that they would very much like, however, to have President Vargas suggest to Salazar <sup>7</sup> that Brazilian troops be sent to Azores and Madeira to relieve Portuguese troops there who might be more

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<sup>3</sup> Special Assistant to President Roosevelt.

<sup>4</sup> *Infra.*

<sup>5</sup> Department of State *Bulletin*, January 30, 1943, p. 95.

<sup>6</sup> See pp. 616 ff.

<sup>7</sup> Antonio de Oliveira Salazar, President of the Portuguese Council of Ministers and Minister for Foreign Affairs.

usefully employed in Portugal. I agreed with President Roosevelt that he should make that suggestion to President Vargas.

3. It was agreed also that President Roosevelt while praising the cooperation of the Brazilian Navy would tactfully suggest that construction work on the destroyers and *Griffens* be expedited. They could be most usefully employed on convoy duty.

President Roosevelt began his conversation with President Vargas by telling him much of what had happened in Africa; told him also of the progress of the war; how our production is getting along; of our attitude to the British and their attitude to us; of the Russian situation; some of our postwar hopes and plans; of his ideas in relation to the future of French colonies in Africa and Dakar in particular and the French possessions in America: in relation to Dakar, he said that he feels that Dakar should be left after the war in some sort of trusteeship; three commissioners, perhaps: one from United States, one from Brazil and one from some other American country, perhaps. Plans and possibilities were discussed in a general way as to the future of Brazil's industrial development, immigration into Brazil, et cetera.

In regard to numbered paragraph 1 above, President Vargas indicated that he would take steps to become a member of the United Nations: "However," he said, "this might be an opportune moment to say again that we need equipment from you for our military, naval and air force."

In relation to numbered paragraph 2 above, Vargas indicated that he is willing to take up the matter with Salazar. However, on this point also he emphasized the matter of equipment: "We can not," he said, "send troops to the Portuguese Islands unless you furnish adequate equipment for them."

In relation to numbered paragraph 3 above, Vargas agreed but reminded us that he had not yet received some needed machinery parts for the destroyers, et cetera, which Secretary Knox<sup>8</sup> promised to get here without delay.

The two Presidents were much impressed with their inspection of the American and Brazilian military, naval and air establishments at and near Natal: The airfield is said to be now one of the finest in the world.

I believe both Presidents were delighted with the day. President Vargas, on his way back on the plane yesterday, was most enthusiastic and Aranha tells me this morning that he has rarely seen him so pleased with anything.

CAFFERY

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<sup>8</sup> Secretary of the Navy, Frank Knox.

740.0011 European War 1939/27590 : Telegram

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

RIO DE JANEIRO, January 30, 1943.

[Received January 30—4:26 p. m.]

478. President Vargas' press conference last night at Guanabara Palace following his return from Natal was published under large headlines in all newspapers. Accounts were preceded by comments praising cooperation between the two countries and emphasizing Brazil's responsibilities in the war particularly in connection with African campaign; President Vargas opened conference stating he desired to give "general impressions on the conference I have just had with President Roosevelt." He disclosed that President Roosevelt had requested the meeting at Natal some days ago but the invitation had been kept secret. "We talked at length on all matters concerning the common interests of the nations at war and particularly the cooperation of Brazil with the United States. I may affirm that our agreement was complete on all points and on the object of our conversation. I had the great pleasure to see President Roosevelt again, who has always been a constant friend of Brazil. I found him in the best of spirits with his great and intense energy in its full development and still demonstrating the firm decision to carry forward this crusade in which we are all pledged and with the frankest optimism on the results of the struggle." He said that the two Presidents had drafted a joint note for the press in addition to a personal note which President Roosevelt would give the press in the United States. Asked if he could elaborate on his statement "our agreement was complete," the President said he referred "to the understandings on the objectives of our meeting. We dealt with matters referring to the war and those which possibly may arise after the peace. The necessity of winning the war, however, was the main subject and on this aspect we talked much on the cooperation of Brazil with the United States, integral cooperation, with no restrictions." To a question regarding the cooperation of Brazil's Armed Forces, the President replied by repeating "cooperation with no restrictions." He added, "As we are in the war our cooperation with the United States must be complete. Everything the United States judges necessary and useful as cooperation from Brazil we shall continue to give." President Vargas then told the press "President Roosevelt returned frankly satisfied with the results of the Conference at Casablanca." Replying to another question regarding President Roosevelt's impressions on the probable duration of the war President Vargas said, "The Allied Nations are prepared for a long war, nor do they wish to hold undue optimism

as in war there are unforeseen developments. The military power of Germany is evidently in decline. There may be a collapse from one moment to the next. With all this, however, work is being done as it should be done in such emergencies in anticipation of a long war." Asked about his own opinion of the war's duration Vargas replied, "I am in entire accord with President Roosevelt. We must prepare for a long war. There is no doubt, however, that we are all entirely certain of victory." To another question regarding the union of the French as the result of the Casablanca meeting President Vargas replied, "I found President Roosevelt pleased and fully satisfied with the results of the Casablanca Conference including that of having realized the union of the French." He added he arrived in Natal the evening before President Roosevelt's arrival as "The host should await the visitor." Asked regarding his impressions of the base at Natal President Vargas said, "Good. In the region of the airport a new city has arisen. The naval base is still being constructed. I was there with our military chiefs, General Cordeiro de Farias, Almirante Ary Parreiras and Brigadier General Eduardo Gomes. All emphasized that the best spirit of cooperation reigns between the Brazilians and Americans." Asked if he expected immediate results from the Natal conference President Vargas said he could not discuss this "as in the Natal conference we dealt with the cooperation of Brazil with the United States and there was the most complete understanding on the subject. Things may happen and they may not; but the objective of the conference was just that. Furthermore that is borne out in the note the press will receive." Asked if the subject of Chile was broached President Vargas said, "President Roosevelt showed himself as very satisfied with the attitude of Chile."<sup>9</sup> President Vargas then told the press in answer to a question that the subject of the Amazon development had not been discussed as it "is included in the general cooperation of Brazil. The matter is now in full execution."

CAFFERY

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL DEFINING  
THE MILITARY SERVICE DUE BY NATIONALS OF EACH COUNTRY  
RESIDING IN THE OTHER, EFFECTED BY EXCHANGE OF NOTES  
SIGNED JANUARY 23, APRIL 28, AND MAY 24, 1943**

[For texts of the notes, signed at Washington, see Department of State Executive Agreement Series No. 327, or 57 Stat. (pt. 2) 994.]

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<sup>9</sup> For the breach of diplomatic relations between Chile and the Axis, see pp. 795 ff.

**ARRANGEMENTS TO PROCURE FOR THE UNITED STATES STRATEGIC MATERIALS FROM BRAZIL**<sup>10</sup>

832.6511/218

*Press Release Issued at Rio de Janeiro, March 18, 1943*<sup>11</sup>

Brazil's Foreign Minister Oswaldo Aranha and American Ambassador Jefferson Caffery witnessed today the signing of two economic agreements<sup>12</sup> of outstanding importance in Brazil's industrial development and the joint war effort.

The agreements, reached after several weeks of negotiations, conducted in the most cordial atmosphere, between Brazil's Finance Minister Arthur Souza Costa and his colleagues on the one hand, and Mr. Warren Lee Pierson, President of the Export-Import Bank of Washington, and the American Embassy, on the other, were executed at the Finance Ministry shortly before noon today.

The first agreement signed provided for a new twenty million dollar credit of the Export-Import Bank for the equipment and construction of Brazil's national steel plant at Volta Redonda. This credit is in addition to the previous \$25,000,000 line of credit, deriving from the basic Brazilian steel agreement reached in September, 1940, between Mr. Jesse Jones, Federal Loan Administrator and Secretary of Commerce of the United States, and Dr. Guilherme Guinle, President of the Companhia Siderúrgica Nacional.

At a time when the needs of the fighting fronts are demanding the maximum of production and energy, this new credit stands as clear evidence of the recognition by the United States Government of the fundamental importance of President Vargas' steel program to Brazil's industrialization and its share in the great war effort.

The second agreement formalized in a contract the accord for the development of the Itabira and Vale do Rio Doce enterprises, reached at Washington last year between Finance Minister Souza Costa, the United States Government and representatives of the British Government.

The carrying out of the program for the exportation of Itabira Iron ore will become not only a highly important contribution to the war effort of the United Nations, but also a very great step in the peacetime development of the rich resources of the state of Minas Gerais.

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<sup>10</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 674-691. Technical aspects of carrying out programs begun in 1942 were handled largely by personnel from agencies other than the Department of State, and correspondence on these aspects has been, for the most part, omitted. For correspondence regarding rubber, see pp. 664 ff.

<sup>11</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 10462, March 19; received March 29.

<sup>12</sup> Not printed.

Mr. Pierson, during the course of his visit to Brazil to discuss the foregoing arrangements, had occasion to visit both Itabira and the works at Volta Redonda. He expressed, on each occasion, his enthusiasm at the progress which, in spite of great difficulties, has been achieved by the steel company and the Companhia do Vale do Rio Doce in the development of their respective programs. The dynamic activity and talent of Colonel Edmundo de Macedo Soares, Technical Director of the Cia. Siderúrgica Nacional, and Dr. Israel Pinheiro, President of the Companhia Vale do Rio Doce, and their colleagues, Mr. Pierson stated, have carried the projects forward with efficiency and speed.

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811.20 Defense (M) Brazil/3204

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

No. 10830

RIO DE JANEIRO, April 15, 1943.

[Received April 22.]

SIR: I have the honor to refer to my telegram No. 1745 of April 9, 1943<sup>14</sup> stating that agreement had been reached with the appropriate Brazilian authorities regarding the provisions of notes to be exchanged regarding purchases of quartz crystal and mica. There are enclosed copies in English of the provisions of the proposed agreements.<sup>14</sup> These were approved by President Vargas on April 13, and with the Department's approval they will be incorporated in notes addressed to the Ministry of Foreign Affairs.

With few exceptions the contents of the enclosed drafts are identical with the provisions of enclosures to despatch No. 10727 of April 7, 1943.<sup>14</sup> In paragraph 5 of each draft there has been incorporated, at the request of the Brazilians, provision for the payment of taxes on direct exports, without prejudice to the exemption from taxation now accorded to or which hereafter may be granted to the United States Purchasing Commission and its agencies. A note granting exemption from certain taxation now has been received from the Foreign Office and will be made the subject of a separate despatch.

In each draft of agreement the provisions of paragraph 8 were inserted at the request of the Embassy in order to preclude possible difficulties that might arise from contingencies not clearly foreseen at this time, and in order to obviate a repetition of delays that have occurred in the past in obtaining the free entry of essential equipment.

Respectfully yours,

For the Ambassador:

HAROLD S. TEWELL

*First Secretary of Embassy*

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<sup>14</sup> Not printed.

811.20 Defense (M) Brazil/4573 : Telegram

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

RIO DE JANEIRO, June 19, 1943—1 p. m.

[Received 6:47 p. m.]

2992. Souza Costa told me today that he has been urging Aranha to sign the quartz and mica agreements and he cannot understand his attitude in delaying action on these important agreements. He promised to discuss the matter with Aranha tomorrow. He said that he had instructed the Banco do Brasil today not to permit the exportation of crystal, mica, or rotenone to countries other than the United States and Great Britain, pending the signing of the agreements. He has taken similar action with respect to the exportation of miscellaneous rubber.

CAFFERY

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811.20 Defense (M) Brazil/5016

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

No. 61

RIO DE JANEIRO, July 23, 1943.

DEAR SUMNER: With reference to my letter No. 59 of July 21,<sup>15</sup> the program for the procurement of mica is far behind schedule and I am told that the reason we are not obtaining more mica is that the small miners have abandoned their mines because they cannot operate them at a profit based upon prices prevailing in the interior. This situation is in contrast with the activities of these properties prior to our entry into the war when the Japanese were purchasing large quantities of mica directly from the mines.

I suggest that we can procure larger quantities of mica provided (1) we pay higher prices to the miners, and (2) we use reliable Brazilians and not Americans to contact the miners. There are too many American technicians travelling in the interior of the country endeavoring to procure mica and quartz crystal, and I am convinced that until we change this program and utilize Brazilians for this purpose that the procurement program will be retarded.

A prominent Brazilian told me yesterday that some American engineers of the USPC<sup>16</sup> recently visited some potential tin properties in the State of Minas Gerais and that the first thing they did was to offer a cocktail party for the owners of the mines. It was the first time that some of the miners had ever attended a cocktail party.

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<sup>15</sup> Not printed.

<sup>16</sup> United States Purchasing Commission in Brazil.



They gained the impression that we were greatly interested in buying the product and that they could name their own price, which is not the case.

With all good wishes,  
Yours very sincerely,

JEFFERSON CAFFERY

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832.6351 IT 1/180

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

No. 12215

RIO DE JANEIRO, August 5, 1943.

[Received August 16.]

SIR: I have the honor to report that Mr. R. K. West, Special Representative of the Export-Import Bank in connection with the Rio Doce project, and a member of my staff, have conferred with the Minister of Finance and officials of the Rio Doce Company regarding plans for speeding up the reconstruction of the Vitoria-Minas Railway<sup>17</sup> and other work relating to the entire project. I attach copies of the letters of July 20<sup>18</sup> from Mr. West to Mr. Pierson of the Export-Import Bank reporting on the meetings with the Minister.

The Minister of Finance is not satisfied with the progress of the work and has accepted Mr. West's suggestion that the company employ an American contracting firm to supplement the work of Brazilian contractors on the reconstruction of the railway. I understand that the Export-Import Bank has made arrangements with a firm in the United States (please see the Department's telegram No. 2393 of June 27 [26], 7 a. m. [11 p. m.]<sup>19</sup>) to send a representative to Brazil this month to study the project, to make recommendations as to how the work can be improved, and to submit an overall construction contract. The Minister feels that the work can be further facilitated by transferring the head office of the Rio Doce Company from Belo Horizonte to Rio de Janeiro.

Mr. West has prepared and submitted to the Minister of Finance, on the stationery of the Rio Doce Company, a memorandum reporting the probable interest of the Bethlehem Steel Company in reaching a separate understanding with the Brazilian Government for the purchase and transportation of Itabira iron ore on a very large scale, copies attached.<sup>18</sup> The Minister of Finance has approved of the plan in principle, and it is believed that he will discuss it informally with the President. The proposal would not conflict in any way

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<sup>17</sup> This railway was the feeder for the Rio Doce Valley.

<sup>18</sup> Not printed.

<sup>19</sup> Not printed; it indicated the Export-Import Bank's report of slow progress on the Rio Doce project (811.516 Export-Import Bank/778).

with the Rio Doce project, and even if approved by the Brazilian Government, it is unlikely that the plans would be carried out until after the war.

Respectfully yours,

For the Ambassador:  
WALTER J. DONNELLY  
*Counselor of Embassy for Economic Affairs*

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811.20 Defense (M) Brazil/5016

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

WASHINGTON, August 9, 1943.

DEAR JEFF: Many thanks for your letter No. 61 of July 23, 1943, on the subject of the difficulties which surround the mica procurement program. I gather that the various agencies in Washington interested in mica procurement are very conscious of how hard it will be to achieve the tonnage objectives which have been set. I am afraid that if we were to attempt to work out your suggestion for purchasing directly from the miners, it would mean sending a still greater number of Americans into the field. The problems of quality of mica being so intricate, I doubt whether the agency responsible for the disbursing of funds would be willing to delegate their disbursing powers to Brazilians.

In any case, the picture as it appears at this end at present is as follows: Arthur Paul, who, as you know, made a special trip to Brazil for the Office of Economic Warfare in an attempt to pull together the Office of Economic Warfare procurement program there, made a report at the July 15 meeting of the Combined Raw Materials Board. I am enclosing herewith a copy of this report<sup>20</sup> which deals with mica, quartz, and tantalite, which will doubtless be of interest to you. His main thesis was that there had been so many changes made in the program at such close intervals that he thought, even if the present set-up was not as good as it should be, it was better to let the program now run along for some time without making any major changes in prices or methods of procurement. Those attending the Combined Raw Materials Board meeting, interested in procurement work, appeared to concur in this view. Probably, therefore, the best thing to do is to see how the program does work out for the next few months.

Believe me,

Yours very sincerely,

SUMNER WELLES

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<sup>20</sup> Not printed.

811.20 Defense (M) Brazil/4880 : Telegram

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

WASHINGTON, August 20, 1943—midnight.

3136. Reference your despatch No. 12021.<sup>22</sup> The Department and other interested agencies of the United States Government see no objection to the proposed quartz-mica notes and exchange of letter enclosed with the despatch, and suggest you take necessary steps at once to conclude quartz-mica agreement.

Telegraph when concluded.<sup>23</sup>

WELLES

# NEGOTIATIONS CONCERNING THE PRODUCTION, PURCHASE, AND DISTRIBUTION OF BRAZILIAN RUBBER AND RUBBER PRODUCTS<sup>24</sup>

811.20 Defense (M) Brazil/1355a Supplement : Airgram

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

WASHINGTON, January 28, 1943—8:45 p. m.

A-831. Department's 2721, September 15, 1942, 10 p. m.<sup>25</sup> What progress is being made to curtail production of non-essential rubber products through a system of government control?

Korkegi's recent memorandum to Cooke,<sup>26</sup> Rubber Reserve, poses the question of whether immediate limitation can best be accomplished by a Rubber Reserve program of purchasing or governmental decree or both. What appears to be the chance of any action in the near future on part of Brazilian Government?

HULL

811.20 Defense (M) Brazil/2594 : Airgram

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

RIO DE JANEIRO, February 2, 1943—3 p. m.

[Received February 12—4 p. m.]

A-219. The Minister of Finance<sup>27</sup> invited the Counselor of Embassy for Economic Affairs<sup>28</sup> to his office on February 1, to discuss the exportation of Brazilian crude rubber to Argentina. The Minister said that President Vargas had instructed him to study the problem

<sup>22</sup> Dated July 19, not printed.

<sup>23</sup> The Ambassador in Brazil informed the Department in telegram No. 4410, September 16, 4 p. m., that the quartz-mica agreements (not printed) were concluded September 15, 1943 (811.20 Defense (M) Brazil/5196).

<sup>24</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 691-729.

<sup>25</sup> *Ibid.*, p. 717.

<sup>26</sup> Memorandum not found in Department files; Mr. Korkegi and Mr. Cooke were officials of the Rubber Reserve Company.

<sup>27</sup> Artur de Souza Costa.

<sup>28</sup> Walter J. Donnelly.

with a view to reducing Brazil's annual internal quota of crude rubber and exporting the difference to Argentina. The Minister said that he had informed the President that the Brazilian Government had not actually agreed to a quota for consumption in Brazil, but that he had indicated a maximum figure of 10,000 tons per year. The Minister also stated that this figure could be increased or decreased (which is unlikely), according to the situation in Brazil, but that all crude rubber in excess of Brazil's requirements is reserved for exportation to the United States.

The Minister said that President Vargas had instructed Dr. Botelho, Commercial Counselor of the Brazilian Embassy in Argentina, to call on him and that Dr. Botelho has stressed the desirability of sending crude rubber to Argentina in order to relieve the serious situation there.

The Minister requested the comments of the Counselor of Embassy for Economic Affairs, who asserted that it would violate the rubber agreement between the Governments of the United States and Brazil,<sup>29</sup> and would prejudice all of the wartime agreements between the two countries. He pointed out that the Embassy would not consult the Department on this point because the Department's position is very clear, also that the Department would be greatly disappointed to learn that the Brazilian Government is even considering such a proposal. The Economic Counselor then recalled the recent unfortunate experience in connection with the exportation of small quantities of crude rubber to Chile, and that this development had had a serious effect on our rubber procurement program in the Amazon Valley because the rubber exporters had been told that Chile was buying rubber at \$1.75 per pound, as against our purchase price of 45 cents per pound. He observed that the rubber exporters in the Amazon Valley had not taken into account the large sums of money now being spent by the Rubber Reserve Company there for the procurement of rubber, but that the Minister was well aware of the expenditures and efforts being made by the two Governments to increase the production of crude rubber for the war program.

The Minister of Finance said that he would again discuss the matter with the President and that he would repeat his former statement to President Vargas that it would be a serious mistake to even consider the proposal. The Minister added that pressure is being brought to bear on President Vargas from all sides and that the Argentine Ambassador<sup>30</sup> is behind the move. The Minister requested the Embassy not to refer the matter to Washington because he felt

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<sup>29</sup> Effected by exchange of notes signed at Washington March 3, 1942; for texts of notes, see Department of State Executive Agreement Series No. 371, or 57 Stat. (pt. 2) 1318.

<sup>30</sup> Adrian C. Escobar.

that he could convince the President of the undesirability of permitting the exportation of crude rubber except to the United States.

The Embassy is reliably informed that Souza Costa and not the President is responsible for the inquiry. It is stated that Souza Costa is apprehensive of the financial situation in Argentina and desires to liquidate Brazil's credit position with Argentina, resulting from the compensation trade agreement, as quickly as possible. It appears that the Argentines are making rubber a condition to prompt settlement of the trade balance.

I shall keep the Department informed of any new developments.

CAFFERY

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811.20 Defense (M) Brazil/2594 : Airgram

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

WASHINGTON, February 17, 1943—5 p. m.

A-912. Your A-219, February 2, 1943, 3:00 p. m. The Department approves the position taken by the Embassy with regard to Argentine efforts to obtain crude rubber stocks from Brazil and considers the Counselor's handling of this matter to have been very effective. Both from the point of view of our rubber supplies and of our general relationship with Argentina, it is important that we continue to take a firm stand on any such proposal. In this connection the Embassy in Buenos Aires reported on February 13<sup>31</sup> that Argentine crude rubber consumption for the fourth quarter of 1942 was 895 tons and that stocks on hand on December 31 were 2700 tons; reclaimed rubber consumption, fourth quarter, 147 tons, stocks on hand December 31, 505 tons. It would appear from this that Argentina's need is by no means as critical as represented, aside from the other considerations involved.

HULL

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811.20 Defense (M) Brazil/2919 : Telegram

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

RIO DE JANEIRO, March 20, 1943—7 p. m.

[Received 10:29 p. m.]

1400. For Allen, Rubber Development Corporation<sup>32</sup> from Russell.<sup>33</sup> At a meeting yesterday we discussed the control of all crude rubber stocks for Brazilian industry in the following matter:

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<sup>31</sup> Telegram No. 346, not printed.

<sup>32</sup> Douglas Allen, president of the Rubber Development Corporation, a United States governmental agency, established February 20, 1943, as a subsidiary of the Reconstruction Finance Corporation. The Rubber Development Corporation took over all activities of the Rubber Reserve Company concerned with foreign rubber sources.

<sup>33</sup> Official of the Rubber Development Corporation.

1. Banco de Credito da Borracha to maintain and operate warehouses in Rio and São Paulo.

2. Rubber Development Corporation Rio Division would sell all of its rubber to Banco de Credito da Borracha at these points where this rubber would be used by the industry.

3. Only that amount of rubber necessary for industry would be shipped from Amazon to these warehouses in Rio and São Paulo.

4. Industry would buy from these warehouses only and each purchase would be approved by the CCAW<sup>34</sup> in accordance with allocation prepared and decided upon by Coordinator of Industrial Mobilization Committee working in close touch with CCAW.

5. Korkegi, CCAW and Coordinator of Industrial Mobilization Committee, would have close check on disposition of rubber and would check the purchase contracts with allocations of crude to industry.

6. We would, through Banco de Credito da Borracha, be able to check and control shipments of Amazon rubber industry south Brazil.

7. We believe we can arrange this definitely by a Presidential decree setting up this system and prohibiting the exportation of any rubber manufactured goods except by allocation and approval of the CCAW if you approve. On your approval of this general plan we will proceed to work out details, price structure, et cetera, advising you fully as we progress. This replies in part to your airgram 1047.<sup>35</sup> Have advised Long and Chambers. [Russell.]

CAFFERY

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811.20 Defense (M) Brazil/3234

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

No. 10893

RIO DE JANEIRO, April 19, 1943.

[Received April 27.]

SIR: With general reference to the program for getting rubber out of Brazil, I have the honor to invite the Department's attention to our Belém Consulate's telegrams No. 224, April 16, 3 p. m. to the Department, and No. 537 of April 12, 2 p. m. and No. 539 of April 12, 4 p. m. to the Embassy<sup>36</sup> (which were repeated to the Department) as additional indicators that all is not as well as might be hoped. It is encouraging to note, however, that the recent conference at Belém did not reach an impasse due to Brazilian differences and that it accomplished, at least, the designation of Braz de Aguiar as a kind of rubber coordinator in the Amazon Region.

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<sup>34</sup> Presumably the Brazilian Commission for the Control of the Washington Agreements.

<sup>35</sup> Dated March 11, 1943, not printed.

<sup>36</sup> None printed.

The Department is already familiar with the unfortunate fact that, due to a combination of circumstances, only some 264 workers, out of a May 31 goal of some 50,000, had by April 10 actually been transported and placed on seringas (reference despatch No. 211 of April 10 from the Consulate at Belém)<sup>38</sup> and that, as a result, the present procurement of rubber is at a rate less than the somewhat optimistic estimates that were originally made. With reference to labor, however, I am informed that a considerable number of laborers in the Amazon Region have gone into rubber production work from other pursuits.

I am told, with reference to the somewhat ambitious aviation rubber project that calls for a string of modern airports, weather stations, necessary installations, etc. in the Amazon Region, that very little actual construction has been done. This is due principally to lack of equipment and labor but not, it would seem, to lack of "experts".

People connected with the Rubber Development Corporation here continue to exert their best efforts toward an improvement in the situation and they have estimated that they hope to produce a minimum of 35,000 tons of rubber in 1943, some of which will go to satisfy Brazil's own requirements.

Respectfully yours,

JEFFERSON CAFFERY

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811.20 Defense (M) Brazil/3380b : Airgram

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

WASHINGTON, May 10, 1943—9:30 a. m.

A-1416. Embassy at Buenos Aires advises that Argentina imported crude rubber from Brazil in amount of 4 kilos in January, 12,405 in February and 7,648 in March, or a total of 20,057 for the first quarter. Department would like explanation of these shipments in violation of rubber agreement between Brazil and United States.<sup>39</sup>

HULL

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811.20 Defense (M) Brazil/4393 : Telegram

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

RIO DE JANEIRO, May 29, 1943—5 p. m.

[Received 6:16 p. m.]

2617. For Duggan<sup>40</sup> and Walmsley.<sup>41</sup> Donnelly returned yesterday from a tour of the Amazon Valley where he inspected the rubber

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<sup>38</sup> Not printed.

<sup>39</sup> For the Department's position on this trade, see telegram No. 3012, August 11, to the Ambassador in Brazil, p. 674.

<sup>40</sup> Laurence Duggan, Adviser on Political Relations.

<sup>41</sup> Walter N. Walmsley, Division of the American Republics.

development program. He strongly recommends that McAshan<sup>42</sup> be instructed to proceed to Manáos at once with broad authority to (1) reorganize the program in Manáos including RDC's own internal organization; (2) reduce personnel; (3) curtail rubber airport development program; (4) arrange for closer cooperation with business firms in Manáos in respect to the sale and distribution of foodstuffs and the handling and distribution of crude rubber; and (5) effect closer cooperation between Banco da Borracha and merchants.

He recommends that RDC not attempt to control prices throughout the Amazon Valley but instead import and sell at cost to established merchants and dealers sufficient food supplies to insure that adequate provisions for distribution through normal trade channels.

Donnelly and the Consul at Manáos agree that Atwell now in charge of the RDC office there is competent, tactful and respected by Brazilians. They recommend that he be given ample authority under McAshan's jurisdiction to revamp the RDC organization there. Jobson, the new American Director of Banco da Borracha, should stay in Manáos until the Bank's problems are settled. He is well liked and and [*has*] a practical understanding of the problems.

Donnelly also recommends that no additional personnel be sent to Manáos or here unless requested by Atwell and that immediate steps be taken to reduce drastically the number of RDC personnel now in Manáos.

Well informed Brazilian businessmen in Manáos estimate the 1943 rubber production in the Amazon Valley at 22,000 tons of which approximately 19,000 will be reserved for Brazil. They estimate next year's production at 30,000 tons including approximately 10 [*sic*] tons for Brazil.

McAshan concurs in these recommendations.

Please inform Douglas Allen at once.

Airmail report follows.

CAFFERY

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811.20 Defense (M) Brazil/4393

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

No. 4596

WASHINGTON, June 9, 1943.

SIR: Reference is made to your telegram 2617 of May 29, 5 p. m. regarding the visit to the Amazon of your Counselor for Economic Affairs and to his several recommendations on the rubber program.

The Department approves your general recommendations. You will be pleased to know furthermore that Mr. Douglas Allen, Presi-

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<sup>42</sup> S. Maurice McAshan, a vice president of the Rubber Development Corporation (RDC).



dent of the Rubber Development Corporation, also shares your views and is, in fact, making use of his present stay in Washington to work out policy decisions along the lines of your telegram for adoption by the Rubber Development Corporation. These decisions will be reached in consultation with Mr. Reed Chambers<sup>43</sup> so that, on his return to his post at Manáos, (Mr. Chambers) will be fully conversant with the guiding principles behind the policies of the rubber development and procurement program. Mr. Jeffers<sup>44</sup> and the Chairman<sup>45</sup> and President of the Rubber Development Corporation plan to retain Mr. Chambers, at least for the coming season.

You appreciate undoubtedly even more readily than can be appreciated in Washington that many of the difficulties and delays to which the program has been subjected have had their origin not in the Government agencies at Washington alone, but also within Brazil. The Department is deeply gratified by Mr. Allen's recognition of these factors, with his keen political sense and with the manner in which he has conducted his negotiations and transactions in Brazil. Mr. Allen's immediate objective will, therefore, be to formulate policies for the Rubber Development Corporation, with which the Department is in agreement, and to cause to be issued appropriate instructions to Mr. Chambers and to the other field officers.

When this objective is attained, the Rubber Development Corporation will expect Mr. McAshan, under instructions which will be issued to him, to spend a considerable amount of time in the Amazon, especially at Manáos.

With regard to the specific numbered points in your telegram, the Department is able to inform you as follows:

(1) Mr. Atwell, in charge of the Amazon division in Mr. Chambers' absence, is setting up what the Corporation hopes will be an efficient organization;

(2) Mr. Atwell himself believes that personnel can be reduced and is expected to make recommendations shortly;

(3) The original program for the construction of 20 airports with elaborate installations has been cut to 8 airports with modest installations. It is still possible that a further cut will be made without affecting, however, the airports the construction of which involve commitments to foreign governments (e. g., Manáos and Iquitos). Stress will be laid on greater utilization of seaplanes;

(4) The relations with business firms in Manáos are being given close study. The Rubber Development Corporation hopes that instructions may shortly be issued from which satisfactory agreement can be reached by SAVA<sup>46</sup> with the local merchants;

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<sup>43</sup> Representative of the Rubber Development Corporation.

<sup>44</sup> William M. Jeffers, Director, Office of the Rubber Director, War Production Board.

<sup>45</sup> Chairman of the Board of Directors, W. L. Clayton.

<sup>46</sup> Superintendencia de Abastecimento do Vale Amazonico.

(5) There is reason to expect, under the present setup and personnel of the Banco da Borracha, closer cooperation with the merchants. It appears indispensable to the Rubber Development that satisfactory agreement with the merchants on prices for food and tappers' supplies be reached for the success of the procurement program. This would not cause distribution to flow through unnatural channels. Mr. Jobson of the Rubber Bank is now in Manáos in this connection.

With regard to personnel, the Department has asked the Rubber Development Corporation to keep us informed not only of assignments, which is now being done, but also of withdrawals. Mr. Allen is in complete agreement with the view that Brazilian personnel be used to the maximum and be trained for replacement of Americans.

The Department highly commends Mr. Donnelly for his intelligent investigation of the rubber program and is looking forward with keen interest to the receipt of his air mail report.

Very truly yours,

For the Secretary of State:  
DEAN ACHESON

811.20 Defense (M) Brazil/4393

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

No. 4619

WASHINGTON, June 15, 1943.

The Secretary of State refers to his instruction no. 4596 of June 9, 1943 with regard to policies and instructions in the course of development here for the conduct of the rubber program in Brazil and encloses a copy of a memorandum<sup>47</sup> from the President of Rubber Development Corporation to the Acting Chief of the Amazon Division. From this memorandum the Ambassador will observe that by and large the recommendations made by Mr. Donnelly in the Embassy's telegram no. 2617 of May 29 represent the views of the Rubber Development Corporation.

A copy of the enclosure is being furnished to the Consul at Pará. It is suggested that he might also find useful a copy of the Department's instruction no. 4596.

811.20 Defense (M) Brazil/4820

*Report by the Consul at Pará (McLaughlin) on Changes Brought About in the Amazon Rubber Program as a Result of Recent Conferences in Washington*<sup>48</sup>

[WASHINGTON,] July 1, 1943.

You have received reports from the Embassy, the Consulates at Belém and Manáos, and from other sources indicating that the rubber

<sup>47</sup> Not printed.

<sup>48</sup> Prepared by Mr. McLaughlin while temporarily in the Department. Copy transmitted to the Ambassador in Brazil as enclosure to Department's instruction No. 4737, July 9 (not printed).

program in Brazil as originally conceived was too large for realization; reports also to the effect that the Rubber Development Corporation has had an excess number of American employees in the Amazon and that the administration has been exceedingly poor. As a result of these and other factors, the Brazilian merchants, politicians, and Army officers have had a poor impression of the Rubber Development Corporation's activities in the Amazon and have expressed a desire that this situation be remedied.

I am very happy to inform you that Mr. Maurice McAshan has been made Vice President of the Rubber Development Corporation and has been placed in charge of their Brazilian operations. He is responsible for the Rio de Janeiro and Amazon Divisions. Mr. McAshan is an experienced administrator and fortunately has had some two years of Brazilian experience. I feel certain that under his administration the Rubber Development Corporation will do nothing that will give our Brazilian friends cause for objection. It is contemplated that Mr. Kaiser, at present in charge of the Belém office, will be transferred to Manáos to take charge there, and he will be succeeded by either a Mr. Luigi or Davies. All three of these gentlemen have had extensive experience in South America, and considerable of their time has been spent in Brazil. Mr. Reed Chambers will continue with the RDC in an advisory capacity and will return to his insurance business in September. I believe that he does not intend to return to the Amazon. This gives Mr. McAshan a free hand to reorganize the personnel in line with the modified program.

Instead of the fantastic and impracticable objectives as originally conceived, the revamped program lays emphasis on the maximum production of rubber during 1943 and 1944. The impetus of the RDC's activities will be beneficial in stimulating continued production during 1945 and 1946, at the end of which our formal obligations end. It is hoped that the Amazon Valley will produce 28,000 tons of rubber this year and 40,000 during 1944. A similar yield is expected for the years 1945 and 1946. In as much as Mr. Jeffers places emphasis on 1943 and 1944, it has been possible to dispense with the ambitious airport program and the housing program for the American employees. Airports will be completed at Manáos and Iquitos, and it is possible that some small amount of work will be done on the two or three others not yet determined. Commitments have been made to Brazil and Peru which must be fulfilled. A certain amount of exploratory work will be done in Mato Grosso under Dr. Tate,<sup>49</sup> since it is felt that this area and Acre should be able to produce substantial amounts of rubber.

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<sup>49</sup> George H. H. Tate, Defense Supplies Corporation.

Prices have been established in accordance with the SAVA Agreement on basic foodstuffs and hardware. Merchants recognized as such by their respective merchants associations will be sold these items at the published prices less 15 percent. This appears to be a sufficient operating margin, especially considering the fact that the merchants are not required to warehouse their own supplies. It is recognized that distribution of supplies must be made through the existing commercial channels. Clarification of this point, together with the establishment of prices and the availability of supplies in the leading centers of distribution, should dispel much of the opposition of the commercial classes.

No definite arrangement has yet been worked out governing the transportation of rubber workers from Ceará. I believe that possibly by the end of this month some new agreement will have been worked out for 8,000 to 10,000 workers to be delivered by the end of the year. Not all of these men will be absorbed in rubber gathering. However, those who are not will replace local labor so engaged.

I feel that the publicity question has not yet been satisfactorily answered. As you know, the Coordinator of Inter-American Affairs is primarily responsible, perhaps exclusively so, for the dissemination of propaganda. I feel that they are not doing a particularly inspired job, at least as far as the rubber program is concerned. I feel too that, now that the program has been cut down to realizable proportions and the excess number of Americans are to be removed from the Amazon, we should have better publicity. I think that the program should be presented to them, preferably by an experienced Brazilian publicity man. This would enable either the Coordinator or the Rubber Development Corporation or both to withdraw additional American personnel from the region.

In short, the various recommendations made by Donnelly, Maness,<sup>50</sup> and myself have been taken up, and I believe that the administrative changes will have been completed within a month or six weeks and that the revamped program will be operating smoothly and successfully by that time. The Brazilian reaction to the revamping of the program can only be favorable. It should, however, be presented in just that light and not as a retrenchment.

I might add that there will be less opportunity for administrative confusion emanating from the Washington end since the staff here is being reduced, the organization becoming a vertical rather than a horizontal one. Mr. Paul McKee is leaving to return to his power companies on the West Coast and Mr. Mitchell<sup>51</sup> is returning to his utility interests in Atlanta.

EDWARD D. McLAUGHLIN

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<sup>50</sup> Hubert Maness, Vice Consul at Manaus.

<sup>51</sup> Official of the Rubber Development Corporation.

811.20 Defense (M) Brazil/4859 : Telegram

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

WASHINGTON, August 11, 1943—11 p. m.

3012. Your 3543, July 23.<sup>52</sup> For Russell Rubber Development from Allen. Will give Korkegi fullest possible information on the subject referred to before he leaves. During Korkegi's presence here efforts will be made to bring about a smoother functioning and better coordination of the supply of the essential rubber requirements of neighboring countries by Brazil.

We have consulted Department of State concerning the problem raised by continued efforts on the part of Argentina to obtain rubber and rubber products in Brazil. The Department of State informs us that it has discussed the matter with the Argentine Ambassador in Washington and advised him that information received from Ambassador at Buenos Aires indicates that at least until end of 1943 Argentina has sufficient supply of crude rubber if effective rationing is adopted. Argentine Embassy at Washington is requesting additional information from Buenos Aires to justify need for additional supplies of rubber. [Allen.]

For Embassy from Department. The foregoing correctly states advice given Rubber Development by Department. In addition, as you are aware, it would have an unfortunate effect on general policy adopted towards Argentina by both this Government and the Government of Brazil if there was made available to Argentina either by this Government or by the Government of Brazil with the assent of this Government crude rubber in excess of that required to meet essential needs.

HULL

811.20 Defense (M) Brazil/4844

*Memorandum of Proposal Regarding Brazilian Exports of Rubber Manufactures Except Tires and Tubes*<sup>53</sup>

WASHINGTON [undated].

Brazil has announced its preparedness to export in addition to tires and tubes approximately 75,000 kilograms of rubber content quarterly in the form of camelback, belting, hose, packing, and other rubber manufactures. This procedure was envisaged at the time of concluding the October 3 agreement.<sup>54</sup> Therefore, beginning with the

<sup>52</sup> Not printed; in this communication Russell sought information on rubber distribution to other American republics.

<sup>53</sup> Transmitted to the Embassy in Brazil as enclosure to Department's instruction No. 4876, August 12, 1943.

<sup>54</sup> For summary of this agreement, see *Foreign Relations*, 1942, vol. v, p. 719, footnote 87.

fourth quarter of 1943, the allocations announced for the South American Republics for rubber manufactures other than tires and tubes will specifically cover exports from Brazil as well as exports from the United States.

To insure that shipments from Brazil will not be destined to firms on the Proclaimed List and to insure that planned imports of any country will not exceed in any quarter the announced quarterly allocations, the country agency in the importing country will issue Import Recommendations to importers desiring to import from Brazil or from the United States, and the total of these Import Recommendations will not exceed the amount of the announced allocations. Brazil should specifically request when it announces fourth quarter allocations that Import Recommendations be issued for orders in Brazil.

With the exception of the original which will be sent by the approving Embassy to the Embassy in Rio de Janeiro instead of to the Office of Economic Warfare for Brazilian orders, all copies of the Import Recommendations will be distributed in the same manner regardless of the source of supply.

No attempt will be made to make specific allocations by countries or by commodities of the rubber manufactures supplied by Brazil, and distribution of the overall allocation between the United States and Brazil will be left to the country agencies in the countries of destination.

Should orders placed with Brazil from all countries greatly exceed the indicated approximate 75,000 kilograms in any quarter, the applicants will be advised and given the choice of placing their order with the United States where a supply is still available or of awaiting the following quarter's supply from Brazil. However, since, in general, Import Recommendations are not issued until the commercial importer-exporter agreement has been completed, and since Brazilian exporters will know their own exportable volume, it is not contemplated that this condition will develop.

Under this plan, Brazil will be given an opportunity to export in accordance with the spirit of the October 3 agreement but with greater freedom of action than there envisaged. At the same time, the allocation system with its consignee control will be maintained in its broader aspects.

The Rubber Development Corporation will not purchase the goods as it does in the case of tires, and it will not appear in the role of comptroller. However, the CCWA<sup>55</sup> will submit monthly reports of exports to the Embassy at Rio de Janeiro for casual check against the files of original copies of the Import Recommendations.

Clearance of individual cases with Washington will not be necessary.

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<sup>55</sup> The Brazilian Commission for the Control of the Washington Agreements.

811.20 Defense (M) Brazil/4844 : Telegram

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

WASHINGTON, September 1, 1943—5 p. m.

3305. Embassy's telegram no. 4127, August 27, 10 p. m.<sup>56</sup> The plan for distributing Brazilian miscellaneous rubber manufactures proposed in the Department's instruction No. 4876 of August 12, 1943<sup>57</sup> was the result of discussions here with Korkegi in consideration of the preliminary proposal contained in the Embassy's despatch no. 11958 of July 13, 1943<sup>58</sup> and with the concurrence of other interested agencies.

The original Brazilian proposal which is now again presented was considered only to be rejected in the belief that it was impracticable. While it is desired to give Brazil every opportunity to export its excess rubber manufactures, it is not desired to force trade into unnecessarily unnatural channels. Information is not available here, and it is doubted that it exists, to indicate what items of the hundreds involved could satisfactorily be supplied from Brazil to specified countries. It must not be forgotten that this trade is much more technical and exacting than the trade in tires.

Therefore, the plan set forth in instruction no. 4876 was proposed as a transitional one which would give Brazil full opportunity to develop foreign markets at least partially on a commercial basis. Also, the licensing agency of this Government would undertake not to authorize shipments which would interfere with any Brazilian commitments such as the reported agreement with French Guiana (Embassy's despatch 11951<sup>59</sup>).

When pressing Brazil to accept our proposed plan, the Embassy may point out that operations under this plan should soon indicate the natural flow of trade which in turn will permit adoption of Brazil's proposal of two distinct allocations for each country. But to adopt Brazil's proposal now would, it is firmly believed, cause only international confusion and general criticism.

Our plan includes the desire to have Brazil announce the entire allocations for the South American countries, even though part may be supplied from the United States. With the announcement, Brazil may desire to specify what items will be available from Brazil and recommend in behalf of both governments that orders for these items be placed in Brazil.

HULL

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<sup>56</sup> Not printed; it reported that Brazil wished to announce allocations of rubber goods to other countries (811.20 Defense (M) Brazil/5148).

<sup>57</sup> See *supra*.

<sup>58</sup> Not printed.

<sup>59</sup> Despatch of July 12, not printed.

811.20 Defense (M) Brazil/5202

*Memorandum by the Vice President of the Rubber Development Corporation in Charge of Brazilian Operations (McAshan) to the Ambassador in Brazil (Caffery)*<sup>60</sup>

[RIO DE JANEIRO,] September 9, 1943.

In June 1943, after receipt of Mr. Donnelly's despatch on Rubber Development Corporation's activities in the Amazon Valley,<sup>61</sup> Mr. Jeffers, Rubber Director, and the Board of Directors of Rubber Development Corporation instructed us to tighten up our activities in the Amazon Valley, and establish the following fundamental policy:

1. The United Nations now need more natural rubber than ever before, to use directly in the manufacture of combat articles and to mix with synthetic.

2. Rubber Development Corporation is to concentrate on the fundamentals which will directly assist in getting out more natural rubber, and is to eliminate the non-essentials, which had formerly taken up a large portion of their time and effort. The fundamentals were recognized as being transportation services on the river and by air, adequate supplies of food and tapping equipment, and increased labor.

3. Rubber Development Corporation, carrying out the policy officially requested by the Brazilian Government in February and March 1942, is to work with and assist the Brazilian Governmental and private agencies in establishing a permanent improvement in the Amazon Valley, to prevent, in so far as possible, a let-down after the war.

4. Rubber Development Corporation is to improve its own operating organization, and to eliminate those Americans whose functions are unessential, who have finished their duties or who were inefficient or misplaced.

In the beginning, Rubber Development Corporation did not know fully in advance what facilities were available and how efficiently and quickly the various Brazilian governmental agencies could handle the rubber program in the Amazon Valley. However, we have now found that the Brazilian agencies are performing so efficiently and that many Brazilian employees of the Rubber Development Corporation are as capable, or more so, than North Americans who were sent to the Amazon Valley from the United States. This has permitted Rubber Development Corporation to return quite a few Americans to the United States for other war work, which Americans have been replaced with competent Brazilians in Rubber Development Corporation's Amazon organization. This has resulted in increased efficiency

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<sup>60</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 12666, September 11; received September 18.

<sup>61</sup> For the substance of this report, see telegram No. 2617, May 29, from the Ambassador in Brazil, p. 668.



of our operations and in a better public relationship through the Valley.

Likewise, carrying out the policy as determined by the Brazilian Government, Rubber Development Corporation is now devoting a large part of its efforts toward the financing and furnishing of facilities to the several Brazilian governmental agencies established in the Amazon Valley; particularly SNAPP,<sup>62</sup> which handles rubber transportation, SAVA, which handles the transportation and placement of additional labor, the Banco de Credito da Borracha, which carries out rubber production financing; and SESP,<sup>63</sup> which is responsible for improvement in health and sanitation measures. Rubber Development Corporation is also maintaining ample stocks of staple foods and tappers' supplies, which Rubber Development Corporation sells at fixed cheap prices, under a formula established with SAVA. All Rubber Development Corporation activities are carried out in collaboration with the CCWA, and with their advance approval.

Rubber Development Corporation has concentrated recently on working with and through the established merchant firms, and now gives those firms first preference on all freight space obtainable by Rubber Development Corporation, both from the South of Brazil and on the Amazon River and its tributaries. Rubber Development Corporation now maintains a fixed price differential in favor of the established merchants, thus assuring them a reasonable resale profit on all foodstuffs and tappers supplies. By agreement with Rubber Development Corporation, the Banco de Credito da Borracha is now protecting the established merchant firms on their outstanding rubber production financing, and has returned to those merchants and washing plants the deposits formerly required by the BCB.<sup>64</sup> For these reasons, a very noticeable improvement in our relationships with the Amazon Valley merchants has come about during the last three months.

Rubber Development Corporation, under formal agreements between the Brazilian and United States Governments, is obligated to purchase the entire Brazilian production of rubber in excess of domestic needs, at guaranteed prices, through December 31, 1946. Brazil thus has a guaranteed market, without limit as to quantity for its increased rubber production, through 1946.

There has been no let-up in our efforts, but on the contrary, we are finding that working through and with Brazilian agencies, and with a larger proportion of Brazilian employees, and by concentrating on the fundamental requirements, the Rubber Development Corpora-

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<sup>62</sup> Servicos de Navegacao da Amazonia e de Administracao do Porto do Par .

<sup>63</sup> Servico Especial de Saude Publica.

<sup>64</sup> Banco de Credito da Borracha.

tion's organization in the Amazon Valley is now performing much more efficiently, and is now actually contributing a great deal more toward increased rubber production and toward a sound and permanent improvement in the Amazon Valley.

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832.24/2423 : Airgram

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

RIO DE JANEIRO, October 13, 1943—11 a. m.

[Received October 18—3 p. m.]

A-2317. Reference Embassy's telegram No. 4575, September 25, 1943<sup>65</sup> and previous correspondence with regard to plans for controlling exports of rubber manufactures other than tires and tubes from Brazil.

There is quoted below the text of a letter dated October 6, 1943 from Mr. H. J. Korkegi to the Rubber Development Corporation in Washington with regard to this subject:

"I have your letter of September 22<sup>66</sup> on above subject. I regret to report that, to date, the Brazilian authorities have not yet decided definitely how they wish the exports of rubber miscellaneous goods to other South American countries to be handled. We have given them three alternatives:

1. Announce the quarterly allocations, stating that these may be filled either by Brazil or by the United States at the discretion of the importing country.

2. Brazil, after announcing the quotas would announce that part that would be furnished by Brazil.

3. Suspend all miscellaneous goods exports and we would undertake to purchase, in certain items that we would specify, finished goods equivalent to the amount of crude rubber that is generally exported in finished goods.

We pointed out verbally that it is to the advantage of all concerned that Brazil adopt the first alternative. We also pointed out that if Brazil adopts the second alternative, the Brazilian Government should exercise a certain control on export prices, otherwise the other South American countries might resent the obligation of having to purchase Brazilian goods at exorbitant prices. As to the alternative number three, we pointed out that, if Brazil decides on this alternative, it should be understood that we do not intend to purchase any rubber item that any manufacturer might have available, but we would place orders in certain items that we need for the war effort.

To date the Brazilian Government has not given us a decision as to which of the three alternatives they would wish to follow, nor have we had from them as yet an expression of opinion as to how they would wish to handle these miscellaneous goods exports in the future.

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<sup>65</sup> Not printed.

<sup>66</sup> Not found in Department files.

There seems to be a difference of opinion amongst themselves and frankly, personally, I am reluctant to push them too hard for a decision. As up to the last week in September no decision had been taken, our Embassy cabled the State Department asking them to announce the quota for the fourth quarter, disregarding Brazil for the time being. We expect to have this question settled sometime this month, so that a procedure may be established beginning with the first quarter allocations 1944."

The Embassy and the Rubber Development Corporation are continuing to work on this problem but as indicated in the letter, negotiations have reached a stage at which it will be necessary for the Brazilian authorities concerned to agree among themselves before it will be possible to make any further progress.

CAFFERY

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811.20 Defense (M) Brazil/5330

*Memorandum by the Second Secretary of Embassy in Brazil  
(Walmsley)*<sup>67</sup>

[RIO DE JANEIRO, undated.]

#### AMAZON RUBBER PROGRAM

What most deeply impressed me in my visit to the Amazon is the futility of reform by outsiders. Foreigners, and by this I also mean non-Amazon Brazilians, are helpless in the face of the problems of distance, of scarcity, of hunger and disease.

Belém, Manáos and even Santarém and Pôrto Velho, for example, are not the real Amazon. They are comparatively luxurious islands in an endless morass where the struggle between water and land is still unsettled.

The Amazon has been abandoned for centuries to adventurers and their descendants, the trading families. Only once before, I was told, had the Federal Government turned its attention to the Valley. That was in the early 20's when, with the renewed fall of rubber prices, the Brazilian Government facilitated the exodus of destitute *seringueiros*. It is little wonder that the controlling class in the Valley has resisted the outsiders at the first sign of a new prosperity.

No darker picture exists anywhere of what in more progressive countries we choose to call corruption and exploitation. Yet the established society, with its century-old tentacles stretching up all the thousands of tributaries, was totally ignored in our earlier rubber program. The river trade is the bloodstream of this feudal social

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<sup>67</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 13146, October 18, 1943; received October 25.

organization. We have attempted to cut across these arteries expecting that the body would not only survive but would also be useful to us.

We have failed to consult those who, through long experience have accumulated the only accurate knowledge of the region. We have entered someone else's property and ignored the owner. We have made decisions not only in Belém and Manáos, which is bad enough, but also in Rio and Washington, which is worse, on problems with whose character we have not the faintest familiarity. Despite our recent concessions to them, both local business men and local officials continue suspicious and sullen. These Amazon people, during our period of maximum energy and mistakes, and of minimum results, did not content themselves with being cut out of the deal, but actively sabotaged even our wisest measures.

The Amazon trade is a hierarchy of middlemen feeding on the body of the *seringueiro*. The importing firms of Belém and Manáos which supply the *aviadores*, and through them the floating retailers, the *seringalistas*, and eventually the *seringueiros*, necessarily burden the last with the entire high cost of transportation from southern Brazil to the remote *seringal*. In turn, the *seringueiros*' credit for rubber delivered is discounted by the same down-river costs of transportation and the various taxes which accumulate en route. The margin between the cost of supplies to the *seringueiro* and the credit for his rubber is further widened by the margins of profit in each direction, and the safety allowance of each trader for the grading and classification of the rubber when it reaches the down-river depots.

Cash means little to a *seringueiro* buried in his pest-ridden *barracão*. What he needs is food and medicine to keep him alive and alcohol to keep him from despair. What difference is it to him if he gets out of the red and can't eat. If a *seringueiro* is credited with a higher price for his rubber, he is debited with a higher price for his supplies. Neither the Rubber Bank nor the RDC nor any other entity without the river organization of the commercial firms, has anything to offer the *seringueiro* in return for added rubber production. The inducement can only follow the normal line through the commercial firms; the *aviadores*, etc. It is useless, as sorry as we may feel for the *seringueiro*, for us to try to reach him direct. There seems to be the same difficulty in the co-existence in the Valley of both government-operated commercial enterprise and private commercial enterprise as in the co-existence of free and slave labor.

Many of our steps have had an element of timidity and of the half-way measure. We have planned in a vacuum, on a large scale, without knowledge of local conditions and somehow expecting that a man whose right hand we cut off will offer us his left.

We have undertaken a program of false starts and we have entrusted our organization to a series of executives who, as fast as they have discredited their predecessors have been discredited themselves. Without proper accounting we have spent uncalculated amounts of money for supplies, equipment, large overhead, development, migration and graft; and we have scattered capital equipment about without inventory.

These have been the fundamental errors. It would be unproductive to catalog specific mistakes, which are endless.

We have done all this without increasing rubber production and at a cost that no one seems able to estimate. I confess that in the past few months laudable efforts have been made to appease, if not to win, the cooperation of what we may term the Amazon powers. We have progressed in the elimination of unnecessary functions and personnel. In stressing measures to reach maximum production by 1944, we have eliminated a great many expensive projects. Whether these steps will result in increased rubber output remains to be seen.

My own opinion is that if all the functions we have assumed were turned over to Brazilian organizations approved by the Amazon powers, the remaining cost of our program would be reduced substantially; the distribution of funds would be wider and make more people happy; and we might even get more rubber.

Everyone told me, Amazonenses, southern Brazilians and Americans alike, that the secret of increased rubber output is the timely arrival of the right supplies in the rubber areas. This allegedly did not happen in many of the rich up-river zones this year. The distribution, timing, and selection were apparently equally faulty.

Specifically I would suggest that RDC take the following measures in agreement with representatives of Amazon officialdom and trade and of the Federal Government.

- 1) Draw up at once a schedule of transfers to Brazilians of development, financial and commercial functions within Brazil.

- 2) Continuation of RDC responsibility as long as necessary for the purchase of American supplies and their delivery at Belém.

- 3) Participation as officers or auditors of selected RDC American personnel in the Brazilian organizations in which we have a stake.

- 4) Loan, where required, of American technical personnel to Brazilian organizations (SNAPP, for example).

- 5) Maintenance, independent of Brazilian organizations, of small RDC liaison offices in Rio and Belém, and possibly Manaus.

- 6) Maintenance of a small corps of rubber technicians (the Klippert type<sup>68</sup>) with adequate travel facilities.

- 7) Establishment of a formula for equalization of prices in different areas. At present tax and transportation differentials appear to produce inequalities of returns from rubber sales in some zones.

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<sup>68</sup> Walter E. Klippert, assigned to the rubber procurement program in April 1943.

8) A careful survey by the Brazilian organizations of their needs for equipment, to be filled by a judicious distribution of RDC's existing equipment.

9) Abandonment of the RDC-operated aviation services to be supplanted, if necessary, by contracts with Brazilian aviation companies, including Panair do Brasil.

10) Limitation on the use of air transportation to the delivery of emergency supplies and essential passenger service (the cost of the personnel and of the overhead of the present RDC Aviation Section appears to be inordinately high).

11) Accommodation of the operations of the Rubber Bank to existing trade practices in order to increase financing rather than to compete with existing financing. Furthermore, the monopoly of rubber exports by the Bank should begin at point of export in order to permit existing trade its full normal activity.

12) Assure sufficient labor to Ford that he may tap all his trees. He is now losing tappers from proven producers in favor of doubtful high returns up river.

A great many detailed recommendations would undoubtedly stem from the foregoing ones, if adopted. I have in mind the preparation of a detailed memorandum on my observations which may be of use if the foregoing merits favorable consideration.

In conclusion, I should like to mention the repeated observations of a number of highly placed RDC officials in the Amazon. The ambitious programs not directly connected with rubber production were originally and solely motivated, they say, by military considerations. The Amazon was being prepared, they allege, for military defense in case the theatre of war moved toward this continent. Mr. Kaiser<sup>69</sup> specifically stated that the expenditure of vast sums by RDC was justified 100% by the military factors involved. After all, he inferred, the Amazon rubber program was born in the General Staff.

I could not help recalling in this connection the difficulties some of us in the State Department had in persuading Reed Chambers to consult the War Department in the course of blue-printing his Amazon program.

W. N. WALMSLEY, JR.

835.24/2396 : Telegram

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

RIO DE JANEIRO, December 10, 1943—3 p. m.

[Received 8:26 p. m.]

5662. Aranha<sup>70</sup> showed me a telegram from Rodrigues Alves<sup>71</sup> again urging that Moreira da Silva<sup>72</sup> be allowed to give Argentina

<sup>69</sup> Presumably Edward E. Kaiser, in charge of the Belém office of the Rubber Development Corporation.

<sup>70</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>71</sup> Brazilian Ambassador in Argentina.

<sup>72</sup> Onetime Brazilian Minister of Finance.

some rubber, insisting that if this were not done the negotiations would result in complete failure; and that if this were done Argentina would grant additional facilities for the importation of Brazilian textiles, et cetera. He referred again also to the frozen credit situation. He spoke of loss of Brazilian prestige, danger of unfavorable reaction on the Argentine military, et cetera, if the negotiations collapsed.

Aranha remarked "You will note that Rodrigues Alves is very insistent about the rubber. I am still telling him no; but I would like to observe that the United States and Great Britain both find it necessary to continue to make considerable purchases in the Argentine; we find it necessary to make purchases there too".

Repeated to Buenos Aires.

CAFFERY

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835.24/2396: Telegram

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

WASHINGTON, December 16, 1943—1 p. m.

4582. The Department is confident that you will take every opportunity to convince Aranha that his and Rodrigues Alves's economic arguments concerning possible rubber shipments to Argentina, as set forth in your 5662, December 10, 3 p. m., are entirely fallacious. Aside from the need for natural rubber for the war effort, exports of rubber or tires from Brazil to Argentina would merely increase the Brazilian favorable balance of trade which the Brazilian-Argentine negotiations are presumably intended to correct. The United States and Great Britain's purchases in Argentina are largely caused by the needs of the war effort and they are severely restricting shipments of critical materials to Argentina, so much so that they have a heavily unfavorable balance of trade in contrast to Brazil.

HULL

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NEGOTIATIONS ON THE DISPOSAL OF THE BRAZILIAN COFFEE CROP

561.333D3/1510

*The Brazilian Financial Attaché (Penteado) to the Assistant Chief of the Division of the American Republics (Daniels)*

NEW YORK, March 12, 1943.

DEAR MR. DANIELS: Pursuant to our conversation of yesterday, I am writing this letter to acquaint you with the instructions I received from Brazil, in connection with the U. S. A.-Brazil Coffee Purchasing

Agreement,<sup>74</sup> and to give you a résumé of our thoughts on the negotiations.

After the meeting of the Inter-American Economic and Financial Advisory Committee, held yesterday afternoon, I had an opportunity to mention this matter to Mr. Sumner Welles,<sup>75</sup> who was kind enough to show an interest in the affair, and requested me to give you full details, so that I would have some definite news for my Government by the middle of next week.

The instructions I received may be thus condensed :

"Delay in the execution of the Coffee Purchasing Agreement is creating an extremely unpleasant atmosphere, and arises from the fact that the American Embassy here, alleging necessity for an exchange of notes on the fulfillment of the Agreement, wishes to incorporate therein the following conditions, which would involve substantial changes :

1.—As soon as Brazil has exported its basic quota of 9,300,000 bags during the quota year of 1942-43, the CCC<sup>76</sup> will be free to export during said quota year, any amount of its stocks, without any obligation to replace an equivalent amount by new purchases.

This, of course, restricts the meaning of the fourth item of the Agreement, and is tantamount to precluding exporters in Brazil from exporting any amount allocated to Brazil by the Inter-American Coffee Board, in excess of the basic quota.

2.—The CCC will be free to dispose, at any time, of the coffee purchased in Brazil, provided such coffee be exported to countries other than the United States, and be destined for consumption by armed forces of the United Nations, Lend-Lease,<sup>77</sup> or purposes of assistance.

This condition does not prevent coffee from being shipped under Lend-Lease to countries that are actually our customers, thus resulting in loss of corresponding markets.

3.—After the quota year 42-43, the CCC will have full liberty to dispose of coffee bought here, including its sale in Brazil.

We entered into discussion of an Agreement with the understanding that it was the intention of the United States Government not to sell for export to the United States any portion of the coffee purchased, nor to sell such coffee to other countries in competition with our trade. Otherwise, it is obvious that it would have been unnecessary to work out any Agreement, since it would be reduced to a simple credit operation, merely involving a burdensome temporary transposition of surpluses without any other economic advantage.

4.—Deduction from total CCC coffee purchases of any purchases to be made in Brazil by other official agencies of the U. S. Government.

<sup>74</sup> For a résumé of the agreement, see p. 690.

<sup>75</sup> Under Secretary of State.

<sup>76</sup> Commodity Credit Corporation, a United States Government instrumentality which became a part of the War Food Administration on March 26, 1943.

<sup>77</sup> For negotiation of the Lend-Lease Agreement between the United States and Brazil, see *Foreign Relations*, 1941, vol. vi, pp. 528 ff.



This concession will make it possible to deduct coffee that such agencies may acquire for resale in Brazil. As an instance, we refer to the recent case of coffee purchased by the Rubber Reserve<sup>78</sup> for resale in the Amazon region. It is thus proposed to resort even to our domestic consumption for disposal of stock which the CCC may purchase under the Agreement.

5.—Purchases by the CCC will be ample at ports of Santos and Rio, while quantities purchased at Vitória and Paranaguá will depend on adjustments to be effected later by mutual agreement.

This condition restricts item 5 of the Agreement and is contrary to the objective repeatedly stressed by us when the Agreement was discussed,—namely, to protect the economy of all coffee producing States, an objective that was recognized by the United States delegates as indispensable to the Agreement.

“We refer these details to your attention, in order that you may discuss the matter with the proper authorities, bringing to their knowledge the difficulties which have arisen in the execution of the Agreement, the objective of which may not be attained under the procedure now being proposed. We trust that your action in the United States will result in benefit to the interests of our two countries.”

As you see, it is obvious that the CCC representatives in Rio completely misunderstand the real purposes behind the Coffee Purchasing Agreement, and intend to handle the matter on a strictly commercial basis. If that be the case—as pointed out in the instructions I received—there was no need to spend months in working out a very elaborate agreement between our two Governments, because the whole thing would be reduced to a simple, ordinary commodity financing operation, which, with adequate guaranties, could have been easily carried out through any commercial bank.

You are, of course, well aware that Brazil is decidedly getting a raw deal in the present coffee situation. In the last quota year we were able to bring to the United States market only 52% of our quota. For the present quota year, after a lapse of five months, the prospects for Brazil are even worse, because so far we have put only 13.7% of our quota in this market. While this situation exists insofar as Brazil is concerned, the other Latin-American coffee producing countries are shipping to the United States their entire quotas, and even more. Nevertheless, Brazil has consistently cooperated with the Inter-American Coffee Board, and has voted for all Resolutions increasing the quotas and permitting advance shipments,—all intended to bring to the American consumer coffee from our competitors, while Brazilian crops are piling up in our ports and warehouses. May I also point out, here, that Brazil is, I believe, the only Latin-American coffee producing country with a sizable merchant marine, and that we are

<sup>78</sup> The Rubber Reserve Company, a United States Government instrumentality. For documents on its activities, see *Foreign Relations*, 1942, vol. v, pp. 691 ff.

using most of our bottoms to bring essential war material to the U. S. A., whereas coffee from other countries is being brought into this country mostly in American ships.

I feel sure that these facts, and the recognition of Brazil's unselfish and wholehearted cooperation, prompted the United States Government to negotiate with the Brazilian Government for the Coffee Purchasing Agreement, for the purpose of assisting the Brazilian economy, so profoundly affected by conditions arising from the war and from our position in it. It seems obvious to me that the stand taken by the CCC representatives in Rio can only defeat that purpose.

I believe you will understand my writing you so frankly, but I still think that among good friends this is the best way for getting results.

Sincerely yours,

E. PENTEADO

832.61333/766

*The American Ambassador in Brazil (Caffery) to the Brazilian Minister for Foreign Affairs (Aranha)*<sup>79</sup>

No. 43

RIO DE JANEIRO, March 12, 1943.

MY DEAR MR. MINISTER: With reference to our conversations relative to the coffee agreement and exchange of notes signed on October 3, 1942,<sup>80</sup> between our two Governments, I take pleasure in informing Your Excellency that my Government, with the concurrence of your Government, will put the coffee accord into effect immediately.

As Your Excellency will doubtless recall, it has been agreed that after the quota year 1942/1943, my Government may dispose of any coffee remaining in its possession in any way it deems advisable, and may ship it to any destination whatsoever; however, my Government will advise and discuss with authorities of the Brazilian Government at the appropriate time with regard to plans for the disposal of this coffee.

If Your Excellency concurs, the operation of the agreement will conform to the points included in the attached memorandum.

With all good wishes,

Yours very sincerely,

[File copy not signed]

[Enclosure]

*Memorandum by the Ambassador in Brazil (Caffery)*

[RIO DE JANEIRO,] March 12, 1943.

1. Due to the acuteness of the shipping situation, my Government would find it convenient to take delivery of the coffee at the ports of

<sup>79</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10494, March 20; received March 26.

<sup>80</sup> Not printed.

Santos and Rio de Janeiro; however, it will purchase coffee in Vitória and Paranaguá, also, the quantities to be purchased at the latter two ports to be determined by mutual understanding.

2. My Government understands that any coffee which it may ship from its stocks in Brazil to the United States during the quota year 1942/1943 shall be replaced simultaneously with purchases in Brazil, but that this condition shall not apply after Brazil has shipped its basic quota of 9,300,000 bags.

3. My Government may utilize at any time during the quota year 1942/1943 any part of its stocks in Brazil for the shipment of coffee to countries other than the United States, for the armed forces of the United Nations, lend-lease and relief purposes.

4. My Government accepts the figure of 2,659,279 bags as furnished by the National Coffee Department, as the unshipped balance of the quota year 1941/1942.

5. Purchases made in Brazil by any agency of my Government (such as the Quartermaster of the United States Army) shall be credited against the commitments of my Government.

6. It is my understanding that the Brazilian Government agrees that any balance that my Government may have in Cruzeiros resulting from the operations of the Coffee Agreement may be converted into dollars for transfer to the United States at the average rate of exchange at which dollar drafts were sold in Brazil and shall be exempt from all banking commissions, taxes and fees.

7. I understand that the Brazilian Government agrees that if a firm declines to sell or deliver coffee in accordance with the provisions of the agreement, the National Coffee Department shall invoke the provisions of Resolution No. 480.

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561.333D3/1510

*The Assistant Chief of the Division of the American Republics (Daniels) to the Brazilian Financial Attaché (Penteado)*

WASHINGTON, March 18, 1943.

MY DEAR MR. PENTEADO: With further reference to your letter of March 12, 1943, and supplementing my preliminary acknowledgment of March 13, 1943,<sup>81</sup> I am pleased to confirm below the statements made today in the course of our discussion with Mr. Courtney Brown of the CCC<sup>82</sup> in connection with the coffee purchase agreement.

The Commodity Credit Corporation is prepared to proceed at once with the purchase of coffee in accordance with the terms of the agreement of October 3, 1942, as it has been at all times. It does not request that there be any supplementary exchange of notes between the Gov-

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<sup>81</sup> Latter not printed.

<sup>82</sup> Courtney C. Brown, vice president, Commodity Credit Corporation.

ernments of Brazil and the United States which would have the effect of modifying the terms of that agreement.

As brought out by Mr. Brown in our conversation today, I am confident that the Commodity Credit Corporation has no desire to prejudice the legitimate trade interests of Brazil in disposing of such coffee as it may acquire pursuant to the agreement of October 3, 1942. This point was clearly established in a telegram sent by the Commodity Credit Corporation through the State Department to Rio de Janeiro on February 27, 1943, reading textually as follows:

"There is no objection to an exchange of letters between the Embassy and the Foreign Minister to the effect that this Government will advise and discuss with Brazilian authorities at the appropriate time as to plans which they may wish to undertake for the disposal of coffee in any way to any destination they may deem advisable. As previously advised, in formulating such plans, sympathetic consideration will be given the Brazilian economic interests. If in such a discussion it develops that we have failed to give due weight to the Brazilian interests, it would be our intention to reconsider any such proposal. We do not interpret the Brazilian request to mean that we are to commit ourselves to accept Brazilian views as a prerequisite to disposing of coffee."

I hope that the foregoing statements will serve to dispel some of the fears and misunderstandings which appear to have arisen. Please let me have the benefit of your views as to what further clarifications, if any, are necessary or desirable before the CCC proceeds to carry out its part of the coffee purchase agreement.

With warm personal regards, believe me,  
Sincerely yours,

PAUL C. DANIELS

832.61333/766

*The Brazilian Minister for Foreign Affairs (Aranha) to the American Ambassador in Brazil (Caffery)*<sup>83</sup>

[Translation]

EC/661.333(22)

RIO DE JANEIRO, March 19, 1943.

With reference to Your Excellency's letter of March 12, 1943, and our conversations relative to the coffee agreement and exchange of notes signed on October 3, 1942, between our two Governments, I take pleasure in informing Your Excellency that the Brazilian Government concurs in that the agreement under reference shall be put into effect immediately.

2. It is understood that the Brazilian Government agrees that, after the quota year 1942/1943, the Government of the United States may

<sup>83</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10494, March 20; received March 26.

dispose of any quantity remaining in its possession in any way it deems advisable in order to ship it to any destination whatsoever. The Government of the United States will, however, advise and discuss with authorities of the Brazilian Government, at the appropriate time, with regard to plans for the utilization of this coffee.

3. The Brazilian Government interprets the following sentence of the letter of March 12, 1943, under reference—"my Government may dispose of any coffee remaining in its possession in any way it deems advisable, and may ship it to any destination whatsoever"—to read as follows when translated into Portuguese: "O Governo dos Estados Unidos da America poderá dispôr de qualquer quantidade de café ainda em seu poder da maneira que julgar mais conveniente para embarcá-la para qualquer destino." ("The Government of the United States may dispose of any quantity of coffee remaining in its possession in any way it deems advisable in order to ship it to any destination whatsoever".)

4. The Brazilian Government concurs in that the coffee agreement be put into effect in accordance with the items set forth in the attached memorandum.<sup>83a</sup>

I avail myself [etc.]

OSWALDO ARANHA

832.61333/766

*Résumé of the Coffee Agreement Between Brazil  
and the United States*<sup>84</sup>

1—Both Governments will do everything possible to facilitate the shipment to the United States of America, of all quotas established by the Interamerican Coffee Pact. It is understood that the Commodity Credit Corporation will purchase or underwrite, through the established commercial channels and in accordance with existing commercial practices of the trade.

2—For the quota year of 1941/42, the Commodity Credit Corporation agrees to purchase or underwrite, the existing contracts, to 90% of the f.o.b. value, of the coffee of the types used in the United States of America, which may not have been shipped up to September 30, 1942.

3—For the 1942/43 quota year, Commodity Credit Corporation will agree to purchase such part of the coffee of the types used in the United States of the basic annual quota (9,300,000) bags as it may not be possible to ship.

4—At the close of the quota year, which ended on September 30, 1942, the coffee purchased or financed in Brazil, according to Item

<sup>83a</sup> Not printed; it was substantially the same as the memorandum by the Ambassador in Brazil, March 12, p. 687.

<sup>84</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 10494, March 20, 1943; received March 26.

2, may be shipped to the United States of America against the 1942/43 quota, however, the quantities so shipped being replaced simultaneously by purchasing in Brasil coffee of the current crop.

5—The coffee purchased or financed by the Commodity Credit Corporation will be made f.o.b. usual shipping ports, considered satisfactory by the Commodity Credit Corporation, and in accordance to distribution to these same ports made by the National Coffee Department, upon the basis of the maximum price, determined by the Revised Price Schedule n. [No.] 50—Green Coffee, of the Office of Price Administration as amended, or at the then prevailing U.S.A. market price, whichever is lower. In either event, 2% will be deducted for handling and administration expenses.

6—The coffee purchased or underwritten by the Commodity Credit Corporation in Brazil may be substituted by new purchases, whenever there is a possibility of same becoming deteriorated; the Brazilian Government will facilitate the "turning over" of such stocks in accordance with the Commodity Credit Corporation.

7—The storage charges will be paid by the Commodity Credit Corporation, starting after 90 days of storage date; this storage will be approved by the Commodity Credit Corporation and supplied by Brazil at nominal rates, or, in cases of private warehouses, at rates not exceeding those now in effect.

8—The sellers will be responsible for:

- a) delivery f.o.b. of any coffee purchased or underwritten.
- b) export taxes and any other expenses incident to placing of the coffee on board steamer.
- c) insurance (excepting war risk insurance) during the 90 day free storage period, by an insurance company established in Brazil, or by Department of the Brazilian Government, acceptable to the Commodity Credit Corporation.
- d) 90 days storage period, in warehouses approved by the Commodity Credit Corporation.

If it becomes necessary to accept delivery of coffee prior to shipment, mutual and satisfactory arrangements will be made by the sellers and the Commodity Credit Corporation, which assure the purchaser the payment of taxes and other expenses incident to shipment of the coffee by the sellers.

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561.333D3/1538

*The Brazilian Financial Attaché (Penteado) to the Assistant Chief of the Division of the American Republics (Daniels)*

NEW YORK, March 26, 1943.

DEAR PAUL: Your letter of March 18th, in reply to mine of the 12th, is acknowledged. I greatly appreciate your restatement of the

nature and purpose of the purchase agreement, and the assurance that the Brazilian Government will be consulted prior to the disposition of any coffee to be acquired by the U. S. Government pursuant to such purchase agreement.

However, in view of the crucial importance of this question to the economy of Brazil, I believe that the rather general terms of such clarification must, for purposes of mutual confidence, be supplemented by a specific restatement of the underlying realities. This is particularly essential in view of the possibility, and even probability, that final disposition may be undertaken by individuals not fully informed as to the nature and purpose of the agreement, and under circumstances which may tend to obscure the ultimate objective at which the agreement is aimed.

For these reasons the situation requires that the assurance of consultation prior to disposition of such coffees be strengthened by the understanding that the purpose of such consultation must be to safeguard and preserve the economic benefits for which the purchase agreement was originally intended; thereby assuring that disposition of such coffees by the United States Government will be in a manner which would protect the Brazilian coffee economy at the later date from the disastrous conditions, which it has been agreed should be remedied now.

It is, of course, hoped and expected by all concerned that post-war conditions will permit disposition of such coffee stocks and other surpluses without difficulties or complications, and there is certainly no reason to doubt that under any circumstances the type of consultation indicated would result in other than the most complete agreement. Obviously, however, failure to clarify the fact that the assurance of prior consultation as to disposition includes the assurance that the purpose of the consultation will be to arrange for disposition which would not harm the Brazilian coffee economy, might result under unfavorable post-war circumstances in recreating the conditions which the agreement was designed to correct. In fact, in view of the possible cumulative total quantity which may be involved there is danger of even graver and more disastrous economic, political and social consequences under such adverse circumstances.

The Brazilian Government recognizes, as it has from the beginning, the difficulty of endeavoring to anticipate future developments by means of a specific commitment now as to the disposition of coffees acquired by the U. S. Government. It believes, however, that the present situation requires recognition by the U. S. Government that the purchase agreement will not only have failed of its purpose, but will have violated its intention, unless it is definitely acknowledged that disposition of the coffees acquired is not merely a matter of most

advantageous commercial arrangements, but rather a matter for mutual consultation, in order to protect the same economic interests which the agreement was intended to support.

Otherwise, it is obvious that the purchase agreement would become tantamount to a mere loan agreement, and serve as temporary assistance for Brazil in bearing the burden of the unshipped balances of its quotas under the Inter-American Coffee Agreement. Obviously also such was not the aim of the respective governments, in view of the fact that the loan alternative was rejected in favor of what was intended to be a broader and more beneficial purchase agreement.

Certainly, without the assurance we request the purchase agreement cannot be considered as compensating even partially for the substantial sacrifice made by Brazil in accepting reduced coffee shipments to the United States, below its quota established by the Inter-American Coffee Agreement, while agreeing to substantial increases in quotas for other coffee producing countries, and for the considerable contribution made by Brazil in devoting its merchant marine to the requirements of the wartime economy of the United States.

It should be apparent that hesitation on the part of the Government of the United States to give the requested assurance, under circumstances when our sacrifices and contributions are currently aiding the serious emergency problems of this country and are fresh in the minds of the officials of the U. S. Government and the public generally, must naturally cause the Brazilian Government the gravest concern as to the future when the nature and circumstances of these sacrifices and contributions may become obscured or forgotten.

With personal regards,  
Sincerely yours,

EURICO PENTEADO

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882.61333/789

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

No. 11066

RIO DE JANEIRO, April 30, 1943.

[Received May 8.]

SIR: I have the honor to refer to the Embassy's telegram No. 2050 of April 28, 9 p. m.,<sup>84a</sup> and to attach copies of memoranda in English and Portuguese relating to the meeting held at the Embassy on April 27, at which time representatives of the Brazilian Government and officials of the Embassy reached a definite understanding on the coffee agreement, which was later confirmed by the Minister of Finance. The memoranda have been signed and initialed by the Brazilians and Americans, and the original copies are on file in the Embassy.

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<sup>84a</sup> Not printed.



The Santos and Rio offices of the Commodity Credit Corporation are actually buying coffee and purchases in Vitória will take place shortly.

Respectfully yours,

For the Ambassador:

WALTER J. DONNELLY

*Counselor of Embassy for Economic Affairs*

[Enclosure]

MEMORANDUM OF THE MEETING HELD AT THE EMBASSY ON APRIL 27, 1943—FROM 5:30 P. M. TO 1:15 A. M., APRIL 28, 1943

Present: Messrs. Valentim Bouças, Hungria Machado, João Mellão, José de Oliveira Castro, Jayme Guedes, Walter J. Donnelly, Harry Prochet, Stephen A. Crump, and E. Livaudais.<sup>85</sup>

At this conference the following was agreed upon by all present and the Brazilians obtained the concurrence of the Minister of Finance by telephone:

1. By mutual agreement the CCC will not buy in Paranaguá. The amount of 139,415 bags corresponding to the quota allotted by the DNC<sup>86</sup> to that port, will be purchased in Santos through established commercial channels to be designated by the DNC.

2. Brazil recognizes and accepts the standards of qualities of strictly soft and soft as established by the CCC at Santos on April 18, 1943, and accepted by the group of exporters selected by João Mellão, who was acting on behalf of the Brazilian committee appointed by the Minister of Finance. Memorandum of the acceptance of these qualities was signed by representatives of the CCC, Sr. João Mellão and the exporters on that date.

3. Upon request of the Brazilian Government the CCC will not purchase free from Rio flavor coffees for the present.

4. The following *net* FOB *maximum* prices to the Brazilian exporters were accepted:

	<i>Santos</i>	<i>Rio</i>	<i>Vitória</i>
4's strictly soft	11. 20	10. 95	—
¾ strictly soft	11. 45	11. 20	—
4's soft	10. 85	10. 60	—
¾ soft	11. 10	10. 85	—
Rio 7's	—	7. 60	—
Vitória 7/8's	—	—	7. 40

5. It is agreed that the foregoing prices are not fixed prices, the basis for prices being governed by Clause 5 of the Coffee Agreement which reads as follows:

<sup>85</sup> Officials of the Brazilian Commission for the Control of the Washington Agreements, the Associa Commercial, the National Coffee Department, the American Board of Economic Warfare, and the Commodity Credit Corporation.

<sup>86</sup> National Coffee Department.

"5. Coffee purchases or underwritings by the Commodity Credit Corporation will be made f. o. b. Santos or other accredited Brazilian ports approved by Commodity Credit Corporation, the distribution between the respective ports being indicated by the National Coffee Department, on the basis of the maximum prices for green coffee established by 'Revised Price Schedule Number 50—Green Coffee'—of the Office of Price Administration, as amended; or at the then prevailing United States market price, whichever is lower, less, in either event, 2% for handling and administrative expense."

6. The Brazilian committee may propose to the CCC a readjustment of the charges to be held back incident to the FOB clause of the sale. If the CCC's representatives consider that the above mentioned proposal offers adequate protection to the CCC's interests they will recommend the same to Washington.

7. The Embassy and the CCC refuse further to discuss or consider any changes on export taxes on coffee.

8. It was agreed that the Brazilian Authorities will take the necessary steps to assure that the General Warehouses are informed of the exemption which has been granted by the Brazilian Government to the CCC exempting it from insurance required by law, and that such General Warehouses will act accordingly when issuing warrants.

9. It was agreed that the Committee would take the necessary steps to assure that the General Warehouses which desire to store coffee for the CCC at a reduced rate, will be allowed to do so free from coercion from any source.

10. To avoid a recurrence of ships arriving at Brazilian ports and not being able immediately to load coffee for shipment, the DNC undertakes to provide facilities to have bagged and ready for export, duly cleared from all governmental requirements, 100,000 bags of coffee in Rio and 50,000 bags in Santos, representing coffee already licensed for importation into the United States.

11. The committee consisting of Messrs. A. H. Machado, J. Oliveira Castro, and João Mellão, will continue to act as a liaison between the coffee trade, the DNC and the CCC, to assist in the smooth operation of the Coffee Agreement.

12. It was agreed that close collaboration will be maintained between the DNC, the committee mentioned in the foregoing paragraph, and the CCC. All the parties agreed that they would do everything in their power, particularly during the initial period, to assure the smooth operation of the Agreement.

13. It was agreed that the publicity to date has been most unfortunate and that the Brazilian Authorities, the DNC, and the Brazilian committee will do all within their power to obtain the full support of the Press for the Agreement and for the CCC as the purchasing agency.

832.61333/819 : Airgram

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

[Extract]

RIO DE JANEIRO, June 11, 1943—10 a. m.

[Received June 19—noon.]

A-1174. The Minister of Finance <sup>87</sup> told me on June 9, that he had received a telegram from Dr. Eurico Penteado, representative of the National Coffee Department in the United States and Financial Attaché to the Brazilian Embassy in Washington, reporting that the Quartermaster of the Army was annoyed with the policy of the DNC in Brazil and indicating that the Quartermaster would not reenter the Brazilian coffee market until the DNC adopts a more cooperative attitude. The telegram referred to the recent decision of the Quartermaster suspending purchases of approximately 200,000 bags, owing to the action of the DNC in increasing prices by 15 points after it became known that the Quartermaster had offered to buy coffee. Dr. Penteado informed the Minister that a few days later the Quartermaster purchased about 100,000 bags of coffee in Guatemala, which would have been purchased in the Brazilian market had the DNC cooperated.

The Minister is very much concerned about this development and suggested that it might be advisable to establish fixed prices for coffee for the Quartermaster to be sold through the DNC and not the trade. The Embassy made no comment on this suggestion.

Dr. Penteado also referred in the telegram to complaints he had received from the coffee trade in general in the United States against the arbitrary action of the DNC in increasing prices, prohibiting registrations, etc. . . .

. . . . .  
CAFFERY

832.61333/824 : Airgram

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

RIO DE JANEIRO, June 22, 1943—11 :15 a. m.

[Received June 28—4 p. m.]

A-1310. Reference my airgram A-1174, June 11, 10 a. m. . . .

Sr. Valentim Bouças <sup>88</sup> informed the Embassy yesterday that President Vargas has strongly disapproved of Guedes' <sup>89</sup> action in in-

<sup>87</sup> Artur de Souza Costa.

<sup>88</sup> Executive Secretary, Commission for the Control of the Washington Agreements.

<sup>89</sup> Jayme Fernandes Guedes, President, National Coffee Department.

creasing coffee prices following the entry into the market of the United States Quartermaster. Bouças said: "I would not be surprised if President Vargas made a gift of a substantial quantity of coffee to the Armed Forces of the United States Government".

CAFFERY

832.61333/832: Telegram

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

WASHINGTON, July 17, 1943—3 p. m.

2651. Your 3412, July 14.<sup>90</sup> Department had not previously received copy of letter of July 10 from Commodity Credit Corporation.<sup>90</sup>

The Department does not believe any coffee owned by the Commodity Credit Corporation should be shipped to the United States for the time being, at least, except subject to the following conditions:

A. Prior consultation with and agreement of the Brazilian Government.

B. Availability of shipping space which cannot be utilized by privately owned coffee, or by more important strategic materials.

For the time being it is believed preferable to avoid having any coffee shipped by Commodity Credit Corporation for consumption in the United States market.

It is understood that the Army is purchasing coffee in Rio de Janeiro and that accordingly there is little likelihood of any space available for coffee not being fully utilized. Please follow this situation very closely and keep the Department currently informed.

HULL

832.61333/836: Telegram

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

RIO DE JANEIRO, July 22, 1943—7 p. m.

[Received 8:55 p. m.]

3536. Department's 2651, July 17, 3 p. m. No CCC coffee will be shipped to the United States without the Department's approval. I suggest the Department consider the desirability of shipping such coffee for storage in bonded warehouses in the United States for eventual use in relief areas provided of course that (1) Brazilian Government concurs and (2) shipments do not interfere with exportation of strategic materials or coffee under private contracts.

CAFFERY

<sup>90</sup> Not printed.

832.61333/836 : Telegram

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

WASHINGTON, July 30, 1943—11 p. m.

2851. Your 3536, July 22, 7 p. m. Department concurs with suggestion regarding possible coffee shipments to United States for eventual use in relief areas subject to the conditions stated in your telegram. It would be advantageous if any such shipments could be made under the quotas established by Article I of the Inter-American Coffee agreement<sup>91</sup> for the United States market, rather than Article II, to provide flexibility in the event that at some later date an unforeseen shortage of coffee should arise in the United States. It should be made clear to the Brazilian authorities, however, that this should be considered merely a wise precaution rather than any intention to consume such coffee in the United States, it being understood that if any of the coffee shipped prior to September 30, 1943 should be entered for consumption in the United States market the C.C.C. would in accordance with paragraph 4 of the Purchase Agreement with Brazil replace it by the purchase of an equivalent quantity of coffee in Brazil from current production. C.C.C. concurs.

HULL

832.61333/848 : Telegram

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

WASHINGTON, August 18, 1943.

3096. Your no. 3914, August 16, 4 p. m.<sup>92</sup> This morning the Acting Secretary of War<sup>93</sup> made the following statement to General Dutra<sup>94</sup> in regard to the 400,000 bags of coffee:

"It is a great privilege for me to acknowledge personally for the War Department the gift of the 400,000 bags of coffee from His Excellency President Vargas. This great gesture of friendship and cooperation will long be remembered by the members of our armed forces. President Roosevelt has already expressed his own deep appreciation to President Vargas and to Dr. Salgado Filho, the able Air Minister of Brazil, who so graciously on his recent visit here made known your Government's gift to the armed forces of this country. I am happy to be able to inform you that arrangements are now in progress with a view to moving the coffee so that it will be of immediate advantage to our armed forces and to our common effort."

HULL

<sup>91</sup> Signed at Washington, November 28, 1940. For text, see Treaty Series No. 970, or 55 Stat. (pt. 2) 1143; for correspondence, see *Foreign Relations*, 1940, vol. v, pp. 380 ff.

<sup>92</sup> Not printed.

<sup>93</sup> Robert P. Patterson.

<sup>94</sup> Gen. Eurico Gaspar Dutra, Brazilian Minister of War.

832.61333/854 : Telegram

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

RIO DE JANEIRO, August 27, 1943—2 p. m.

[Received 4:40 p. m.]

4109. For Brown, Commodity Credit from Crump and Prochet. Coffee importers in the U. S. are telegraphing exporters here to withhold shipments. Penteado is reported to have said that this is due to the 2 months' inventory limitation existing at present. So that exporters may use all shipping space offered for September it is necessary that limitations be objected in order that importers will not have to request delayed shipments. Means must be found to have importers arrange for shipments during September otherwise there will not be sufficient coffee to fill space allotted and will not count against our commitments. We consider this urgent. [Crump and Prochet.]

CAFFERY

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102.7/3481 : Airgram

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

WASHINGTON, September 2, 1943—4 p. m.

A-2181. For Crump and Prochet from Commodity Credit Corporation. Refer your 4120, August 27.<sup>95</sup> It has been agreed by the Office of Price Administration and Commodity Credit Corporation that the present would be an appropriate time to eliminate the subsidy paid on coffee imports, except to the extent necessary to carry out already existing commitments under the Commodity Credit Corporation agreements. Following a meeting with the General Coffee Industry Trade Advisory Committee, at which all aspects of the program and contemplated termination were discussed, the interested Government agencies met and decided to terminate the subsidy as of the close of business on August 25, 1943.

The procedure was to withdraw all unused authorizations which had been issued under the terms of the Purchasing Agency Agreement. Henceforth, all new authorizations to import coffee will be issued under the provisions of General Imports Order M-63.<sup>96</sup>

The off-shore portion of this subsidy on shipments of coffee from Brazil varied from 11½ cents to 16½ cents per hundred pounds, depending upon the voyage. Inland transportation varied according to the port of entry and the ultimate interior destination.

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<sup>95</sup> Not printed.

<sup>96</sup> 8 *Federal Register* 850.

Price Schedule No. 50 <sup>97</sup> will be amended to reinstate the flexible clause permitting increases over pre-Pearl Harbor basis to be passed on to roasters, but it is not anticipated that either green or roast coffee prices will be advanced.

The inland transportation allowance will not be granted on shipments covered by bills of lading dated on or after October 1, 1943.

Refer your 4109, August 27. Two months' inventory limitation related only to payment of domestic transportation allowance. Requirement that bills of lading must be dated prior to October 1 in order to qualify under Purchasing Agency Agreement should induce accelerated shipping in September. There are outstanding sufficient Commodity Credit Corporation authorizations to more than fill all shipping space allotted to coffee during September.

It is rumored here that Lloyd Brasileiro is considering placing direct coffee steamer to Pacific Coast. Can you confirm this? Suggest effort be made to encourage the shipment of coffees to contract ports of entry on both east and west coasts. [Commodity Credit Corporation.]

HULL

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852.61333/873

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

No. 12826

RIO DE JANEIRO, September 23, 1943.

[Received September 29.]

SIR: I have the honor to quote below a memorandum prepared by Mr. Harry Prochet of the Commodity Credit Corporation, relative to the reduction in the budget of the National Coffee Department as a result of the coffee agreement between the Governments of the United States and Brazil:

"While in the office of the National Coffee Department, Mr. Guedes received a telephone call from the Ministry of Finance and was requested to explain the reasons for the difference between the estimated budget of the DNC for the administration of the 1942/43 crop and actual expenditures, which were considerably less than the budget. Mr. Guedes replied that the enormous difference was the consequence of the assistance given in the United States to Brazil through the coffee agreement. He then stated that had it not been for this agreement, his estimate would probably have been low."

Respectfully yours,

For the Ambassador:

WALTER J. DONNELLY

*Counselor of Embassy for Economic Affairs*

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<sup>97</sup> 6 *Federal Register* 6373.

561.333D3/1599b : Telegram

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

WASHINGTON, November 20, 1943—4 p. m.

4318. There have recently been published in the United States statements attributed to representatives of the National Coffee Department to the effect that coffee of the new Brazilian crop is now available for purchase by the trade in the United States. Department is informed, however, that the Food Distribution Administration has received numerous reports during the past 10 days believed to be reliable that the coffee trade in this country is experiencing difficulty in executing authorizations to purchase coffee in Brazil, that the prices asked for new crop Brazilian coffee are in some cases actually higher than existing Office of Price Administration green coffee price ceilings, and that in many cases importers are finding it impossible to obtain any offers of new crop coffee for shipment from Brazil for December 1943 through March 1944.

The two countries, of course, have a mutual interest in the use of all shipping available for Brazilian coffee and the maintenance of the good supply position in the United States which has permitted the removal of coffee from rationing control.

It is requested that the Embassy take whatever action it considers warranted in regard to the matter and report to the Department.

This matter has been brought to the attention of the Brazilian delegate to the Inter-American Coffee Board by the Board's secretary on the basis of a communication which he has received from the Food Distribution Administration.

HULL

561.333D3/1600 : Telegram

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

RIO DE JANEIRO, November 25, 1943—7 p. m.

[Received 9:01 p. m.]

5482. Department's 4318, November 20, 4 p. m. Souza Costa is definitely concerned over the coffee situation and intends to do something about it after the debt plan is settled, possibly early next week.

CAFFERY

561.333D3/1602 : Telegram

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

RIO DE JANEIRO, November 30, 1943—9 p. m.

[Received 11:05 p. m.]

5540. Reference Embassy's 5482, November 25, 7 p. m. Souza Costa told me today that according to his personal investigation of



the coffee situation the increase in prices for new crop coffee and decline in shipments are the direct result of the serious transportation problems between São Paulo and Santos. The Minister added he is arranging with the new Coordinator of Internal Transportation to facilitate the immediate movement of new crop coffee to Santos and believes this measure will have the effect of reducing prices to within the range of price ceilings in the United States.

Souza Costa showed me several telegrams from Penteado stressing the seriousness of the situation in the United States and quoting telegrams from coffee associations urging the Brazilian Government to reduce prices and increase shipments of new crop coffee.

Souza Costa is alarmed over reports from the United States that the Inter-American Coffee Board may increase quotas to favor the importation of mild coffee. He said such action is not necessary and would be very unfavorable to Brazil.

CAFFERY

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561.333D3/1606 : Telegram

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

RIO DE JANEIRO, December 7, 1943—6 p. m.

[Received 9:20 p. m.]

5622. Private sources report that 8600 bags and 25,600 bags of new crop coffee (reference Embassy's telegram No. 5596, December 4, 3 p. m.)<sup>88</sup> arrived at Santos on December 6 and December 7 respectively, as against Guedes' recent assurances to the Minister of Finance and Embassy that entries would total 40,000 bags daily.

Reports from Santos indicate that sales of new crop coffee for shipment to the United States are very quiet due to the rumors that American importers will receive a subsidy of 5 cents per pound and that they will be permitted to increase prices correspondingly.

Have importers in the United States noticed any improvement in sales or prices of Brazil's new crop coffee?

CAFFERY

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561.333D3/1614 : Telegram

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

RIO DE JANEIRO, December 10, 1943—2 p. m.

[Received 4:33 p. m.]

5660. Embassy's 5622, December 7, 6 p. m. The Santos office of the DNC today informed Souza Costa in my presence that entries of new

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<sup>88</sup> Not printed; it indicated that there was sufficient coffee on hand at Santos to fill the tonnage assigned (561.333D3/1605).

crop coffee are improving and that 40,000 bags arrived yesterday. They said they would fill all coffee space out of Santos this month for the United States.

Souza Costa told me in strict confidence that Guedes had received a telegram from Penteado expressing optimism over the possibility of obtaining an increase in our coffee ceiling prices. I desire to point out that I have not yet received a request from any Government officials here in this connection.

The Minister has instructed Penteado to return to Rio de Janeiro for consultation. Penteado has requested authority to delay the trip until the priority situation is clarified.

CAFFERY

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561.333D3/1614 : Telegram

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

WASHINGTON, December 13, 1943—midnight.

4553. With reference to Penteado's statement referred to in Embassy's telegram 5660, December 10, information received by Department indicates that Penteado is principally responsible for the publicity which has been given to the price matter.

Department and Foreign Economic Administration now have under consideration for transmittal to the Embassy a proposed note to the Foreign Minister strongly urging in the interest of both countries the termination of the coffee purchase agreement suggested in Department's telegram 4156, November 9.<sup>99</sup> It is hoped therefore that developments regarding the present price problem will not be such as to prejudice termination of the agreement.

The Embassy is requested unless it perceives objection to bring to the attention of the appropriate Brazilian authorities the following observations:

1. When considered in the light of the high rate of consumption, coffee stocks in this country are relatively small.

2. Should shipping become available for Brazilian coffee which private exporters are unable to utilize, the Commodity Credit Corporation is prepared to make use of the space to ship coffee to the United States.

3. Should a shortage of coffee develop in the United States, the Corporation is prepared to make available for consumption coffee which it has stored here.

4. Should ships calling at Brazilian ports be unable to load coffee, present shipping schedules for coffee may not be maintained, since the shipping can be very usefully employed elsewhere.

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<sup>99</sup> *Post*, p. 740.

As was indicated in Department's telegram 4417 of November 30,<sup>1</sup> Department would prefer to have private exporters use tonnage available for Brazilian coffee. It is, nevertheless, necessary to assure continued movement of Brazilian coffee to avoid reimposition of limitations on consumption in this country.

HULL

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561.333D3/1615a : Telegram

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

WASHINGTON, December 14, 1943—9 p. m.

4562. With further reference to the coffee price situation, Department's telegram 4553, December 13, there has been absolutely no change in the position of the Office of Price Administration as indicated in its statement of December 2 to the effect that no increase in the ceiling prices of coffee either green or roasted is contemplated. Furthermore, no price increase has as yet even been suggested to the Department or to the Office of Price Administration by any representative of the producing countries.

For the Embassy's strictly confidential information, the Department is informed that:

1. The meeting in Washington at which coffee prices were discussed was attended by representatives of Pan American Coffee Bureau and some of the members of the Coffee Board who represent countries which are not members of the Bureau.

2. The meeting was called by Penteado.

3. Some of those attending the meeting were opposed to raising the question of an increase in ceilings at this time.

4. Notwithstanding the fact that those attending the meeting had been assured that no publicity would be given to it, information regarding it was made available to the press by Penteado. Some of the Board's members who attended the meeting expressed indignation concerning the publicity given to it.

HULL

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561.333D3/1616 : Airgram

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

RIO DE JANEIRO, December 17, 1943, 9 a. m.

[Received December 24—12 p. m.]

A-2784. Reference is made to the Department's telegrams 4526 of December 11, 6 p. m.,<sup>2</sup> 4553 of December 13, midnight, and 4562 of

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<sup>1</sup> Not printed; it reported that coffee stocks of private exporters were insufficient to fill the shipping assigned (561.333D3/1604a).

<sup>2</sup> Not printed; the Embassy was advised to discourage price agitation in the purchase of the "new crop coffees" (832.61333/894).

December 15 [14], 10 [9] p. m., regarding the coffee situation in the United States.

For the Department's strictly confidential information, the Embassy furnished the Minister of Finance on December 16, with a summary of the pertinent points in the telegrams under reference and impressed the Minister with the importance of the Brazilian Government adopting at once measures to (1) bring prices in line with ceiling prices in the United States, and (2) further facilitate entries at the port of Santos and the shipment of coffee to the United States. The Embassy also took advantage of a recent meeting with Minister Walder Sarmanho of the Brazilian Embassy in Washington, who is visiting Rio de Janeiro, to inform him of the coffee situation. He said that he would report to President Vargas and recommend that the Brazilian Government adopt measures to put the coffee trade on a more businesslike and efficient basis.

The Minister of Finance stated that the President of the National Coffee Department had informed him that he had increased entries at the port of Santos to 40,000 bags a day and that prices had declined to the level of our ceiling prices in the United States. The Minister added that he would instruct the President of the National Coffee Department to do whatever is necessary to accelerate shipments to the United States and that in this connection he has requested the Railway Coordinator of the Brazilian Government to facilitate the transportation of coffee from the interior of São Paulo to the port of Santos. The Minister remarked that he has always attached great importance to the blending of Brazilian coffee in the United States and that it is the policy of his Government to lend its full cooperation with a view to increasing the mixture.

CAFFERY

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561.333D3/1615b : Telegram

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

WASHINGTON, December 17, 1943—midnight.

4615. With reference to previous publicity given to alleged imminence of an increase in coffee ceilings, Department's telegrams 4553, December 13, and 4562, December 14, Penteadó denies responsibility . . .

At the meeting of the Inter-American Coffee Board on December 16 Penteadó proposed and the Board approved issuance of the following press release:

"The Inter-American Coffee Board in its meeting held this morning gave very serious consideration to rumors circulating in the coffee trade of a possible revision of the ceiling prices for coffee as estab-

lished by the Office of Price Administration. In view of the very disturbing effect that such rumors are having in the coffee business, the Inter-American Coffee Board wishes to remind the trade both in the United States and in the producing countries of the following statement on the subject issued by the Office of Price Administration December 2, 1943: 'No upward revision in coffee ceiling prices either on green or roasted coffee is contemplated, the Office of Price Administration said today.'

However, the Board continues to be interested in the question of whether or not an increase in coffee ceiling prices is justified, but plans to study the matter in such a manner as not to give rise to further rumors or publicity. It also plans not to take the matter up with the Office of Price Administration unless and until the Board can present a factual and statistical justification of a proposed increase.

The Embassy is requested to forward to the Department as soon as possible any information it may have or be able to collect without giving rise to further rumors indicating whether or not the present ceiling prices on Brazilian coffee are adequate. In this connection information concerning the following subjects would be helpful:

1. Extent to which coffee prices covered costs of production in November 1940, December 1941, and at present.
2. Probable effect on the production of Brazilian coffee of maintaining present ceilings.
3. Changes, if any, in Brazilian taxes on coffee since November 1940.
4. Extent to which coffee growers have benefited by price increases since November 1940.
5. Prices at which Brazilian coffee is now selling in markets outside the United States.
6. Any other information considered by the Embassy to be pertinent.

HULL

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832.61333/904 : Telegram

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

WASHINGTON, December 20, 1943—midnight.

4637. The interested agencies here are of the view, in which the Department concurs, that the proposed termination of the coffee agreement should be vigorously prosecuted in view of (1) the proposed alteration of the shipping agreement,<sup>3</sup> (2) the general improvement in shipping, (3) the fundamental improvement in the Brazilian economy, and (4) the falling off of offerings of coffee under the agree-

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<sup>3</sup> For correspondence on shipping problems, see pp. 720 ff.; concerning the shipping agreement of September 30, 1942, see *Foreign Relations*, 1942, vol. v, p. 743, footnote 29.

ment. With this in view, it is requested that the Embassy address to the Foreign Minister a note which would embody the following:

"I have been instructed by my Government to bring to the attention of Your Excellency's Government the question of the proposed termination of the coffee purchase agreement. It was never contemplated by my Government that the agreement would be of indefinite duration, but rather that the assistance which it was felt that the agreement would provide to the Brazilian coffee industry and the Brazilian economy generally would be related in point of time to the need occasioned by the lack of shipping. The shipping situation has now improved to the point where it is hoped that sufficient tonnage will be available to move the present Brazilian quota to the United States market during the current quota year.

During the period of more than a year since the agreement was reached, the Commodity Credit Corporation has been called upon to purchase only slightly more than 700,000 bags of the qualities and at the prices provided in the agreement, making it doubtful, it is believed, whether the continuance of the agreement is necessary to stabilize the Brazilian coffee economy or is in fact in the best interests of Brazil. Further purchases in volume cannot be made without interfering with normal trade operations, resulting in mutual problems which lead my Government to the conclusion that continuation of the agreement is to the interests of neither Brazil nor the United States.

As Your Excellency will recall, the matter of the disposal of the coffee was referred to as follows in a note addressed to me by Your Excellency on March 19, 1943:

'It is understood that the Brazilian Government agrees that, after the quota year 1942/43, the Government of the United States may dispose of any quantity remaining in its possession in any way it deems advisable in order to ship it to any destination whatsoever. The Government of the United States will, however, advise and discuss with authorities of the Brazilian Government, at the appropriate time, with regard to plans for the utilization of this coffee.'

It is, of course, the desire of my Government to dispose of Commodity Credit Corporation coffee in such a manner as to interfere as little as possible with the sale of other Brazilian coffee. None of the coffee in question hitherto shipped from Brazil has been entered for consumption in the United States. The Corporation has, or will soon have, disposed of 3,800 bags to the American Red Cross for distribution abroad, 51,400 bags under lend-lease arrangements, and 96,600 bags for use by United States armed forces overseas. The attention of Your Excellency's Government is invited to the fact, however, that such outlets for the Corporation's coffee in markets outside the United States are limited and uncertain, and that there is believed to be no practicable method of disposing of the quantity of coffee which the Corporation is required to purchase under the agreement which would not involve more direct competition with other Brazilian coffee.

It was understood, of course, at the time the purchase agreement was consummated that problems of this nature would be encountered in disposing of such coffee as might be purchased in accordance with the agreement. These, however, were left for consideration in the light of future developments.

Should Your Excellency's Government concur in the considered judgment of my Government that the mutual objectives of the agreement have been attained and that the agreement should hence be terminated, I am authorized by my Government to state that it is prepared to undertake to dispose of the remaining coffee heretofore purchased in outlets outside the United States, unless entry of some of the coffee into the United States should be necessary to meet an emergency situation, such as might require a resumption of rationing."

If the Embassy perceives any objection, either in principle or detail, please advise.

Please keep Rich <sup>4</sup> advised of all developments in connection with this matter.

In view of the delicate relationship of this matter to the shipping negotiations, the Department leaves to your judgment the timing of the presentation of the above note. Please keep it informed of your course.

HULL

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561.333D3/1615 : Telegram

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

RIO DE JANEIRO, December 22, 1943—1 p. m.

[Received 6:07 p. m.]

5824. Souza Costa instructed Penteado (Department's 4615, December 17, midnight) by telephone yesterday to desist from agitating for increases in OPA prices and to concentrate his efforts on facilitating the importation of Brazilian coffee into the United States. He told Penteado that: (1) he does not share his views on increased prices; (2) as a result of his activities, firms here are holding coffee for better prices when Brazil should be taking advantage of favorable shipping conditions to increase exports to the United States; (3) his campaign favors mild producing countries because they are taking advantage of the situation in Brazil to export more coffee to the United States; and although he (Souza Costa) realizes that it is impossible for the United States to increase prices at this time, it would be politically inexpedient for him to make such a statement in Brazil. He told me in confidence that he had been passing on this information to his friends.

Souza Costa assured me that arrivals of new crop coffee at the port of Santos have reached 40,000 bags daily and that the stock of this coffee at Santos now approximates 500,000 bags. He repeated that it is the policy of his Government to stimulate shipments to the United States so as to increase the blending of Brazilian coffee there.

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<sup>4</sup> Presumably Maj. Richard H. Rich, representative of the Foreign Economic Administration.

I believe Souza Costa will accept a reasonable adjustment of our coffee purchase agreement with Brazil, but I am not yet in a position to pursue this matter owing to the delay in obtaining from Washington authority to negotiate the transfer of the chartered ships to the Brazilian Government.

CAFFERY

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561.333D3/1615 : Telegram

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

WASHINGTON, December 24, 1943—2 p. m.

4679. With reference to the last paragraph of your 5824, December 22, 1 p. m., the Department assumes that you have now received its 4638, December 20, midnight,<sup>5</sup> which gives you full authority to conclude the shipping negotiations as earlier agreed to in principle by representatives of both Governments.

HULL

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832.61333/903 : Telegram

*The Counselor of Embassy in Brazil (Simmons) to the Secretary of State*

RIO DE JANEIRO, December 31, 1943—1 p. m.

[Received 5:04 p. m.]

5957. The Embassy will delay presentation of note (Department's 4637, December 20, 12 p. m.) until we reach an understanding with the Brazilians on the ship deal. Rich agrees.

SIMMONS

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**DISCUSSIONS BETWEEN THE UNITED STATES AND BRAZIL CONCERNING THE PRODUCTION AND PURCHASE OF FOODSTUFFS<sup>6</sup>**

800.61317/11 : Telegram

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

RIO DE JANEIRO, July 23, 1943—8 p. m.

[Received 10:40 p. m.]

3570. My 3355, July 10, 2 p. m.<sup>7</sup> Minister of Finance<sup>8</sup> yesterday stated that before July 31 he would like assurance regarding rice

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<sup>5</sup> Not printed.

<sup>6</sup> For an agreement between the United States and Brazil respecting the development of foodstuffs production, signed at Rio de Janeiro, September 3, 1942, see Department of State Executive Agreement Series No. 302, or 56 Stat. (pt. 2) 1875.

<sup>7</sup> Not printed.

<sup>8</sup> Artur de Souza Costa.



purchase agreement as basis Government financing Rio Grande do Sul crop to be planted in August. Foreign Office also has again inquired about agreement.

British Embassy advises that Richard Bland, rice expert of Ministry of Food, shortly is coming to Brazil in company with representatives Commodity Credit Corporation who are interested in buying other commodities under agreements to be negotiated with Brazilian Government.

CAFFERY

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800.61317/11 : Telegram

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

WASHINGTON, July 29, 1943—8 p. m.

2833. Embassy's 3355, July 10;<sup>9</sup> 3570, July 23. US and UK authorities offered to negotiate for entire exportable surplus 1943 rice crop and are prepared to negotiate for entire exportable surplus from 1944 rice crop, although it will, of course, not be possible to conclude negotiations prior to July 31. Information as to willingness of two governments to negotiate with respect to 1944 crop should not be used in such a way as to cause expectation on part of growers of increased prices for rice.

Present attitude of procurement agencies here is that it would be unnecessary for them to send additional representatives to Brazil to negotiate with respect to rice or other commodities, although British Ministry of Food will send an expert via United States.

It is expected that within the next few days detailed suggestions with respect to rice and other commodities for use in negotiations will be forwarded to you.

HULL

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811.20 Defense (M) Brazil/5126c : Airgram

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

WASHINGTON, August 30, 1943—7 :20 p. m.

A-2164. From Rosenthal,<sup>10</sup> OEW, for Winans.<sup>11</sup> We would like to have you consult with the Ambassador and request the Ambassador to initiate conversations and lead the Government to Government discussions with Brazilian Government, in association with you or your designees, and Crump,<sup>12</sup> looking toward overall agreement relating to

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<sup>9</sup> Not printed.

<sup>10</sup> M. S. Rosenthal, Assistant Director, Office of Economic Warfare, successor of the Board of Economic Warfare.

<sup>11</sup> Hubert C. Winans, Special Representative, Office of Economic Warfare.

<sup>12</sup> Stephen A. Crump of the Commodity Credit Corporation.

agricultural food products. This agreement would incorporate by reference certain specific separate agreements to be negotiated concurrently with commercial firms or others on items as directed herein. In addition it would apply to other agricultural food products on which we might from time to time suggest specific detailed negotiations, so far as the general basic terms of the overall agreement are concerned.

In carrying out these preliminary conversations, we wish to impress on you the importance of taking every precaution to have absolutely no publicity given to our interest in these various products. This is important not only to avoid interference with the conduct of negotiations but also to avoid arousing of any undue hopes on part of producers. Consequently we ask you stress confidential nature of these discussions until a substantial agreement is reached and public announcement is agreed upon by both governments.

I. With respect to the type of such overall agreement, we have the following suggestions:

A. It should be as simple and brief as possible and preferably in form of exchange of diplomatic notes after clearance of contents in Washington.

B. The Brazilian Government would make the following undertakings: That local consumption would be satisfied before any products were offered for export. That no increase in present export or other taxes of any kind would be imposed on any of the products enumerated in the overall agreement or subsequent additions thereto. That we would have exclusive rights to purchase and would agree to purchase exportable surpluses unless otherwise specified. In connection with this last provision, we would like to have the Brazilian Government state the tonnages of each of the products covered herein which has been customarily sold to other Latin American countries, using reasonable current needs as the figure, and it would be agreed that these amounts, as well as the requirements for local consumption, would be excluded from exportable surpluses for the United States. Brazil would announce that it would make these tonnages available for export to these countries at no higher prices than to the United States. If Brazilians raise question of filling requirements of countries other than Latin American please advise us and we will give you our views. It would also be agreed that the Brazilian Government make every possible effort to see that sufficient quantities of seed for succeeding crops would also be set aside. The Brazilian Government would agree to make every effort to bring about planting acreages necessary to produce maximum of each commodity, which would be inserted in the separate agreements as well as minimums. That the Brazilian Government, upon conclusion of formal agreement, will give wide publicity to prices and other terms of the overall and separate specific agreements as incentive to maximum production and so producers will be informed as to what is expected of them.

C. With exceptions noted herein, we believe that the agreement should extend through two crop years in order to provide real incentive to maximum production efforts and to stimulate expanded plantings in the forthcoming seasons of crops.

II. We have directives for immediate expanded production and purchase of peanuts, dried beans and rice and forthcoming directives cover other products covered herein. The following are our detailed suggestions on each separately, regarding Government to Government negotiations, but in any contracts with commercial firms or others the overall agreement is to be incorporated by reference. In all instances provision is to be made for payment in either U. S. dollars or British sterling at the then rate of exchange.

[Here follows a discussion regarding separate items—peanuts and peanut oil, dried beans, rice, castor oil, cottonseed oil, cottonseed meal, and oiticica oil.]

[Rosenthal]  
HULL

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811.20 Defense (M) Brazil/5126b : Telegram

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

WASHINGTON, August 30, 1943—midnight.

3283. There is being despatched today an airgram for Winans<sup>13</sup> from OEW instructing him to request you to initiate negotiations with the Brazilian Government concerning rice, beans, castor seed, peanuts, etc. and you are requested to press the negotiations vigorously with a view to their prompt conclusion.

These instructions have been delayed because of discussions here as to future conduct of foreign food procurement. This question has not yet been settled, Mr. Crowley<sup>14</sup> having stated that he has not yet made up his mind and that in any event he will have to discuss the matter with the President. It has been agreed by the Department, OEW, Commodity Credit and Department of Agriculture that until this decision is made these agencies will try to work together to deal with pressing problems in this field. During the past week there has been an argument primarily between Agriculture and OEW as to whether airgram in question should be addressed to OEW representative or solely to the Embassy. Mr. Crowley feels matter is unimportant but prefers not to make an issue over it with OEW subordinates and Department has concurred, in view of its general belief that Mr. Crowley is working out satisfactory overall arrangements respecting future OEW operations.

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<sup>13</sup> *Supra*.

<sup>14</sup> Leo T. Crowley, designated to be the Administrator of the Foreign Economic Administration, an agency established by Executive Order 9380, September 25, 1943, to consolidate the Office of Lend-Lease Administration, the Office of Economic Warfare, and the Office of Foreign Relief and Rehabilitation Operations, together with their subsidiary corporations and agencies.

Foregoing is confidential for you and the Economic Counselor<sup>15</sup> as Mr. Crowley is particularly desirous that intimations on this subject should not be given to OEW representatives in Brazil. It is assumed that Economic Counselor can be made available to conduct these negotiations, and Department of Agriculture wishes new Agricultural Attaché<sup>16</sup> to be consulted in connection with them and to participate to extent you deem desirable.

Also for your confidential information Mr. Crowley is trying to obtain suitable head OEW representative for Brazil and both Department and he are urging Paul McKee<sup>17</sup> to accept job. Only question is whether McKee can be spared from his business.

HULL

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811.20 Defense (M) Brazil/5240

*Memorandum by the Economic Counselor of Embassy in Brazil  
(Donnelly)*<sup>18</sup>

[RIO DE JANEIRO,] September 10, 1943.

Subject: Program for the Procurement of Agricultural Food Products.

Meetings on September 9 and 10.

Present on September 9: The Minister of Finance; Sr. Valentim Bouças<sup>19</sup> and Garibaldi Dantes of the Commission for the Control of Washington Agreements; and the Economic Counselor of the Embassy.

Present on September 10: (At a meeting of the Commission for the Control of Washington Agreements) Sr. Valentim Bouças; Garibaldi Dantes; Dr. Kafuri of the Office of the Coordinator of Economic Mobilization; the Economic Counselor of the Embassy; the Agricultural Attaché of the Embassy; Mr. Hubert C. Winans, Acting Special Representative of the OEW; and Mr. Stephen A. Crump of the Commodity Credit Corporation.

At the meeting on September 9, the Economic Counselor informed the Minister of Finance of the program for the procurement of agricultural food products as envisaged in the Department's A-2164, 7:20 p. m., August 30. The Minister expressed great interest in the program and remarked that it tied in with his plans for the economic sta-

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<sup>15</sup> Walter J. Donnelly.

<sup>16</sup> Guy Louis Bush.

<sup>17</sup> Formerly an official of the Rubber Reserve Corporation.

<sup>18</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 12734, September 16; received September 23.

<sup>19</sup> Executive Secretary, Brazilian Commission for the Control of the Washington Agreements.

bility of the country. He expressed the hope that the commodity agreements would cover at least two crops at fixed prices. He stressed the importance of reaching agreements as quickly as possible so as to stimulate the production of agricultural commodities.

He instructed Sr. Bouças and Dr. Dantes to meet on September 10 with representatives of the American Agencies and to expedite negotiations. He told them that he was in agreement with the objectives of the United States Government and expressed the hope that the agreements would include commodities in addition to peanuts, beans and rice which are covered in the airgram under reference.

September 10, at the meeting of the Commission for the Control of the Washington Agreements, the Economic Counselor informed them of the plan and read appropriate excerpts from the airgram under reference. It was agreed that the Embassy would send a memorandum to the Commission confirming the conversations and that a second meeting would take place early next week. Mr. Bouças stated he would invite the Minister of Agriculture to designate a person from his Ministry to collaborate with the Commission in the negotiations with the American Embassy.

WALTER J. DONNELLY

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811.20 Defense (M) Brazil/5191 : Telegram

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

RIO DE JANEIRO, September 14, 1943—6 p. m.

[Received 9:45 p. m.]

4374. For Scheuer<sup>20</sup> from Winans. Department's airgram A-2164, August 30, 7:20 p. m. We have discussed the plan with the Minister of Finance and Commission for Control of Washington Agreements, and sending them a memorandum confirming our conversation. The Embassy, the British Commercial Counselor and ourselves recommend that you waive the plan for an overall agreement because based upon past experience, it would require several weeks or more to consummate such an agreement with the Brazilian Government. We suggest that instead we be authorized to negotiate an agreement for each commodity and to incorporate therein the principles suggested for inclusion in the overall agreement. We are confident that this would expedite negotiations here which is very important since plans are now being made for the planting of agricultural food products.

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<sup>20</sup> Sidney H. Scheuer, Chief of the Procurement Branch of the Office of Economic Warfare.

The Brazilian Government's reaction to the plan is favorable, particularly the Minister of Finance who has promised his full support. Inasmuch as Bland and our experts are formulating plans for the rice agreement it is important that we receive as soon as possible the instruction from the State Department regarding the arrangements for Bland's participation. [Winans.]

CAFFERY

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811.20 Defense (M) Brazil/5260a : Airgram

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

WASHINGTON, September 20, 1943—5:40 p. m.

A-2273. Department's A-2164, August 30. Following are the terms of reference agreed upon with the British covering rice negotiations by United States and British representatives.

"1. To advise the Brazilian Government and to agree with it upon measures for the stimulation of production for the 1943-44 crop.

2. To negotiate with the Brazilian Government for the purchase of the entire exportable surplus of the 1943-44 crop over and above such shipments to other Latin American countries as may be mutually agreed, the price of such shipments to other Latin American countries not to exceed the price which the negotiators shall agree with the Brazilian Government for the balance of the exportable surplus.

3. (Subject to confirmation from London). To engage in similar negotiations, if they consider this to be desirable, in regard to the production and purchase of the exportable surplus of the 1944-45 rice crop.

4. To make recommendations to the Combined Food Board<sup>21</sup> in regard to the machinery to be employed for implementing the above purchase."

HULL

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811.20 Defense (M) Brazil/5191 : Telegram

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

WASHINGTON, September 23, 1943—10 p. m.

3611. Concerning telegram being sent concurrently by OEW in answer to Embassy's 4374, September 14, Department and Commodity Credit Corporation believe that it would be desirable to have exchanges of brief diplomatic notes covering each of the commodities rather than elaborate commercial contracts.

HULL

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<sup>21</sup> Combined Food Board, United States and United Kingdom.

811.20 Defense (M) Brazil/5191: Telegram

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

WASHINGTON, September 23, 1943—11 p. m.

3612. From Scheuer, OEW, for Winans. Your 4374, September 14. Pleased to learn reaction Brazilian Government favorable. We accept the recommendation that you negotiate separately for each commodity. Contracts must incorporate principles and general points contained in A-2164, August 30. Contracts will have to be submitted to Washington for approval before execution. [Scheuer.]

HULL

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832.5018/49

*Draft of an Agreement To Be Signed by Brazil and the United States With Reference to the Production and Purchase of Exportable Surpluses of Foodstuffs and Other Agricultural Products*<sup>22</sup>

[Translation]

I Taking into due consideration the memorandum in which the Embassy of the United States of North America in Rio de Janeiro suggests the establishment of an overall agreement with reference to the production of foodstuffs and other agricultural products, the Government of the United States of Brazil considers the celebration of this agreement to be a measure of great value and offering great opportunity, under the following general conditions:

1. Internal consumption shall be provided for before offers of any products are made for export.

2. Prices to be paid for exportable surpluses of the products covered by the agreement shall be, at the minimum, for a period of two agricultural years.

3. The Government of the United States shall employ its best efforts to the effect that a special supply of solid and liquid fuels may be granted in order to provide for transportation needed by new agricultural expansion.

4. The Government of the United States shall facilitate the acquisition and exportation of agricultural machinery, and sanitation and fumigating installations, or shall employ its best efforts to install in Brazil manufacturing establishments for essential agricultural implements.

5. The Government of the United States shall facilitate the acquisition and exportation of railway rolling stock, new or in good condition, and of parts and materials indispensable to the reconditioning of those which already exist in Brazil.

6. Deliveries and the proper commercial settlement with regard to the products covered by the agreement shall be made f. o. b. Brazilian ports, by transatlantic steamer, the merchandise to be deposited in ap-

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<sup>22</sup> Draft prepared by the Brazilian Commission for the Control of the Washington Agreements; translation transmitted to the Department by the Ambassador in Brazil in his despatch No. 12937, September 30, 1943; received October 7.

proved and reputable warehouses, the insurance and warehouse charges up to 30 days from the date of notification of delivery to be for account of the seller. At the end of the period, if maritime transportation has not been available, the insurance and warehouse charges shall be for account of the purchaser.

II Under these general conditions, which will assure to Brazilian agricultural production not only a guaranteed stability of prices, for suitable periods, but will also insure transportation and preservation under suitable conditions, the Government of the United States of Brazil engages itself to:

1. Not increase present taxes on exports, nor create others which might be burdensome to products covered by the general agreement or those which may be included later in the form of supplements.

2. Reserve export quotas of the products covered by the agreement for the Latin American countries, subtracting them from the exportable surpluses for the United States of North America.

3. Dispose of these products to Latin American countries at prices identical to those established in the agreement with the United States of North America.

4. Hold in reserve from the harvest of each agricultural product the seed necessary for the cultivation of future crops.

5. Employ its best efforts in order that maximum production may be attained in each of the products enumerated in the agreement.

6. Give the greatest possible publicity to the general terms and conditions of the agreement, in order to insure the greatest possible interest on the part of producers and a clear understanding of the advantages of the agreement.

7. Utilize its technical classification, inspection and export control facilities to insure uniformity in the products sold and conformity to standards specific in the agreement.

8. Grant to the United States of North America the exclusive right to purchase the exportable surpluses of the products covered by the agreement, except in duly specified instances.

[Here follows statistical data on the exportable surpluses, prices, quotas, and shipping points of each of several commodities.]

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811.20 Defense (M) Brazil/5302 : Telegram

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

RIO DE JANEIRO, October 8, 1943—11 p. m.

[Received October 8—10:55 p. m.]

4779. Department's 3780, October 6, midnight.<sup>23</sup> In view of paramount British interest and experience in Brazilian rice, Embassy, Winans, and Bland recommend that rice agreement be negotiated and signed by United Kingdom with our concurrence and support.

Please telegraph reply urgently.

CAFFERY

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<sup>23</sup> Not printed.



811.20 Defense (M) Brazil/5302 : Telegram

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

WASHINGTON, October 14, 1943—midnight.

3863. Embassy's 4779, October 8.

1. British and all interested American agencies here believe undertaking to purchase should be joint, details to be worked out by actual purchaser, which for time being shall be British Ministry of Food.

2. Following suggested for substance of note to Brazilian Foreign Office has been approved by British and interested American agencies:

"I have the honor to refer to the recent conversations between representatives of the Governments of Brazil, the United Kingdom and the United States of America, concerning the exportable surplus of rice produced in Brazil. As a result of these conversations I am happy to confirm the understanding of my Government in this connection to be as follows:

The Governments of the United States of America and of the United Kingdom undertake to purchase the exportable surplus of rice produced in Brazil from the 1943-1944 and the 1944-1945 crops of the types and qualities specified in the attached schedules. The prices stated in the attached schedule shall be applicable for rice of the 1943-1944 crop; prices for the 1944-1945 crop shall be established later by agreement between the three Governments. The Government of Brazil undertakes to take such action as shall be necessary to limit exports of rice to those destined to the United States of America, the United Kingdom, or their respective nominees. In order, however, that Brazil may maintain its normal channels of trade so far as consistent with the present emergency and to assure equitable supplies to the other American Republics, it is understood that there are excepted from the foregoing undertakings rice in an amount sufficient to satisfy the essential needs of other American countries normally supplied by Brazil, which have been agreed upon by the three Governments to be represented by the following maximum amounts for each of the two crops:

## Country

## Amount

The price for rice exported to these other countries shall not exceed that fixed for sales to the United States of America and the United Kingdom. It is understood that rice will be made available for export only after provision is made for meeting Brazilian needs.

Purchase by the Governments of the United States of America and by the United Kingdom shall be made on their behalf by such agency or agencies as shall be designated by them from time to time, it being contemplated that such purchases may be implemented by commercial contracts (containing terms consistent with the understanding set forth herein, including delivery terms) entered into with the interested trade associations or regular exporters or otherwise. The British Ministry of Food has been designated to act as such agency until further notice from the two Governments. It is understood

that the rice purchased pursuant to this agreement will be subject to allocation by the Combined Food Board to areas other than those for which quotas are established as referred to above.

In view of the undertaking of the Governments of the United States of America and of the United Kingdom, your Government has agreed that export taxes and other taxes and charges on rice imposed by the Brazilian Federal or State Governments will not be increased during the term of the agreement.["]

British Ambassador would deliver similar note. When notes have been exchanged with Brazilian Government, Bland would make commercial arrangements with Rice Institute exporters, etc., consistent with terms of the notes. Please observe that obligation covers surplus from all areas of Brazil. Schedule of types, qualities and prices is to be prepared by Bland and American negotiators.

3. It is realized Brazil may not like provision that rice is subject to allocation by Combined Food Board. It is felt here, however, that we must retain this flexibility and that in view of our undertakings it is fair to insist on this with the Brazilians, provided its normal trade within the Hemisphere is not interfered with.

4. British Ambassador is being telegraphed instructions similar to foregoing.

HULL

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811.20 Defense (M) Brazil/5388 : Telegram

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

RIO DE JANEIRO, December 2, 1943—5 p. m.

[Received 5:50 p. m.]

5560. President Vargas has approved rice agreement quoted in my 5474, November 25, 5 p. m.<sup>24</sup> and London has approved with minor modifications. Awaiting suggestions interested agencies in Washington.<sup>25</sup>

CAFFERY

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<sup>24</sup> Not printed; the agreement provided for the purchase by the United States and the United Kingdom of the exportable surplus of rice in accordance with a specified schedule. It recognized a system of rice quotas which Brazil might ship to the other American Republics. Brazil agreed to prevent the imposition of additional taxes and to give publicity to the agreement. (811.20 Defense (M) Brazil/5376)

<sup>25</sup> The agreement was acceptable to United States agencies with some modifications concerning inspection, storage, and insurance. Notes embodying the agreement (not printed) were signed and exchanged on December 21, 1943. (811.20 Defense (M) Brazil/5421)

DISCUSSIONS BETWEEN THE UNITED STATES AND BRAZIL  
CONCERNING SHIPPING PROBLEMS<sup>26</sup>

800.857/718½: Telegram

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

RIO DE JANEIRO, January 13, 1943—11 a. m.

[Received 6:10 p. m.]

184. For the Under Secretary. Our shipping situation has become more than serious in view of the recent very heavy sinkings off the northeast: 5 lost for instance out of a Trinidad-Bahia convoy January 10. I know that our Navy, aided in their small way by the Brazilian Navy, is doing valiant service, but evidently the Germans have concentrated packs of submarines off the northeast coast.

I emphasize that I am not complaining: only pointing out facts: you can easily comprehend the effects, material as well as political, of these losses here, especially in view of our already very tight shipping situation and the acute shortage of coal, and other newsprint products here.

Obviously these sinkings have thrown into confusion all locations of supplies of many vital materials, mail service, et cetera, et cetera, not to mention the fact that the value of our tremendous purchases of strategic materials is based on our ability to get them to the United States.

The manifests of three ships recently sunk show the following critically needed materials were lost on those vessels alone: 474 bags of mail; special railway equipment for port of Rio de Janeiro; rails and accessories for Ciarlo Doce, S. A., rails for the Central do Brasil; scientific apparatus and lubricating oil for Naval Attaché; substantial quantities of steel products, boiler tubes, et cetera, for the Brazilian Navy; large quantities of plates, bars, sheets and other iron and steel products; large quantities of chemical products; mining machinery; tin plate; railway steel tires; bleached wood pulp; personal effects of Embassy employees; textile machinery; supplies for Embassy; 83 tons special paper for Bouças;<sup>27</sup> lubricating oils; caustic soda; equipment for the airplane motor factory.

The tanker *Broadarrow* was also sunk carrying diesel fuel oil, et cetera, for Rio again bringing about a more than serious oil situation here.

CAFFERY

<sup>26</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 730-757. For correspondence on the control of exports from the United States to Brazil, see *ante*, pp. 149 ff.

<sup>27</sup> Presumably Valentim Bouças, Assistant to the Coordinator of Economic Mobilization.

832.852/49 : Telegram

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

WASHINGTON, February 1, 1943—9 p. m.

403. Your 5568, December 31.<sup>28</sup> In order to present a definite offer to the Brazilian Government, the Department has found it necessary to get formal clearance of the Requirements Committee of the War Production Board and to this end has had the full support of the War Department. After full discussion, and in accordance with Donnelly's<sup>29</sup> telephone conversation with Collado,<sup>30</sup> the Requirements Committee has authorized the Department to make the following offer, the substance of which you should embody in a reply to Aranha:<sup>31</sup>

(1) The Brazilian Government to turn over to the United States Government, through the War Shipping Administration, the six Brazilian passenger vessels of the ITA<sup>32</sup> class.

(2) The War Production Board will make available to Brazil a total of 40,000 tons of rails and track accessories. These would be 60 pound rails, to be delivered over 12 months. With respect to these rails, the steel will not be charged against any Brazilian steel allocation nor will their transportation prejudice the shipping which otherwise would be allocated to Brazil.

(3) The War Production Board will facilitate the purchase and delivery to the Belgo-Mineira Steel Company of the items which Hebard and Company has indicated require priority assistance. These are:

- (a) One 2000 HP, 750 volt D. C. motor, which requires a AA-1 priority.
- (b) 72 hot saw blades, which also require a AA-1 priority.
- (c) One cast iron pinion box.

The other items, 16 rolls, 1 lathe, 1 pair of shears, and 1 speed reducer, the Hebard Company reports can be obtained under present priorities or second-hand.

(4) The six ITA ships are desired rather than with [*sic*] the *Dom Pedro II* replacement.

(5) It has been deemed desirable in order to simplify this transaction to establish a price for the six vessels and to arrange for the purchase by the Brazilian Government of the rails and accessories with the proceeds from the sale of the vessels. However, if you believe that the Brazilian Government will insist upon a straight transfer of the ships for the rails and accessories, it will be possible to arrange this.

(6) It is estimated that the cost of the rails delivered in Rio will be approximately \$79.00 per ton or approximately \$3,160,000 for the 40,000 tons. These prices are based on shipment from Pittsburgh and therefore shipment from any other point may cause slight variation in price.

<sup>28</sup> *Foreign Relations*, 1942, vol. v, p. 755.

<sup>29</sup> Walter J. Donnelly, Economic Counselor of Embassy in Brazil.

<sup>30</sup> Emilio G. Collado, Special Assistant to the Under Secretary of State.

<sup>31</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>32</sup> Classification of Brazilian passenger vessel.

(7) You are authorized to make a maximum offer of \$3,500,000 for the six vessels although if extensive repairs are necessary on the *Itaquice*, this figure may be reduced somewhat to cover at least partially the cost of such repairs.

(8) The Department's views on your item 3 have been expressed in its A-767 of January 15, 1943 and telegram no. 3051 of October 12, 1942.<sup>33</sup>

(9) Your item 4 was covered in Department's 4130, December 31, 1942.<sup>34</sup> The value of this project is fully appreciated here, but it is not desired that it be connected with the present arrangements.

(10) Therefore, in addition to the fact that the price to be paid for the vessels will exceed the delivered cost of the rails, the benefits which Brazil will derive from this transaction are facilitation of the production of the rails in this country, the movement of them to Brazil, and the delivery of the materials required by Belgo-Mineira for the emergency rolling of rails.

Please proceed on the basis of the above information.

HULL

800.8830 Coal/233b : Telegram

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

WASHINGTON, February 8, 1943—5 p. m.

476. After taking into consideration stocks on hand, average monthly consumption and recent average monthly receipts of coal, what would be the effect on Brazilian economy if monthly coal shipments from U. S. were limited to 40,000 tons? This reduction in coal shipments may be necessary in view of the great demand on shipping and the necessity for providing space for other essential civilian requirements, Lend-Lease, the Rubber Reserve program, Itabira, National Steel Mill<sup>35</sup> and other projects.

Please cable reply urgently.

HULL

800.8830 Coal/234 : Telegram

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

RIO DE JANEIRO, February 9, 1943—10 p. m.

[Received 10:18 p. m.]

689. Department's 476, February 8, 5 p. m. The effect on Brazilian economy especially transportation would be decidedly unfavorable. Minister of Finance<sup>36</sup> and Secretary of President Vargas<sup>37</sup> yesterday

<sup>33</sup> Neither printed; item 3 called for rotary drills.

<sup>34</sup> Not printed; item 4 called for a marine dredge.

<sup>35</sup> See sections concerning defense, metals procurement, and rubber procurement by the United States from Brazil, pp. 616 ff., 659 ff., and 664 ff., respectively.

<sup>36</sup> Artur de Souza Costa.

<sup>37</sup> Andrade Queiroz.

strongly criticized our unilateral action in reducing shipment to 50,000 tons and requested an increase. They were told that the Embassy could not recommend a figure in excess of 50,000 tons monthly.

CAFFERY

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832.857/147

*Memorandum of Telephone Conversation, by the Assistant Chief of the Division of the American Republics (Walmsley)*

[WASHINGTON,] February 10, 1943.

In the absence of Mr. Collado, who is sick, and at the request of Mr. Hooker of EA,<sup>38</sup> I telephoned Ambassador Martins<sup>39</sup> to explain, in accordance with Mr. Collado's memorandum of February 6,<sup>40</sup> approved by Mr. Welles, the reasons why this Government is not at liberty to accept the suggestion of the Ambassador that Brazilian merchant vessels be repaired in United States ports under Lend-Lease.

I explained that in the case of the two exceptions, namely Norway and Great Britain, the factors differed radically from those in the case of Brazil or other countries at war. In the first case, Norway does not dispose of sufficient dollar exchange and has a very large, very active, and very valuable merchant fleet. In the second case, the Lend-Lease arrangement works both ways, American ships receiving repairs in British ports in the same manner as British ships do here.

It has been established as a principle, I explained, that such transactions should not be brought within Lend-Lease and that in the case of Brazil the Lend-Lease agreement had so far been restricted to military materials; and this Government saw no reason to deviate from that policy at this time.

The Ambassador expressed his satisfaction with the explanation and with our reply to his inquiry.

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800.8830 Coal/241 : Telegram

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

RIO DE JANEIRO, February 16, 1943—8 p. m.

[Received February 17—3:03 a. m.]

801. Department's 541, February 12, 10 p. m.<sup>41</sup> Any reduction in the volume of 50,000 tons would be politically inexpedient and would

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<sup>38</sup> John S. Hooker of the staff of the Adviser on International Economic Affairs.

<sup>39</sup> Carlos Martins, Brazilian Ambassador.

<sup>40</sup> Not printed.

<sup>41</sup> Not printed; the Department indicated that it was unaware that a reduced monthly coal shipment of 39,570 tons to Brazil had had a drastic effect upon Brazilian economy (800.8830 Coal/234).

adversely affect Brazilian economy at this time. Brazilian Maritime Commission has protested to the Brazilian Government and Embassy against the reduction in the allocation of coal to shipping companies within the 50,000 figure and has requested an increase of 18,450 tons monthly for Brazilian shipping companies. They state that stocks are very low and that failure to allocate more coal to the shipping lines may shortly result in a curtailment of services. Celestino<sup>42</sup> of Lloyd who has just arrived from Belém says there is no coal there. President Vargas is supporting the shipping companies. Also, he sent me word Saturday that 50,000 tons is too little.

This case and the problem of augmenting Brazilian production of coal, as well as the possibility of obtaining more coal from Great Britain are now being studied by Vidigal<sup>43</sup> and other Government officials. Vidigal has requested the Commercial Counselor of the British Embassy here to ascertain from his Government the possibility of more British coal being shipped to Brazil to satisfy the requirements of British-owned companies and part of the needs of public utilities (Canadian) in Rio and São Paulo. We understand consideration is being given to the possibility of sending coal from South Africa. We hope that this can be done to improve the situation here.

The statistics of coal shipments to Brazil included in the telegram under reference are at variance with the official import statistics of the Brazilian Government which show that average monthly imports into Brazil from the United States from May 1, 1942 through January 1943 amounted to 43,029 tons.

CAFFERY

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800.8830 Brazil/162

*Memorandum by the Economic Counselor of Embassy in Brazil  
(Donnelly) to the Ambassador in Brazil (Caffery)*<sup>44</sup>

Subject: Allocation of shipping space for the movement of cargo from the United States to Brazil.

The shipping situation between the United States and Brazil is so serious as to justify a brief review of the problems involved and suggestions for correcting them. It is evident that unless measures are adopted at once to facilitate shipments of products essential to the economy of Brazil it will be difficult to avoid a curtailment of wartime industrial activities, the continuing threat of suspension of publication

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<sup>42</sup> Mario Celestino, a director of Lloyd Brasileiro.

<sup>43</sup> Gastao Vidigal, Director of the Carteira de Exportação e Importação, Bank of Brazil.

<sup>44</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10331, March 4, 1943; received March 10.

of newspapers friendly to the United States and United Nations' cause, restriction in operations of strategic railways, and a further reduction in the consumption of gas in the cities of Rio de Janeiro and São Paulo. The falling off in shipments of essential products in contrast with the increase in allocations of shipping space for special projects, Lend Lease, Rubber Reserve, etc., unless arrested will further complicate the situation here.

The Department informed the Embassy in June of 1942 that the War Shipping Administration had established a monthly shipping allocation of 98,000 cargo tons for Brazil and to submit a breakdown each month of the merchandise to leave the United States for Brazil within the 98,000 ton figure. The Bank of Brazil has been furnishing this information since June and the Embassy has forwarded it to the Department. The goal of 98,000 tons monthly has not yet been reached, and according to statistics furnished by the office of the War Shipping Administration here the maximum in any one month was 86,000 tons in January, 1943 and the low was 49,238 tons in November, 1942. The information also shows that cargo shipping from the United States to Brazil from August to December 1942, inclusive, averaged 69,074 tons a month.

It is stated that there is a backlog of approximately 400,000 tons of merchandise in the United States for shipment to Brazil, including approximately 200,000 tons of coal. Of the remaining 200,000 tons, approximately 100,000 tons consist of products essential to the economy of this country. The Brazilian authorities have indicated a willingness to reduce the backlog to a very low figure, and have suggested that we give preferential treatment to cargo regarded by them as of vital importance to Brazil's economy, and if possible that we assign special ships to transport the cargo to Brazil from the United States outside of the monthly allocation of 98,000 tons. This suggestion was made by Dr. Andrade Queiroz, who has informed the Bank of Brazil that it is the wish of President Vargas, and also by the Director of the Carteira de Exportação e Importação of the Bank of Brazil.

We strongly recommend that the Department, the War Shipping Administration and the Board of Economic Warfare give immediate attention to the possibility of a temporary increase in the cargo space for the transportation of that backlog which is classified as essential. It is of the utmost importance that the allocation of 98,000 tons be maintained and it is suggested that in view of the heavy inroads on this tonnage by special projects, Lend Lease, Rubber Reserve, etc., that consideration be given to the possibility of transporting part of the equipment for these projects outside of the 98,000 ton figure.



832.857/152

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

No. 10341

RIO DE JANEIRO, March 5, 1943.

[Received March 15.]

SIR: I have the honor to report that we have had four more sinkings in nearby waters, two Brazilians and two of ours. The last one of ours, yesterday, carried, I am told, a lot of much needed war material for the Brazilian Army, several thousand bags of mail and a lot of newsprint. All of these items speak for themselves. The Brazilian Army has been crying for this material for some time. The last boatmail we have had from the United States left Washington in October. The newsprint situation here could not be worse.

Needless to say, this is having a most depressing effect on our friends in Brazil.

Respectfully yours,

JEFFERSON CAFFERY

800.8830/2278 : Telegram

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

RIO DE JANEIRO, March 11, 1943—10 p. m.

[Received March 12—1:10 a. m.]

1215. Penteado,<sup>45</sup> representative of National Coffee Department in New York City, has telegraphed the Minister of Finance that the following vessels will shortly leave South Africa for Brazil with coal: *Boris*, *Imperio Lionel*, *Thistle Port*, *Dalmore*, *Imperio Ballard*. He also said that the vessels will proceed in ballast from Brazilian ports to Trinidad where they will load bauxite for New York. He added: "I have arranged with the Coffee Board that these vessels should carry Brazilian coffee to New York or New Orleans or as a last resort to Trinidad where it could be warehoused until transported to New York. In view of the fact that the possibilities of transportation are better in the Trinidad-New York sector than those in the Brazil-New York sector, Itamaraty<sup>46</sup> should make a request in the same sense to the American Embassy in Rio de Janeiro if you are in agreement."

President Vargas has requested my cooperation in arranging for these ships to carry coffee.

CAFFERY

<sup>45</sup> Eurico Penteado, Brazilian Financial Attaché.

<sup>46</sup> Building of the Brazilian Ministry for Foreign Affairs.

800.8830 Coal/251a : Airgram

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

WASHINGTON, March 12, 1943—12:30 p. m.

A-1052. A weekly report of ships arriving at Argentine ports transmitted to the Department by the Embassy at Buenos Aires shows that Argentine freighters arrived in Buenos Aires on February 6, 1943 and February 8, 1943 from Pôrto Alegre carrying 750 tons of coal and 2,150 tons of coal, respectively, and that a Uruguayan freighter arrived in Buenos Aires on February 14, 1943 from Pôrto Alegre carrying 580 tons of coal.

In view of the large movement of coal from the United States to Brazil and the insistency of the Brazilian authorities to increase such movement, and in view of your despatch no. 10065 of February 8, 1943<sup>47</sup> concerning the various regulations now being enforced in Brazil to prohibit the exportation of such materials as are needed in the domestic economy, it would be appreciated if the Embassy could obtain from the Brazilian Government an explanation of the above-mentioned coal shipments to Argentina.

WELLES

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800.8830/2278 : Telegram

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

WASHINGTON, March 13, 1943—7 p. m.

937. Your 1215, March 11, 10 p. m. You may inform President Vargas that the ships referred to are expected to carry coffee to the fullest extent that can be justified in the light of other urgent requirements.

WELLES

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832.852/54 : Telegram

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

RIO DE JANEIRO, April 5, 1943—2 p. m.

[Received 5:55 p. m.]

1648. Department's 1220, April 3, 7 p.m.<sup>47</sup> Aranha told me this morning that notwithstanding the determined opposition of various of his colleagues who say that Brazil needs the ITA ships more than we do, he will go ahead with at least a part of the deal on Wednesday next.

CAFFERY

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<sup>47</sup> Not printed.

832.852/57 : Airgram

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

RIO DE JANEIRO, May 4, 1943—2 p. m.

[Received May 8—4 p. m.]

A-837. Notwithstanding Aranha's statements cited in my telegram No. 1648 of April 5, 2 p. m., he has made no progress with the ITA ships. Due to the determined opposition of many influential people in the Government who insist that Brazil needs the ITA ships more than we do, I am not at all optimistic about our getting them: it looks now as if we won't.

CAFFERY

800.8830 Brazil/212 : Airgram

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

WASHINGTON, June 5, 1943—1:30 p. m.

A-1570. The Board of Economic Warfare has requested the Department to transmit the following message:

"Reference is made to the Embassy's A-901 dated May 11th, 1943.<sup>49</sup> The BEW wishes to assure you that the Board fully realized the necessity of giving every preference to essential cargo. The shipping situation, however, has eased and the prospects are that shipments in excess of the present target may be continued in the near future. Anticipated May bookings for Brazil amount to 69,500 tons, exclusive of 30,000 tons of coal. Anticipated bookings for June amount to 88,000 tons, exclusive of 22,000 tons of coal. This, of course, does not include 40,000 tons of coal to be shipped from South Africa each month. As long as the shipping situation remains easy and the manufacture of essential materials does not progress in the ratio of available shipping tonnage it well may be that we will have available shipping space in excess of tonnage required for the only available essential materials. Types of cargo vessels available may preclude the complete adherence to recommendations of your A-901.

"We may consequently be faced with the possibility of having ships leaving for Brazil without complete cargoes. Such an undesirable procedure, both for Brazil and ourselves, would have the further disadvantage of possibly causing a diversion of ships now included in the Brazil service, to other destinations.

"Under the circumstances, the BEW believes that the non-importable list<sup>50</sup> no longer serves a useful purpose. The public knowledge of the existence of such a list in the United States is causing considerable confusion and antagonism to the whole Decentralization

<sup>49</sup> Not printed; it cautioned against relaxing restrictions on shipments of non-essentials in view of the great deficiencies in the supply of coal, wood pulp, iron, steel, and the materials for such projects as the National Steel Plant and Itabora.

<sup>50</sup> See telegram No. 3004, June 19, from the Ambassador in Brazil, p. 732.

Plan.<sup>51</sup> The cancellation of the non-importable list, suggested by the BEW, will in itself not result in the licensing of non-essentials. The Carteira<sup>52</sup> will continue to issue preference requests based upon its own determination of essentiality at the time the preference requests are issued and this therefore eliminates the necessity of any list.

"The Board will control all exports of essentials and non-essentials through shipping licenses and hence in effect will limit exports of non-essentials to tonnages available after all available essentials will have been shipped. You can give the Carteira the BEW's assurances that they will, at all times, give preference requests shipping priority and will not permit shipments of non-essentials unless surplus space is available. As the desired result will now be achieved by preference request procedure and the limiting of shipments of non-essentials to the surplus space available without unfavorable public reaction in the United States the cancellation of the non-importable list appears highly desirable.

"Further, in order to permit the necessary flexibility to take advantage of all available shipping space to Brazil you are requested to secure the Carteira's agreement to the licensing of any material outside of allocated materials without preference requests provided such materials are shipped only after all available materials covered by preference requests have been shipped."

*For the Ambassador from the Department*

The Department and the BEW have discussed the situation with respect to the above problem, in the light of the recent signing of the supplemental agreement<sup>53</sup> and also in view of the considerations contained in the Embassy's airgram, no. 901, May 11, 4:30 p. m. It is not the intention that these proposals be forced upon Brazil, but it is our desire that the matter be thoroughly discussed with the Carteira with a view to obtaining their agreement unless you believe that the considerations which you mention in your 901 make it inadvisable in your opinion even to discuss the matter with the Carteira, in which event you are asked to cable fully your reasons therefor.

It might be added that the BEW is apprehensive that the facilities of the certifying agencies are not at present sufficiently organized to achieve flexibility to take advantage of unexpected increases in shipping. The BEW believes that such flexibility can only be achieved by exercising its own licensing authority here.

The Department has sought assurance from WSA<sup>54</sup> that shipping is indeed easier but because of the unpredictable requirements of the Armed Forces, such assurance cannot be given and the WSA can do no more than reiterate its hope of meeting the monthly target tonnages for the balance of the year. The more favorable shipping outlook for June and possibly July is of course temporary and no assurance

<sup>51</sup> See *ante*, p. 150.

<sup>52</sup> Carteira de Exportação e Importação, Bank of Brazil.

<sup>53</sup> See pp. 155-159.

<sup>54</sup> War Shipping Administration.

can be given that it will be continued or repeated in the future. In this connection, it might be added that the bookings referred to in BEW message should not be quoted to the Carteira.

The Department understands that the situation is urgent since the BEW fears there may not be sufficient cargoes available to satisfy the expected increased shipping in June and more particularly, July.

It is suggested further that the Embassy in cooperation with the Carteira arrange to place orders by telegram for an additional 50,000 tons of materials essential to the economy of Brazil. These materials should be of the type that are readily available and that do not require WPB <sup>55</sup> priority assistance for manufacture or processing. This additional tonnage should serve to help in the creation of a backlog calculated to take advantage of any sudden windfall in shipping.

The Embassy's comments and recommendations are requested as soon as possible.

HULL

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800.8830 Brazil/223 : Telegram

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

RIO DE JANEIRO, June 7, 1943—7 p. m.

[Received 11:59 p. m.]

2769. For Duggan <sup>56</sup> and Walmsley. Brazilian coastwise ships are unable to handle cargo of United States Government agencies from Rio de Janeiro and Santos to Bahia, Recife, Natal, Fortaleza and Belém and also transport essential supplies for Brazilian official and civilian use in northern ports. For example according to Brazilian Maritime Commission, Rubber Development Corporation shipments to Belém require about 65% of available space for that port, leaving but limited space for cargo of other United States Government agencies and for Brazilian official and civilian use. Large backlog of latter has accumulated for northern ports, including food. Serious food shortages are reported at Bahia and in northern areas that normally are dependent upon southern Brazil for certain essentials and even more so now because of increased floating population and other factors growing out of operations connected with war effort in the north.

During next 6 months U. S. Government official coastwise cargo to be moved from Rio to northern ports mentioned above will average 9,000 to 11,000 tons monthly. Included in these estimates is large quantity of cement for Fortaleza airport and military highway projects. In addition shipments from Santos, chiefly to Belém, will average at least 2500 tons monthly.

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<sup>55</sup> War Production Board.

<sup>56</sup> Laurence Duggan, Adviser on Political Relations.

We can neither afford to incur responsibility and blame for civilian food shortages nor can we delay shipment essential materials for our establishments in northern Brazil. In view of this and the circumstances set forth above all U.S. Government agencies here represented hope that one ship on South Africa to Brazil route may be diverted to Rio each month to carry our cargo to northern Brazilian ports and continue thence in ballast to bauxite port; and that a second ship with about 500 ton refrigerator capacity be placed for last 6 months of this year in coastwise Brazilian trade to carry our cargo (including frozen meats for Bahia and Recife) from Santos to northern ports under supervision War Shipping Administration. Sugar and salt will be available to latter vessel for return cargo for southern Brazil. Any of our cargo not handled by such ships can continue to be handled by Brazilian vessels. It is to be understood that Brazilian Maritime Commission will not divert to other service vessels now in coastwise trade.

Foregoing request supersedes telegram of May 27 to WSA Washington from its director here transmitting request of Brazilian Maritime Commission that two vessels arriving from Africa in ballast for bauxite port be diverted to load two cargos at Santos and Rio for Bahia and Recife.

Consideration of measures to alleviate situation described above has been undertaken at my request and I urgently recommend immediate action to carry out foregoing suggestion.

CAFFERY

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800.8830 Brazil/241 : Telegram

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

RIO DE JANEIRO, June 14, 1943—3 p. m.

[Received 3:53 p. m.]

2874. For Rockefeller,<sup>57</sup> McClintock and Rovensky<sup>58</sup> from Friele.<sup>59</sup> Foodstuffs shortage Bahia and other northeastern ports creating critical situation for whole propaganda position, since blame being placed Americans. Food Production Division contributing splendidly but time factor makes shipping problem extremely important for immediate future. Embassy detailed situation in telegram 2769 of June 7, 7 p. m. We strongly urge you lend every possible immediate support those recommendations. [Friele.]

CAFFERY

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<sup>57</sup> Nelson A. Rockefeller, Coordinator of Inter-American Affairs.

<sup>58</sup> John C. McClintock and Joseph C. Rovensky, Assistant Coordinators of Inter-American Affairs.

<sup>59</sup> Berent Friele, Representative of the Coordinator of Inter-American Affairs in Brazil.

800.8830 Brazil/252 : Telegram

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

RIO DE JANEIRO, June 19, 1943—5 p. m.

[Received 8:02 p. m.]

3004. Reference Department's confidential airgram number 1570, June 5, 1943, 1:30 p. m. The so-called nonimportable list that appears in current Export Bulletin number 90 was a list of commodities licensed for export to Brazil prior to decentralization, under individual or general license, which were awaiting shipment at the time the list was published. Shipments of the commodities listed mainly consumer goods and in most cases luxury goods were at that time displacing essential goods that were awaiting shipment. Brazil and American control authorities were being publicly and privately criticized for permitting ships to arrive from the United States with a wide assortment of frivolous and patently unessential consumers goods at a time when it was admittedly impossible to provide enough shipping to supply the basic essential needs of industry, transportation and public services.

Procedure under the decentralization plan now in effect with Brazil obviates the necessity for the publication or maintenance of any restrictive list in the U. S. since export licenses for general requirements can only be issued when supported by a preference request recommendation or by special approval of the Carteira in exceptional cases. The Carteira has published a list of the commodities for which recommendations will normally be granted. This list is subject to change as circumstances warrant and applications for preference request recommendations for commodities which do not appear on this list will be considered provided the essentiality of the product is established or it is proved that the denial of a preference request recommendation would result in undue hardship to interested parties. The Carteira has indicated that it would be prepared to give similar consideration to any applications made to the Board of Economic Warfare which the latter may deem necessary or advisable to consider when not accompanied by a preference request recommendation.

There would be no objection on the part of the Carteira to an announcement by the Board incorporating as much of the foregoing as may be desirable.

CAFFERY

800.8830 Brazil/291

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

No. 11758

RIO DE JANEIRO, June 26, 1943.

[Received July 3.]

SIR: I have the honor to refer to despatch No. 11648, of June 16, 1943,<sup>60</sup> and to previous correspondence regarding coastwise shipping problems and the food shortage in northern Brazil.

Reports from the American Consul and from the Coordinator's Committee in Bahia indicate that, in addition to the absence of adequate coastwise shipping facilities, the food shortage in Bahia is attributable in some degree to the lack of motor fuel to operate trucks in which to transport food supplies to Bahia from adjacent producing areas, and also to inequality in the fixed price of beef cattle which results in the latter being sold in the neighboring state of Minas Gerais rather than in Bahia.

Inasmuch as the scarcity and high price of food in Bahia are being entirely attributed in certain Brazilian quarters, although improperly, to the American armed forces at Bahia and to the American merchant vessels that converge at that port for convoy purposes, the Embassy has discussed certain possible remedial measures with the appropriate Brazilian authorities in Rio de Janeiro. The latter have agreed to endeavor to provide facilities to transport by railroad to Bahia from the state of Alagoas supplies of alcohol for motor fuel purposes and to undertake an adjustment of beef cattle prices. If these steps are carried out effectively and promptly it is not improbable that the food situation in Bahia may be somewhat corrected. The Office of the Coordinator of Inter-American Affairs, whose representative recently completed a survey of the Bahia food situation, has reported to the Embassy that while "all authorities do not agree on the extent of the food shortage" information provided by the Minister of Agriculture and the Interventor's special food committee indicates that there is an annual shortage of at least 12,000 metric tons of dried beef, rice, potatoes, lard and butter. The report includes the following paragraph:

"I suggest that the Embassy's plan (telegram No. 2729 [2769] of June 7, 1943) for supplying all Americans with food up and down the coast be pushed with all possible speed. This would do more in one stroke to clear up the situation than any other one thing that can be done. In keeping with the Embassy's plan, this office is making every possible effort to produce total fruit and vegetable requirements of the American armed forces and personnel from Bahia north. In some

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<sup>60</sup> Not printed.



areas this is already being accomplished. In others we are just getting under way, but in all probability we will be able to meet the problem throughout the area in from 4 to 6 months."

The Embassy has been informed that, in order to relieve the food shortage at Bahia, during the past week the Rio de Janeiro branch of the United States Naval Operating Base acquired and shipped to Bahia for our forces at that place approximately 88 tons of refrigerated meat, and that when vessel space becomes available 40,000 pounds of bacon and smoked ham will also be shipped.

Respectfully yours,

For the Ambassador:

HAROLD S. TEWELL

*First Secretary of Embassy*

740.0011 European War 1939/30076 : Telegram

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

RIO DE JANEIRO, July 10, 1943—3 p. m.

[Received 4:29 p. m.]

3359. For the Under Secretary. My despatch no. 11857, July 5, 1943 and 11837, July 2, 1943.<sup>61</sup> The continuing heavy sinkings off the Brazilian Coast (yesterday four ships were hit by torpedoes and one rammed) are creating dismay here. The presence of at least six enemy submarines near this coast has been ascertained.

CAFFERY

832.85/226

*Memorandum by the First Secretary of Embassy in Brazil (Tewell)*<sup>62</sup>

[RIO DE JANEIRO,] September 3, 1943.

#### ALLOCATION OF FACILITIES FOR BRAZILIAN COASTWISE TRAFFIC

Mr. Myron Black, of the War Shipping Administration, Washington, called on me today in company with Mr. T. B. Wilson, War Shipping Administration Director for Brazil, at which time we discussed the necessity for additional vessels to transport United States Government official cargo from Rio to ports in northern Brazil.

I informed Mr. Black that at my request various agencies of the United States Government have today provided estimates of official cargo to be transported to northern Brazil. These estimates indicate a total of over 10,000 tons monthly during the next four months. It

<sup>61</sup> Neither printed.

<sup>62</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 12604, September 6; received September 13.

was pointed out that the Rubber Development Corporation, under an agreement with the Brazilian Government, is required to deliver in the Amazon Valley such food supplies as cannot be procured by private firms, and that this agency alone estimates an average monthly tonnage of 3,000 tons for delivery at Belém during the next four months. The Navy estimates space totalling 3,000 tons and the Army, ADP<sup>63</sup> and USED<sup>64</sup> approximately 1,000 tons and SESP<sup>65</sup> at least 3,000 tons, chiefly cement for hospital construction. At the same time it was pointed out that there is a backlog in Rio of civilian cargo for Bahia alone totalling over 20,000 tons, that there is in addition a very large backlog for other northern ports and that under the circumstances United States Government agencies here will find it impossible to rely upon Brazilian coastwise shipping for the transportation of essential official cargo. I therefore suggested that the War Shipping Administration allot sufficient Brazilian vessels now operated by the War Shipping Administration to handle this official cargo.

Mr. Black stated that he had previously been unaware of this situation and he doubted whether any other responsible administrative officer of the War Shipping Administration in Washington was aware of it. He suggested that the monthly vessel requirements of all United States Government agencies here be compiled as accurately as possible to be transmitted to the WSA with the request that Brazilian vessels operated by the WSA be allocated for that purpose. He stated that this request should be set forth in emphatic language and that owing to the pressure under which WSA is operating in Washington, if a reply is not received within a reasonable time a request for a reply should be sent by cable.

I mentioned to Mr. Black that we had received no reply to a cable sent on behalf of all government agencies here regarding the allocation of vessel space to transport cargo from Rio to Bahia. Mr. Black stated that he knew it was the policy of the WSA to decline to consider favorably any measure that might delay American vessels and he pointed out that this was quite a different matter from an application for the allocation of Brazilian ships to be operated in Brazilian coastwise trade in the interests of our government agencies.

Mr. Black intimated that owing to the high cost of operation and their slow speed, there might be some disposition on the part of the WSA to turn back to the Brazilian Government all Brazilian flag ships now operated by the WSA, with the distinct understanding that these vessels should be used exclusively in Brazilian coastwise trade

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<sup>63</sup> Airport Development Program.

<sup>64</sup> Probably United States Engineers.

<sup>65</sup> Serviço Especial de Saude Publica.

and should not be employed in off-shore trade, such as that offered by high freight rates to South Africa. I suggested to Mr. Black that there might be some difficulty in making arrangements under those terms since the Brazilian Government might take the position that if the United States did not require the vessels in question as a war measure, they should be returned to Brazilian operation without any exception whatever, that is, that the Brazilian Government might in all probability oppose, for obvious reasons, any requirement that once they are returned to Brazilian operation, the Brazilians should not have exclusive control of such operations.

H[AROLD] S. T[EWELL]

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832.852/71 : Telegram

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

WASHINGTON, September 11, 1943—8 p. m.

3453. Your 4257, September 6, 2 p. m.<sup>66</sup> War Shipping Administration, in view of increasing number of requests it is receiving from Brazil to move coastwise cargo in ocean-going vessels which have other duties to perform, is willing to turn back the vessels which it chartered under the agreement of September 30.<sup>67</sup> They have informally suggested to Azevedo<sup>68</sup> that these vessels would be returned if the Brazilian Maritime Commission would make a request covering the following points:

(1) Adequate priority be given the movement in coastwise trade of Rubber Development Corporation, Army, Navy, and other United States Government agencies' cargo.

(2) That export cargoes be centralized at major Brazilian ports.

(3) That the Brazilians assume a definite responsibility for carriage of some portion of the 98,000 ton southbound target. This figure would be worked out after looking at their available ships and making some estimate of their prospective turnaround.

It appears quite probable that these vessels would be more suited to coastwise trade than they are to the United States trade.

For your information, the use of Brazilian crews at their low wage level on ships bareboated to the War Shipping Administration has not proved satisfactory.

HULL

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<sup>66</sup> Not printed.

<sup>67</sup> See *Foreign Relations*, 1942, vol. v, p. 743, footnote 29.

<sup>68</sup> Renato de Azevedo, Washington representative of Lloyd Brasileiro.

103.9164/2349 : Telegram

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

RIO DE JANEIRO, September 17, 1943—3 p. m.

[Received 6:59 p. m.]

4425. Reference my 4302, September 9, 5:00 [4:00] p. m.<sup>69</sup> WSA has informed its director here that proposal impracticable and refers to pending negotiations to release to Brazil vessels under bareboat charter to WSA mentioned in Department's 3453, September 11, 8:00 p. m.

I cannot emphasize too strongly urgent need for vessels immediately as accumulation of our northbound official cargo is increasing daily and southbound shipment fuel oil at Belém for essential mica production must reach here early November before rains make roads to interior impassable. These matters cannot await protracted negotiations and pending completion of arrangements set forth in Department's 3453, I request that *Minasloide* not yet delivered to WSA under bareboat charter be released for our coastwise use in Brazil as soon as repairs are completed this month. Please exert best efforts to obtain immediate approval. Additional vessel will be required in October.

CAFFERY

832.852/72 : Telegram

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

RIO DE JANEIRO, September 18, 1943—11 a. m.

[Received 2:26 p. m.]

4446. Department's 3453, September 11, 8 p. m. Wilson of WSA agrees with me that the Department and the WSA should take into consideration the following suggestions in discussions with Azevedo relative to turning back the chartered vessels:

1. Coastwise trade of RDC,<sup>70</sup> Army, Navy and other U.S. Government agencies' cargo to receive no less favorable treatment than cargo for similar Brazilian Government agencies and preference over civilian cargo.

2. No diversion of the chartered vessels or any other Brazilian ships presently engaged in coastwise trade to service outside of the Americas. The Brazilian Maritime Commission has informed Wilson that they will accept this condition.

3. Brazil's responsibilities for the carriage of proportionate southbound target to be not less than 25,000 tons.

CAFFERY

<sup>69</sup> Not printed; it proposed the diverting of Brazilian-operated vessels in U.S. trade to the coastwise needs of United States agencies in Brazil (103.9164/2262).

<sup>70</sup> Rubber Development Corporation.

811.20 Defense (M) Brazil/5231 : Telegram

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

RIO DE JANEIRO, September 22, 1943—6 p. m.

[Received 9:09 p. m.]

4512. For Allen RDC from McAshan.<sup>71</sup> Wilson, WSA representative here, advises that ships being returned to Brazil will require extensive repairs before they can materially increase coastwise service. It appears that such ships will not be available under any conditions through November and probably not before end of year.

Food and supplies for rubber programme now awaiting shipment at Rio de Janeiro, Santos and Recife cannot wait until these ships are available. Urge you insist that WSA approve release of sufficient space on American flag vessels to sail not later than end of October; otherwise we cannot guarantee provide enough staple foods and supplies for movement up river during high water. [McAshan.]

CAFFERY

832.852/75a : Telegram

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

WASHINGTON, October 9, 1943—5 p. m.

3803. War Shipping Administration has discussed informally with the Department the question of amending or writing a new agreement to replace that of September 30, 1942 in view of the return of the chartered Brazilian ships. As you are aware, the replacement features of the 1942 agreement were granted in return for the chartering of the 13 Brazilian vessels at one dollar a month per ship. The fact that the Brazilians agreed to maintain 23 other ships in the United States trade was also taken into consideration.

WSA can now, upon the return of the chartered vessels, terminate the entire agreement leaving the number of ships which Brazil would operate to the United States to subsequent determination between the WSA and the Brazilian Merchant Marine Commission. We should also expect that the United States Government coastwise cargoes would be given satisfactory attention. On the other hand, it is quite possible that a new agreement might be written which would cover (1) maintenance of 21 Brazilian ships in the United States trade; (2) priority on movement of United States Government cargoes in Brazilian coastwise trade; and (3) maintenance of the replacement feature with respect to the Brazilian ships retained in United States trade. WSA would take such action only upon the strong recommendation of the Department. The Department would therefore appreciate your views and recommendations as to whether the main-

<sup>71</sup> Douglas H. Allen and Maurice McAshan, officials of the Rubber Development Corporation.

tenance of the replacement feature is desirable or necessary from the point of view of our relations with Brazil.

The Brazilians have laid great stress upon the fact that they are maintaining a number of ships in service to the United States. It is our belief that if they do not obtain the replacement feature, they may plan to run some of the vessels now coming to the United States to South Africa. As you are aware, war and marine risk insurance covering the total loss of a vessel is not now prohibitive.

As a matter of fact, all of the Brazilian ships other than those now chartered to WSA have moved southbound since the conclusion of the agreement in September 1942 only 143,000 tons or a monthly average of 12,000 tons. This is not an impressive total, and we do not believe this represents Brazil's fair share of the target tonnages.

In the case of no other country do we have to have special agreements whereby they will run their vessels to the United States in a service which is obviously of equal importance to them and to the United States.

HULL

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832.852/76 : Telegram

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

RIO DE JANEIRO, October 15, 1943—3 p. m.

[Received 5:41 p. m.]

4867. Department's 3803, October 9, 5 p. m. Aranha is opposed in principle to the return to Brazil of the nine chartered ships on the grounds that the Brazilian Maritime Commission is not properly organized to operate Brazil's merchant fleet. He added, "I understand your interest in wanting to return the ships to us", the inference being that the operation of the ships is uneconomical and the crews not very efficient. He said that he would study the matter and communicate with me later.

Maintenance of the replacement feature with respect to the 21 ships in United States trade is of political as well as economic significance and the Brazilians would strongly oppose deletion of the provision without some inducement. A possible solution of the problem would be for us to turn over to Brazil now, instead of after the war, 5 ships to replace the 3 chartered ships and 2 of the 23 ships lost since the signing of the agreement. In doing so we would request the Brazilians (1) to maintain 21 ships to be replaced in United States trade; (2) to place 9 ships in coastwise trade; (3) to give United States and Brazilian Government cargoes like treatment in Brazilian coastwise trade; (4) not to increase the number of Brazilian ships now operating outside of the Americas (South Africa).

CAFFERY

832.852/77 : Telegram

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

RIO DE JANEIRO, October 20, 1943—3 p. m.

[Received 3 :02 p. m.]

4929. My 4867, October 15, 3 p. m. Celestino, President of the Maritime Commission, told me today that Aranha has authorized him to negotiate with the WSA for the return to Brazil of the nine chartered vessels. Celestino has sent appropriate instructions to Azevedo in Washington. Donnelly will take with him further information regarding the plans.

CAFFERY

832.852/76 : Telegram

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

WASHINGTON, October 25, 1943—9 p. m.

3986. Your 4867, October 15, 3 p. m. The Department is informed by WSA that a letter from Brazilian Merchant Marine representative attached to the Brazilian Embassy has been received requesting return of chartered vessels. Assurances are given that U.S. Government cargoes in Brazilian coastwise trade will be moved. The question is whether the agreement of September 30 will be maintained with respect to replacement features on ships operated by Brazil. Replacement features on ships returned would be terminated in any event.

The question is whether the entire agreement is to be terminated or whether it would only be modified to extent of returning the chartered vessels. Department derives from your telegram that it would be politically desirable to continue replacement features on Brazilian operated ships and is so informing WSA.

STETTINIUS

832.852/78a : Telegram

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

WASHINGTON, November 9, 1943—3 p. m.

4156. On September 11 Azevedo, acting under instructions of the Brazilian Maritime Commission, wrote the War Shipping Administration asking for the return of the Brazilian vessels chartered by the United States. Agreement in principle had been reached on terms when your 4867, October 15, 3 p. m., reporting that Aranha was opposed to such return, was received. However, Donnelly informs us that subsequently Aranha authorized Celestino to negotiate a return.

Most expeditious manner of handling matter would appear to be by exchange of notes between you and Aranha preliminary to the signature of an actual agreement replacing that of September 30, 1942. Please ascertain from Aranha whether he is agreeable to such an exchange covering following points already agreed upon with Azevedo:

1. Cancellation of September 30 agreement on date of new exchange of notes;
2. Immediate return for use in coastwise services of chartered vessels as they become available, WSA's obligations for replacement in case of loss to terminate with delivery;
3. Negotiation of new agreement on following bases, effect to be retroactive to date of cancellation of old agreement:

A. American military cargoes and those of Rubber Development Corporation and other United States Government agencies to receive same preferential treatment in coastwise services as Brazilian Government cargoes of similar nature;

B. Every effort to be made by Brazil to transport from secondary ports to the main ports of Santos, Rio, Victoria, Bahia, Pernambuco, and Pará cargoes destined for export to the United States;

C. Brazil to continue to maintain in the United States-Brazil services 21 of her ships assuming responsibility for the movement of not less than 25,000 tons monthly northbound and the same amount southbound;

D. The United States to replace, after the war with a vessel of similar size, tonnage, and characteristics, any of the 21 ships which Brazil maintains in the United States trade which may be lost as a result of war risk;

E. Any obligations which may have been incurred on behalf of either country under the September 30 agreement to be settled in accordance with the terms of that agreement and the supplementary exchange of letters between Aranha and you.

Please discuss the matter with Aranha and telegraph whether such a solution would be satisfactory to him. Details of delivery of chartered vessels would be worked out with Azevedo and new agreement could be signed either in Rio by you and Aranha or here by WSA and Azevedo as Aranha might prefer.

In view of the fact that the Commodity Credit Corporation coffee agreement was entered into concurrently with the shipping agreement and was linked with it, the Department feels that the alteration of the shipping arrangements furnishes an appropriate opportunity for discussing with Aranha the possibility of terminating the coffee agreement. The restoration of trading in coffee to the usual and normal basis with the elimination of governmental intervention, which seems no longer to be required by the circumstances, would appear to be advantageous to Brazil as well as the United States. From our



point of view, coffee purchases may be protracted indefinitely unless the coffee agreement is now cancelled, whereas continuance of CCC purchases will inevitably on occasion disturb the coffee market contrary to Brazilian interests. You may use your discretion as to the extent you wish to go with Aranha in dealing with the coffee feature. The Department does not wish in any way to delay or endanger conclusion of the new shipping agreement by making termination of the coffee agreement a condition thereto.<sup>72</sup>

STETTINIUS

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**COOPERATIVE EFFORT BETWEEN THE UNITED STATES AND BRAZIL  
IN IMPOSING CONTROLS OVER INTERNATIONAL FINANCIAL TRANS-  
ACTIONS**<sup>73</sup>

740.00112A European War 1939/27590

*Memorandum by the Ambassador in Brazil (Caffery) to the President  
of the Brazilian Defense Commission (Portella)*<sup>74</sup>

[Translation]

[RIO DE JANEIRO,] December 21, 1942.

**BASIS FOR DISCUSSION**

The Embassy of the United States of America believes that both in the economic warfare and naval and military fields there should exist coordinated cooperation between the allied Governments of Brazil and the United States of America, in order to unite the efforts of their respective Governments in a joint program against the common enemy. In accordance with this policy it is suggested that a meeting be called to discuss the following points:

*I—Correlation of Controls*

Since July, 1941, the United States of America has maintained as an integral part of its controls the Proclaimed List of Certain Blocked Nationals<sup>75</sup> for the purpose of publicizing the names of persons and firms to which the commercial and financial facilities of the United States are to be refused. The Government of the United States of America believes that the maintenance of this list is essential to the war effort. It is further believed by the United States Government that the list referred to has had a considerable effect in weakening

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<sup>72</sup> For correspondence regarding the coffee situation, see pp. 684 ff.

<sup>73</sup> Continued from *Foreign Relations*, 1942, vol. v, pp. 789–815.

<sup>74</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10425, March 15; received March 26. Gen. Arthur Silvio Portella was also Director of the War Materials Division of the Brazilian War Department.

<sup>75</sup> For discussions on the Proclaimed List in 1942, see *Foreign Relations*, 1942, vol. v, pp. 757 ff.

the influence of enemy interests or interests acting on behalf of the enemy.

The Embassy was pleased to note the adoption by Brazil of Decree-Law No. 4807 and the creation of the Economic Defense Commission, and believes that by this means there may be effected an efficient elimination of enemy interests from the Brazilian economic life. It is considered advisable that a clear and concrete agreement be adopted between Brazil and the United States of America, concerning the status of the Proclaimed List with respect to firms taken over by the Brazilian Government.

Generally speaking, the United States of America is prepared to delete from the Proclaimed List all firms of real value to Brazil's economy, in the event that (1) all undesirable elements have been removed from the property and management; (2) all undesirable employees have been removed; (3) all contracts and connections with enemy interests are terminated. As to firms that are not of outstanding value to the economy of Brazil, such as commercial and financial establishments, it is hoped that those may be liquidated and that, consequently, no problems will arise in connection with their deletion from the Proclaimed List. The Embassy admits that it is necessary, as a measure preliminary to nationalization of important enterprises, that the Commission assign administrators to investigate and study the affairs of particular firms in a position to be transferred to desirable private hands. The Embassy is prepared to consider a plan which will extend facilities to these firms on a temporary basis during the period prior to their nationalization and subsequent removal from the Proclaimed List. In such cases, however, it is assumed that the Economic Defense Commission is prepared to offer guarantees to the United States of America that the administration will be an indivisible part of the program of nationalization, which will be effected within the minimum possible time. As to purely commercial enterprises which are not essential to the economy of Brazil (many of which were centers of enemy activities), it is assumed that there will be no necessity of granting them special facilities and that from the outset the administrators will actually act as liquidators. This distinction is of importance in the consideration of the subject by the Government of the United States of America, it being understood that many of these enterprises are of pronounced enemy character and have already been adversely affected, and that the firms are virtually in a state of liquidation. The negotiation of an agreement of this nature prior to action by the Commission in special cases will afford the two Governments an opportunity to proceed jointly in a spirit of understanding.

*II—Financial and Technical Assistance*

The United States of America believes that the nationalization of enemy industrial enterprises in Brazil is of great importance to our common war effort. Many of these enterprises are equipped to produce materials of vital importance, and their nationalization will have the effect both of destroying the enemy interests and of increasing Brazilian war potential.

In order to avoid the transfer of these properties to undesirable hands the Government of the United States of America is prepared, if so desired, to offer financial assistance in the form of advances of credit to reliable Brazilian parties, in order to facilitate the purchase of these properties after their expropriation. It is further suggested that this matter be discussed with the Director of Exchange of the Bank of Brazil,<sup>76</sup> who is familiar with the opinion of the President of the Export-Import Bank<sup>77</sup> on this subject. The Export-Import Bank, generally speaking, transacts business in Brazil exclusively through the intermediary of the Bank of Brazil.

To the extent desired, although within the limits imposed by our present war effort, the United States of America is prepared to extend technical assistance to nationalized firms, or, if the Economic Defense Commission so desires, to try to interest American firms in participation in specific cases where technical assistance is necessary.

*III—Consultation and Exchange of Information*

It is suggested that there be created a permanent and extra-official system of contact and consultation between the two Governments, through the media of the Economic Defense Commission and the Embassy of the United States of America, in order to reach an understanding with respect to specific cases and exchange of information. In this respect reference is made to Resolution No. VIII adopted by the Inter-American Conference on Systems of Economic and Financial Control,<sup>78</sup> which establishes a mutual consultation and exchange of information. The Government of the United States of America has in its possession information concerning the enemy interests in Brazil which may be of great value to the Economic Defense Commission. On the other hand, Brazil will have available through the expropriation of enemy firms information in regard to enemy activities in Brazil and other countries which may be of vital importance to the war effort and the administration of the economic warfare program

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<sup>76</sup> Francisco Alves dos Santos Filho.

<sup>77</sup> Warren Lee Pierson.

<sup>78</sup> For text of Resolution, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942); for comment on the Conference, held in Washington June 30–July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

in other countries. The Government of the United States of America is prepared to make available to the Brazilian Government any information which may be of interest to that Government in that respect, and it is assumed that the Brazilian authorities are prepared to reciprocate on the same basis.

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740.00112A European War 1939/27590

*Memorandum by the Ambassador in Brazil (Caffery) to the President of the Brazilian Defense Commission (Portella)*<sup>79</sup>

[Translation]

[RIO DE JANEIRO,] December 30, 1942.

The Embassy has received instructions from Washington<sup>80</sup> regarding the problems previously discussed in connection with the correlation of controls between the United States and Brazil. The following points have been considered in the instruction:

1. It is desired to establish a definite understanding between the two Governments in regard to the policy to be followed in connection with enemy firms subject to Brazilian controls. The principal point is that the firms shall not be taken off the List until such time as the Brazilian authorities have permanently nationalized such firms, and until all undesirable elements and factors have been removed, including personnel.

2. While an understanding covering such terms is being studied, the Embassy is authorized to:

a) Issue licenses to American firms to transact business with firms in which the Economic Defense Commission has established an effective intervention or administration for the purpose of nationalization or liquidation;

b) Inform you that the Embassy will not recommend the inclusion of Brazilian firms in the Proclaimed List of Certain Blocked Nationals by reason of their doing business with firms subject to intervention or administration under the above mentioned conditions.

3. It is expected that, in accordance with our conversations of last week, the use of these licensing powers will, so far as possible, be limited to individual cases after consultation with the Brazilian authorities regarding the facts and conditions applying to each case. We are informed by the Department of State that, although it realizes the necessity of temporary administration prior to nationalization, it wishes to avoid any general premature action, and it is assumed that the Brazilian authorities expect us to grant facilities only in particular cases where the nationalization policy is being actively pursued.

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<sup>79</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10425, March 15; received March 26.

<sup>80</sup> Airgram No. A-677, December 23, 1942, 8:15 p. m., not printed.

Transactions covering exports from the United States to firms included in the Proclaimed List which are subject to administration shall continue under licenses granted in the United States, upon recommendation by the Embassy. Of course it is assumed that all transactions will be carried out in accordance with the orders and in the name of the administrator.

4. The Department of State assumes that the administrators of Proclaimed List firms will not be involved in transactions with other enemy firms (included in the Proclaimed List of Certain Blocked Nationals) which are not subject to administration.

5. The Department of State requests that we take up with you the matter of publicity to be given to these agreements, in the hope that the subject of these facilities may be kept on an unofficial basis and no general notice of it be given to the public.

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840.51 Frozen Credits/9443

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

No. 9992

RIO DE JANEIRO, February 2, 1943.

[Received February 13.]

SIR:

[The first three sections of this despatch deal with the legal basis for controls over international financial transactions, the administration of controls, and special problems.]

*D. Brazilian Exchange Controls and the First Four Recommendations of the Washington Conference.*

An analysis of the current situation indicates that Brazil has a moderately workable control system for international financial transactions, but that several legal or administrative measures remain to be adopted in implementation of the first four resolutions of the Final Act of the Inter-American Conference on Systems of Economic and Financial Control.

Recent measures adopted by the Banco do Brasil at Embassy suggestion include:

1—Prohibition of the use by Brazilian Banks of foreign correspondents of Axis nationality.

2—Instructions to agencies to use special care in the examination of all applications for transactions with neutral countries.

3—Request to the police authorities that they investigate and take appropriate action in five specific cases referred by the Embassy regarding dollar currency transactions.

4—Recommendation to the Minister of Finance that regulations be adopted providing for the registration of imported securities.

5—The adoption of special controls by the Fiscalização Bancaria over the activities of several suspected banking institutions. (Banco Nacional da Cidade de São Paulo, S. A., Banco Aliança do Rio de Janeiro, Bordallo, Brenha, S. A.).

The liquidation of the two German and one Italian banks in Brazil and the appointment of administrators for a number of leading Axis companies are correlative measures which decrease the probabilities of large-scale international financial transactions in the interest of the Axis Powers.

The Economic Defense Commission, on February 1, 1943, issued the following instructions, designed to establish more adequate controls over internal transactions in securities:

"Resolution No. 22-1943—The Economic Defense Commission, in order to make effective the current legal regulations regarding the inalienability of the assets belonging to physical and juridical persons subject to Decree-Law No. 4807 of October 7, 1942, resolves that the following instructions should be immediately sent to the President of the Association of Exchange Brokers (Camara Sindical dos Corretores de Fundos Publicos), Rio de Janeiro, and to the Presidents of other Associations throughout the States, recommending that the Exchange Brokers upon their own responsibility, should exercise the most rigorous investigations relative to the origin of securities presented to them for sale, under the terms of Decree Law No. 1344 of June 13, 1939, retaining them, when belonging to physical and juridical Germans, Italians or Japanese, and bringing this fact immediately to the attention of this Commission, so that the appropriate penal action may be taken, based on the exact information, relative to the bearers of these securities who intended to sell them contrary to the current laws, on the basis of which such securities are considered inalienable.

"The Commission resolves likewise that the transfer of securities or shares deposited as guarantees are likewise subject to above regulations regarding transferability, such securities and shares likewise being retained whenever the bearers of these titles attempt to transfer them without the previous authorization of this Commission.

"The Commission resolves likewise to recommend that there should be strictly observed the stipulations of article 1 of the above mentioned Decree-Law No. 1344, which stipulates that operations regarding securities handled in the exchange market must be effected exclusively through exchange brokers and transacted in public.

"This Commission through its auxiliary organizations, will exercise rigorous control so that this resolution may be effected, and its non-observance will be considered contrary to the National security under the terms of article 13 of Decree-Law No. 4807, of October 7, 1942."

The Embassy is currently directing its efforts towards the following objectives:

1—Adoption of legislation controlling importation of securities and limitation of repatriation purchases by the Brazilian Government, states and municipalities to those made in the New York and London markets.

2—The establishment by the Fiscalização Bancaria of controls over inward transfers in the special free exchange market similar to those now in effect for outward transfers.

3—The adoption of measures designed to eliminate black market operations with Argentina and the European Continent.

4—An extension of Treasury *ad hoc* blocking to other objectionable persons and firms as an instrument to control and to force cooperation.

5—The development of financial watch lists of persons and firms in other American Republics and in neutral European countries who are known to have engaged in objectionable international transactions.

Future developments in Brazil's exchange control administration will be reported to the Department monthly.

Respectfully yours,

For the Ambassador:

WALTER J. DONNELLY

*Counselor of Embassy for Economic Affairs*

740.00112A European War 1939/27590

*Memorandum by the Brazilian Economic Defense Commission to the American Embassy in Brazil*<sup>81</sup>

[Translation]

943.1(22) (00)

RIO DE JANEIRO, February 4, 1943.

Upon receipt of the memorandum from your Embassy, dated December 30, 1942, this Commission carefully examined the bases established by the American Government for treating firms included in the so-called "Black List", operating in the Brazilian territory.

2. Evidently, the instructions issued in Washington on the matter were drawn up at a time when the Brazilian authorities—after the first period of the transformation of its commercial policy, following the severance of relations and subsequent declaration of war against the Axis powers—had taken emergency measures in connection with such firms. Later the Brazilian Government thought it advisable to consolidate such measures, making them definite, by means of a special decree, which created the Economic Defense Commission, an organ directly under the supervision of the President of the Republic and composed of elements from the high public administration, selected for this important undertaking by the Chief of the Government himself (Decree-Law No. 4807 of October 7, 1942).

3. In this manner the previous picture was completely modified, through the centralization of the governmental action, exercised by the Economic Defense Commission, through its own acts or through its auxiliary organizations (Article 33 of Internal Regulations approved by Decree-Law No. 10912 of November 24 [25], 1942).

<sup>81</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 10425, March 15; received March 26.

4. This Commission, as is well known, is in full operation, and its action is already being felt in the sectors of interest to national safety and economy.

5. Within the program of its activities the law has stipulated the Commission's right to intervene, through agents recommended by it and appointed by the President of the Republic, in commercial, industrial or other entities, which are then subjected to a regime of supervision, administration, or liquidation, as the case may be, once their operation is contrary to the economic interests of Brazil or to its safety (Articles 4, 11 and 12 of Decree-Law No. 4807).

6. Pursuant to this program of economic control over the enemy, the first delegates in the confidence of the government have already been appointed and have taken office and are working in close connection with this Commission, which gives them instructions and adequately supervises the performance of their duties (See Resolutions No. 13, 16 and 21 of 1943).

7. Other enemy organizations, or those connected with the enemy, are the subject of constant investigation, which will undoubtedly result in the appointment of new delegates.

8. This is the present status of the action of the State with regard to the matter under discussion, which presents quite a different aspect—as should again be recalled—from that which obtained at the time the instructions of Your Excellency's Government were issued.

9. In reply to the memorandum addressed to it, this Commission wishes to view with a practical sense certain vital points of reciprocal interest to the two friendly nations, which, as such, examine the common problem with a sincere wish to find formulas to satisfy their mutual necessities, without losing sight of the objective in which we concentrate our post-war anxieties: the economic destruction of the enemy.

10. It would evidently be unwise if, by the mere naming of those agents mentioned above, this Commission would immediately request the deletion of the firm under control from the "Black List". During this first phase what seems to be advisable is for this organ to request commercial facilities for specific transactions, as long as they will be practised under the immediate responsibility of the delegates of the Economic Defense Commission.

11. Such a regime must last up to such time as this Commission is in a position to feel sure that the enemy interests have been definitely removed or in the process of being removed, without the danger of retrocession. Upon this accomplishment, the Economic Defense Commission will submit a formal communication regarding the matter, subsequent to which it expects a suspension of any restrictions



on domestic transactions or exports carried out by the firm, which means, finally, the deletion of the firm from the "Black List".

12. It is the understanding of the Commission that the general restrictions for the import trade may be maintained, and that this trade will be subject, as usual, to the system of previous consultation with Washington.

13. There remains to be studied a question which deserves special attention and which refers to the status of technicians who are Axis subjects. In this respect this Commission believes that they should be maintained, while indispensable or irreplaceable by Brazilians or nationals of friendly nations, it being emphasized, however, that the preservation of such employment will be only on a strictly technical basis and never with participation in the administrative business of the organization to which they may belong.

14. The Economic Defense Commission hopes that the Embassy may fully realize the motives, so highly important to the economic life of the country, which guided the establishment of the points mentioned above, with respect to which it would appreciate knowing the views of the American Government, so that our countries may keep their interests in coordination and harmony, thus further consolidating the policy of intimate understanding and profound cordiality which holds forever the links of friendship between the North American people and the Brazilian nation.

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740.00112A E.W./24511 : Telegram

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

WASHINGTON, February 9, 1943—1 p. m.

483. Your A-134, January 21 and your despatch 9822, January 22,<sup>82</sup> concerning the deletion of the Axis banks.

1. The Proclaimed List Committee voted to delete the three Axis banks from the List and to publish the following footnote in the February supplement: "Vested by the Brazilian Government and presently in active liquidation".

In addition, we expect to include the following statement in the press release accompanying the publication of the supplement:

"The deletion of the three former enemy-controlled banks in Brazil—Banco Alemão Transatlântico, Banco Germânico da América do Sul and Banque Française et Italienne pour l'Amérique du Sud S. A.—appears in this supplement. The effective action of the Brazilian Government in vesting these banks and in putting them into active liquidation, pursuant to Decree Law No. 4612 of August 24, 1942, has made this step possible".

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<sup>82</sup> Neither printed.

You will note that the two changes from your proposed footnote involve an indication that the liquidation is "active" and the replacement of the phrase "National Patrimony" by some other appropriate language. We believe that this latter phrase might not be fully understood outside of Brazil.

Please let us have your views on the proposed statements by Thursday, February 11.

2. With respect to the unblocking of the banks funds in the United States, we have had further discussions on this matter with the Treasury and the British. The accounts of these banks in the United States would technically remain frozen because the Banque Française et Italienne was blocked as a national of France on June 17, 1940, and subsequently designated as a national of both France and Italy on June 14, 1941, and both the Banco Alemão Transatlântico and the Banco Germânico were blocked as nationals of Germany on June 14, 1941. All of these dates are prior to the date when the banks were included on the Proclaimed List. Technically, once blocking has occurred because of nationality, the assets cannot be unblocked without a Treasury license.

The principal reason, however, for our desire to continue the frozen status of these assets after deletion emanates from the broader question of conflicting custodial claims. As a matter of fact, the British are more concerned than we are about this issue due to the fact that the assets of these banks in Great Britain are alleged to be substantial and there are substantial claims of British creditors. One of the biggest difficulties in the settling of conflicting custodial claims is that of discrimination among creditors, including creditors of the head offices of these banks. Both we and the British have deemed it expedient to avoid decisions in specific cases of this type until some steps have been taken to settle the problem on a general level. We suggest, therefore, that you advise the Brazilian authorities at this time that the assets of these banks in the United States will continue to remain frozen because of the technical reasons stated above and the presence of the general problem of settling conflicting custodial claims. At the same time you should emphasize that our desire to continue our controls over these assets is in no way motivated by any lack of confidence in the Brazilian controls or in the present methods of liquidating these banks. You may tell them that we will give sympathetic consideration to specific applications for licenses to utilize those assets until such time as the general problem of conflicting claims can be settled.

We are fully aware of the difficulties that may be involved in such a procedure. If the Brazilians feel strongly concerning the release of these specific accounts and if you believe that the continuation of United States controls over these accounts would adversely affect the willingness of the Brazilians to cooperate with us in effectively im-

plementing their program of economic warfare, we will then reconsider our position.

3. We quite understand the difficulties involved in obtaining the blocking in Brazil of payments to Proclaimed List nationals, particularly where those nationals are located in Brazil, and in clearing communications by the liquidators with such nationals outside of Brazil. You are authorized to work these problems out as best you can.

You may wish to suggest to the Brazilian authorities that with respect to Proclaimed List nationals located outside Brazil, they might check the freezing laws of the countries in which such nationals are situated before making any remittances to them. In a situation where a Proclaimed List national in another country would be blocked if he were in Brazil, it seems to us that the Brazilian authorities should not permit the banks to make a remittance to any such national unless they are convinced that the proceeds of such remittance would be as effectively blocked in the country where the national is located as it would be if made in Brazil. In this connection, the possible difficulties arising from discrimination between various countries on the effectiveness of their controls and the fact the blocking of payments to Proclaimed List nationals outside of Brazil might not involve the political difficulties inherent in the recognition of the Proclaimed List for Brazil may, as an administrative matter, make it expedient for the Brazilian authorities to block all payments to all Proclaimed List nationals outside the country.

With respect to communications with Proclaimed List nationals outside Brazil, the Brazilian authorities may find it to their interest to notify you in advance, so that you can make the necessary arrangements with the appropriate United States mission to avoid any local censorship difficulties.

4. The Department approves the suggestion in your A-134 that for the time being no formal agreement along the lines of the Mexican agreement<sup>83</sup> be made with the Brazilian Government and that you proceed informally on a case by case basis.

HULL

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840.51 Frozen Credits/9583 : Airgram

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

RIO DE JANEIRO, February 24, 1943—1 p. m.

[Received March 1—3 p. m.]

A-350. My despatch 9992, February 2, 1943. The Banco do Brasil, acting under its exchange control authority, has issued the following

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<sup>83</sup> This agreement resulted from the vesting of Proclaimed List firms by Mexico.

regulations in further implementation of the Final Act of the Inter-American Conference on Systems of Economic and Financial Control:

"Circular dated February 22, 1943.

"Paper Currency Circulation—We beg to advise that the following instructions were issued today:

"The Fiscalização Bancaria of the Bank of Brazil advises the public that, in accordance with its duties under the provisions of Decrees No. 14,728 and No. 23,258 and Decree Laws 170 and 1201, has made the following decisions:

"1. Brazilian paper currency is hereby prohibited to enter or leave the country, there being seized any amount found in the possession of persons entering or leaving the country.

"2. The holding of foreign paper currency by passengers going abroad shall only be considered legal when bearer has the authorization furnished by the Fiscalização Bancaria, duly signed by the establishment who sold the paper currency.

"3. Passengers arriving from abroad with foreign paper currency in their possession must declare such values and undertake to negotiate them within 30 days at an authorized establishment.

"It is recommended that, in conjunction with the postal-telegraphic censorship service and the police authorities, there be maintained a permanent supervision and inspection service for persons included in the above instructions."

CAFFERY

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840.51 Frozen Credits/9583 : Airgram

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

WASHINGTON, March 6, 1943—6 :10 p. m.

A-1020. Your A-350, February 24, 1 p. m. Since "foreign paper currency" presumably includes dollar currency, paragraph 2 of the circular of the Banco do Brasil appears to contemplate the exportation of dollar currency from Brazil by travelers under appropriate authorization. Paragraph 3 appears to permit the importation of dollar currency into Brazil so long as it is sold to an authorized establishment within 30 days. The Department had understood that under previously existing regulations the Banco do Brasil alone was authorized to export, import or deal in dollar currency and that travelers to Brazil were not permitted to negotiate any dollar currency which they might have in their possession, subject to the exceptions hereinafter noted. The new instructions of the Banco do Brasil seem to abrogate these regulations.

The Embassy will realize that the ability of persons coming to Brazil freely to negotiate dollar currency in their possession will constitute a substantial loophole in the controls over such currency. Furthermore, a complete prohibition against the export of dollar

currency from Brazil, except through the Bank of Brazil, would be highly desirable.

In view of the foregoing, the Embassy is requested to report promptly to the Department whether the new instructions abrogate the previous regulations and, if they do, to discuss the matter with the appropriate officials of the Banco do Brasil.

It should be suggested to the Banco do Brasil that dollar currency in the possession of travelers should be taken from them and forwarded to the United States on a collection basis. If the Banco do Brasil wishes to make some exception from this latter provision, it is believed that such exception should be limited to amounts not exceeding \$50 for travelers between the United States and Brazil only. In such event the Treasury will release for credit to the account of the Banco do Brasil in the United States all currency purchased from incoming travelers under this arrangement.

If necessary, the informal arrangement whereby the Banco do Brasil cashes up to \$250 for American and Brazilian official personnel upon their arrival in Brazil may be continued. In this connection, however, it is believed that such personnel have been adequately warned against carrying dollar currency and that the amount of the exception might now be reduced to \$50. Please let us have your views on this point.

The \$40 exemption for travelers coming from West Africa may also be continued.

Please keep the Department informed of all developments.

WELLES

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840.51 Frozen Credits/9823 : Airgram

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

RIO DE JANEIRO, March 15, 1943—3:30 p. m.

[Received March 22—8 p. m.]

A-467. Department's A-1020, March 6, 6:10 p. m., and Embassy's A-350, February 24, 1 p. m.

1.—With reference to the control over the exportation of dollar currency, the Department's views are shared by the Embassy, as is indicated by the following translation from a letter given the Bank of Brazil on March 2:

"With reference to the coordination of these new regulations with the dollar control program of the United States, the consideration of the Bank of Brazil is invited to the following suggested program, which, if approved by you, will be submitted to the Treasury Department for its consideration:

"As the regulations of the United States permit travelers to import US\$50.00 in currency, it is preferable that this amount be acquired

from an authorized establishment, rather than from exchange shops which may have been dealing in currency of Axis origin. It is suggested that the Bank of Brazil sell United States currency simultaneously with the issuance of the permit by the Fiscalização Bancaria to a maximum of \$50.00 to persons who present documents adequate to prove their imminent departure for the United States. The Bank of Brazil would have available for this purpose United States currency previously acquired on the basis of letters of authorization from American Consulates."

2.—With regard to the importation of United States currency, the Embassy agrees that the ideal arrangement would be for the authorities at the port of entry to take up such currency for forwarding on a collection basis. It has hesitated to make this recommendation, however, because of the fear that such action might interfere with the large United Nations military movement in transit through the north of Brazil. If the Department can obtain assurances from the Army and Navy that the automatic impounding of sums in excess of \$250.00 will not unduly interfere with their personnel's financial plans, the Embassy is prepared to recommend to the Bank of Brazil that its regulations be so amended. Reports from our Consular offices in Belém, Recife and Fortaleza indicate that, while some progress has been made, many Army and Navy officers and enlisted men continue to finance their travels with dollar currency.

3.—A communication is being addressed to the Bank of Brazil inquiring whether the new regulations modify in any way the previous instruction prohibiting banking and exchange houses from engaging in dollar currency transactions. The Department will be informed.

CAFFERY

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811.516 Export-Import Bank/733 : Telegram

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

RIO DE JANEIRO, March 16, 1943—6 p. m.

[Received 9:22 p. m.]

1292. During Warren Pierson's stay we have made encouraging progress on a financing program for naturalization [*nationalization*] of Axis interests here. Agreement has been reached with the Bank of Brazil on principles to be observed and with regard to Export-Import Bank participation on a loan basis through the Bank of Brazil. However, further negotiations with the Minister of Finance<sup>84</sup> and General Portella, Chairman of the Economic Defense Commission, are scheduled for the next week or 10 days. Pierson is leaving for Lima

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<sup>84</sup> Artur de Souza Costa.

March 19. He suggests, and I agree, that Walmsley<sup>85</sup> stay here a few days longer to cooperate with us in this work.

If the Department approves, Pierson and Walmsley should reach Washington approximately March 30.

CAFFERY

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740.00112A European War 1939/27857

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

No. 10496

RIO DE JANEIRO, March 20, 1943.

[Received March 30.]

SIR: I have the honor to refer to my Despatch No. 10425 of March 15, 1943,<sup>86</sup> wherein, among other things, reference was made to conversations which were carried on during his stay in Brazil by Mr. Warren Lee Pierson, President of the Export-Import Bank, concerning financial assistance in connection with the nationalization of Axis properties.

As the result of a meeting held on March 6 between Mr. Pierson, Mr. Walmsley, and representatives of the Embassy with Dr. Santos Filho, Director of Exchange of the Bank of Brazil, there was prepared the enclosed self-explanatory draft proposal,<sup>86</sup> which was submitted to the Bank of Brazil; General Portella, President of the Economic Defense Commission; and the Minister of Finance. Prior to Mr. Pierson's departure the memorandum was approved in substance by the Bank of Brazil and the Economic Defense Commission. The matter was also discussed very confidentially with Dr. Roberto Simonsen, President of the Federação das Indústrias do Estado de São Paulo, who in turn strongly supported the proposal with both the Director of Exchange and General Portella.

Mr. Walmsley has remained over for a few days to endeavor to make further progress in connection with the matter. A conference was held today (March 20) with the Ministers of Foreign Affairs and of Finance,<sup>87</sup> who indicated their approval in general terms and suggested that we continue discussions with the Director of Exchange of the Bank of Brazil. This conference was also attended by Mr. Walder Sarmanho, Commercial Counselor of the Brazilian Embassy in Washington, and the Chief of the Economic and Commercial Section of the Foreign Office.

The principal problem to be worked out with the Brazilians is the necessity of either creating a new department in the Bank of Brazil

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<sup>85</sup> Walter N. Walmsley, Assistant Chief, Division of the American Republics.

<sup>86</sup> Not printed.

<sup>87</sup> Oswaldo Aranha and Artur de Souza Costa, respectively.

to handle this financing, or to modify the powers of the Exchange Department which has no lending powers at present. The two existing departments of the Bank of Brazil having lending powers (the Commercial and Agricultural Departments) are not equipped to perform this type of function.

So far as concerns the Export-Import Bank, Mr. Pierson states that, under the Bank's restricted lending powers, it must be established that the financing will promote commercial intercourse between the United States and Brazil. Mr. Pierson feels that it will be possible to justify the lending on the over-all basis that the nationalization by Brazil of enemy-owned industrial and commercial establishments will necessarily tend to promote trade with the United States; and that our financial assistance is essential for the success of the nationalization program. It will be noted that in Paragraph 8 of the enclosure it is suggested that a basic agreement be entered into between the Export-Import Bank and the Bank of Brazil, providing for the mechanics of the Bank's participation. It may be necessary, initially at least, to have a special representative of the Export-Import Bank present in Rio de Janeiro to work with the Embassy and the Bank of Brazil on certain specific cases, although, when the matter reaches a routine stage, Mr. Pierson envisages the delegation of authority to pass on the Bank's participation to someone located here permanently.

Mr. Pierson has transmitted directly to the Export-Import Bank a copy of the enclosed memorandum, with the suggestion that the matter be given immediate attention in the Bank, so that we may be prepared to proceed rapidly should matters here progress as we expect them to.

Respectfully yours,

For the Ambassador:

HAROLD S. TEWELL

*First Secretary of Embassy*

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740.00112A European War 1939/28789 : Airgram

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

RIO DE JANEIRO, April 7, 1943—5 p. m.

[Received April 13—11 a. m.]

A-650. Reference my despatch No. 10496 of March 20, 1943, transmitting a copy of a memorandum delivered, during Mr. Pierson's recent visit, to the Minister of Finance, the Bank of Brazil, and the Economic Defense Commission, concerning financial assistance by the Export-Import Bank in connection with the nationalization program.

The Minister of Finance has requested the Embassy to address a formal communication to the Brazilian Government giving assurances



of the Export-Import Bank's willingness to participate in the financing along the lines set forth in the memorandum enclosed with the despatch under reference. He desires this assurance in order that he may proceed to take the necessary steps to create an adequate mechanism within the Brazilian Government for handling the matter, including presumably the creation of special lending powers in the Bank of Brazil and the establishment of a working procedure between the Economic Defense Commission and the Bank of Brazil concerning these matters. In this connection reference is made to my despatch No. 10569 of March 26, 1943,<sup>89</sup> reporting on Walmsley's conversation with the Minister of Finance on March 25.

The Department is requested to give this matter its immediate attention and to inform the Embassy of the extent to which it may, as requested by the Minister of Finance, formally commit our Government, and specifically the Export-Import Bank, to participate in the financial assistance along the lines indicated in the memorandum under reference.

CAFFERY

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740.00112A European War 1939/28835b : Telegram

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

WASHINGTON, April 7, 1943—10 p. m.

1290. For Miller<sup>90</sup> from Walmsley. I have discussed with several officers of the Department, including Mr. Acheson,<sup>91</sup> the memorandum prepared by Mr. Pierson regarding the mechanics whereby the Export-Import Bank will make financial assistance available to Brazilian groups who may desire to purchase Axis business enterprises. These officers approve.

It is suggested that you review the list of intervened firms for the purpose of selecting a firm which might be used as a test case and that, on your proposed trip to Washington, you bring with you all available information concerning the firm you select. [Walmsley.]

HULL

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740.00112A European War 1939/28789 : Telegram

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

WASHINGTON, April 17, 1943—11 p. m.

1436. Your A-650, April 7, 5 p. m. You are authorized to address a formal communication to the Brazilian Government giving assur-

<sup>89</sup> Not printed.

<sup>90</sup> Edward G. Miller, Special Assistant in the Embassy.

<sup>91</sup> Dean Acheson, Assistant Secretary of State.

ances of the Export-Import Bank's willingness to participate in the financing along the lines set forth in the memorandum delivered during Mr. Pierson's recent visit.

HULL

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740.00112A European War 1939/27590

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

No. 4541

WASHINGTON, May 28, 1943.

The Secretary of State refers to the Embassy's despatch no. 10425 of March 15, 1943,<sup>92</sup> submitting a review of the administration of the Brazilian economic and financial controls by the Economic Defense Commission.

In answer to the two specific questions raised in the last paragraph of this despatch, the Ambassador is instructed as follows:

1. The Ambassador is authorized to reply to the Economic Defense Commission in response to its memorandum dated February 4, 1943, that this Government has found satisfactory the terms of the Commission's memorandum. It is suggested that the Embassy may wish to agree with the Commission upon a concrete formula to be used by the Commission in notifying the Embassy of the final disposition of specific cases, which in turn might be used by the Embassy in recommending such cases for removal from the Proclaimed List. The principal point to be covered, of course, in such a communication by the Economic Defense Commission will be (a) the question of a satisfactory transfer of the enemy ownership in cases to be subjected to vesting; and (b) satisfactory provision with respect to the elimination of undesirable personnel.

2. With respect to the question of the blocking of funds in the licensing of transactions between United States firms and Proclaimed List nationals and in indemnifying persons of Brazilian nationality whose beneficial, as distinguished from nominal, interests in seized firms are eliminated, the Department is disposed to give full weight to the effect of the system of controls which has been created by the Brazilian Government. Accordingly, in such cases, the Department is in agreement that any payments to be made to such persons, should be made in accordance with the provisions of the Brazilian controls and that no special efforts need be made by the Embassy to work out special blocking arrangements except possibly in cases where exceptionally large amounts are involved or where there is reason to believe

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<sup>92</sup> Not printed.

that the ostensibly local interest is, in fact, an enemy interest and where the Embassy believes that it would be contrary to the interests of the war effort to permit a particular person to receive substantial amounts of free funds. The determination of these matters is left to the Embassy's discretion to be worked out in cooperation with the Brazilian authorities. Where a transaction is involved in which the Embassy must obtain specific authority from the Department before issuing a particular license, the Department will take the foregoing factors into consideration in passing upon the Embassy's request for authority.

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740.00112A European War 1939/33567 : Telegram

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

RIO DE JANEIRO, July 12, 1943.

[Received July 12—6:45 p. m.]

3386. Reference is made to Embassy's airgram number A-1503, July 10, 1943.<sup>93</sup> The following notice appeared in one of Rio's evening papers today.

"The President of the Republic has signed a Decree-Law ordering the transfer to the Bank of Brazil, as the special agent of the Federal Government, of all powers defined in articles 4, 5 and 6 of Decree-Law number 4807. By the same act, the Economic Defense Commission which was created by the Decree-Law under reference (4807) is abolished and its files will be delivered to the Bank of Brazil. The liquidation of the property and rights of natural and juridical persons included in the provisions of the same Decree-Law will depend on express authorization in each case. The fiscals, administrators and liquidators will be appointed by the President of the Republic, those which now occupy such positions will continue in their functions until further decision by the Government. The orientation of the application of the Decree-Law and the power to work out with the Bank of Brazil the performance of the respective functions are attributed to the Minister of Finance."

The Minister of Finance telephoned this afternoon to inform me of the signing of the Decree-Law in question and assured me that he will proceed immediately with the nationalization or liquidation of Axis properties in Brazil. He added "We will require the financial assistance of the Export-Import Bank to this end".

Please inform Export-Import Bank and Alien Property Custodian.

CAFFERY

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<sup>93</sup> Not printed.

740.00112A European War 1939/34104 : Telegram

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

RIO DE JANEIRO, July 23, 1943—6 p. m.

[Received July 23—5 :39 p. m.]

3557. Reference Department's telegram 1436 of April 17, 1943, in accordance with which the Embassy on April 24 addressed to the Foreign Minister a formal note giving assurances of the Export-Import Bank's willingness to participate in financing of nationalization of Axis properties along the lines set forth in the memorandum previously delivered informally to the Minister of Finance by Mr. Pierson in March, a copy of which memorandum was transmitted to the Department with this Embassy's despatch 10496 of March 20, 1943.

The Director of Exchange of the Bank of Brazil has now expressed the intention of calling upon Export-Import Bank for financial assistance under this plan in conjunction with the proposed nationalization of Chimica Bayer and other Proclaimed List firms by the Bank of Brazil under the powers assumed by it upon the extinction of the Economic Defense Commission.

The Director of Exchange has requested that the Export-Import Bank send to Brazil immediately a representative authorized to negotiate the mechanics of the lending procedure and accordingly the Embassy requests that such a representative proceed to Rio de Janeiro as soon as possible.

CAFFERY

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740.00112A European War 1939/34105 : Telegram

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

RIO DE JANEIRO, July 23, 1943—6 p. m.

[Received 9 :32 p. m.]

3558. Reference Embassy's telegram 3557, July 23, 6 p. m. concerning financial assistance by Export-Import Bank in nationalization program. In this connection reference is made to the Department's circular instruction of June 18, 1943, on the same subject and especially to section IV of the enclosed memorandum<sup>94</sup> concerning the mechanics of financing.

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<sup>94</sup> Circular instruction of June 18 and its enclosure not printed. The instruction indicated that local controls to eliminate undesirable personnel were desirable for essential industries and that United States funds would be available to promote this objective. Section IV of the memorandum defined the conditions in detail by which United States aid would become available, such as the price to be paid, the advancement of capital, the nationality of the purchaser, and the blocking of the proceeds of the sale. (740.00112A European War, 1939/32475a)

The Embassy assumes that in view of the negotiations previously conducted with the Bank of Brazil and the assurances formally extended to the Brazilian Government, it will be possible to set up a more simplified procedure than that outlined in the memorandum for the handling of individual cases arising in Brazil. The Embassy believes that it would be excessively complicated and time consuming to refer to Washington for approval the details of each specific case in which financial assistance will be required as suggested in this memorandum and that such procedure would be inconsistent with certain of the provisions in the memorandum already delivered to the Brazilian Government. The Export-Import Bank may wish to designate a representative in Rio de Janeiro to handle the business aspects of each individual case with the Bank of Brazil so as to avoid lengthy correspondence with Washington and it also seems essential for the Department to delegate adequate discretion to the Embassy to pass upon the political suitability of proposed purchasing groups desiring financial assistance.

It is of course understood that the Embassy would continue to submit full recommendations for deletion of individual cases from the Proclaimed List for approval by the Interdepartmental Committee.

CAFFERY

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740.00112A European War 1939/33485 : Airgram

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

WASHINGTON, August 25, 1943—6:40 p. m.

A-2131. The problem of subsidies for technicians in connection with the replacement program has been discussed within the Department and by the Interdepartmental Committee on Replacement Problems.

The view of the Department, concurred in by the other interested agencies, is that a definite position cannot be taken until the importance and extent of this aspect of the replacement problem is outlined. In the present state of knowledge, for example, it would be impossible for the agency of this Government which might underwrite subsidies for technicians to estimate the extent and the amount of its commitments or the importance of the project on which it was expending its funds. For this reason, it is desired that the Department be furnished with an estimate of the number of technicians who may be required in connection with the replacement program, the type of work performed by such technicians, the range of salaries for the prior holders of these positions, and such other details as will assist in estimating the nature and scope of the possible undertaking. It is also requested that the Department be furnished with an indication of the importance of the particular firms in which replacement of technicians is to be

carried forward, and an over-all estimate of the importance of the project of subsidizing technicians. (It is assumed that in any case, most technicians could and would be furnished on a non-subsidy basis.)

Should some form of subsidy or financial assistance be required in connection with the program for replacement of technicians, it is thought desirable that the Brazilian Government furnish as much of the assistance as is possible. Since the firms which will benefit are Brazilian firms, important to the local economy, it is believed that the Brazilian Government will recognize its interest in promoting the welfare of these companies. On the other hand, assistance in the form of direct subsidies by the United States Government might lead to adverse criticism because American concerns are direct competitors of the Brazilian companies which would thus be subsidized. However, should the Brazilian Government not desire to finance such a program in its entirety, this Government might consider joining with the Brazilian Government to provide a fund from which subsidies could be paid to American technicians in the amount necessary to supplement the salaries received from the Brazilian companies. In the event of such a program, it would be desirable for a training program for Brazilian technicians to be run in connection with the operations of the employing concern.

In connection with this entire program, it might well be desirable to inaugurate a project for training Brazilian nationals in factories and research laboratories of the United States. Such a training program might well have more important long-range effects than would a project for sending a technician to a particular firm for a limited period of time. Such a program would be carried forward, of course, simultaneously with the program for supplying immediate replacements for Axis personnel.

HULL

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811.516 Export-Import Bank/811

*The American Economic Counselor of Embassy in Brazil (Donnelly)  
to the President of the Export-Import Bank (Pierson)*<sup>95</sup>

RIO DE JANEIRO, September 1, 1943.

DEAR WARREN: I refer to your letter of August 9,<sup>96</sup> transmitting a draft of an agreement outlining the position of the Export-Import Bank in connection with the proposed financing of suitable persons desiring to acquire Axis-owned or controlled properties in Brazil.

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<sup>95</sup> Copy transmitted to the Department by the Ambassador in Brazil in his unnumbered despatch, September 2; received September 8.

<sup>96</sup> Not found in Department files.

I left copies of the proposal with the Minister of Finance and the Director of Exchange of the Bank of Brazil. The Minister of Finance later approved the plan in principle, and authorized the Director of Exchange to carry on conversations with the Embassy with regard to it. I have just received a letter from Dr. Francisco Alves dos Santos Filho, Director of Exchange, requesting me to transmit to you the attached letter,<sup>97</sup> in which the Bank of Brazil states that "we are in complete agreement with the terms of said draft, which we consider a perfect expression of the understandings we have had on the subject". The Minister of Finance and the Director of Exchange have informed me that they desire to put the plan into operation without delay.

As requested in your letter, I have asked Dr. Carl Kincaid and Dr. Richard P. Momsen<sup>98</sup> to examine the draft and to give us the benefit of any suggestions they may have in reference thereto. I attach copies of letters received by the Embassy from them.<sup>97</sup> The Director of Exchange has not read the letters. Should you desire to revise the draft of the agreement in accordance with some of the suggestions made by Drs. Kincaid and Momsen, let me know and I shall be pleased to take up these points at once with the Director of Exchange. Incidentally, neither Dr. Kincaid nor Dr. Momsen has even suggested compensation for their services, and I am sure that they have not even considered it because they regard this work as a definite contribution to the war effort to which they have been giving their time unstintingly.

Ed Miller, Fred Wagner<sup>99</sup> and I have studied the plan and have concluded that it is an excellent presentation of the case. We suggest, however, that you include a provision exempting the Export-Import Bank from any responsibility in connection with the taxes involved in transferring dollar funds to the United States.

The program for the nationalization of Axis-owned properties in Brazil is at last under way, and we are hopeful that real progress will be made now that the responsibilities for this work have been assigned to the Bank of Brazil. The Bank has set up a separate organization to administer the program and although they are inadequately staffed, the Director of Exchange assures me that additional competent personnel will be assigned to the organization without further delay. The Minister of Finance, who is directly responsible to the President of the Republic for the administration of the program, is taking an active interest in the work, and has recently succeeded in obtaining the President's approval of legislation in-

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<sup>97</sup> Not printed.

<sup>98</sup> Members of local law firms.

<sup>99</sup> Special Assistants to the Embassy.

tended to eliminate delays and red tape which handicapped the former Economic Defense Commission. The Government has already decreed the nationalization of Axis interests in Pirelli S. A., a copper factory in São Paulo, and the Director of Exchange assures me that other Axis-owned properties will be nationalized shortly, including the Fabrica Nacional de Tambores.

The Minister of Finance and the Director of Exchange of the Bank of Brazil (the latter reflects the position of the entire directorate of the Bank) are looking forward with pleasure to cooperating with your Bank in this important work, and they will await with interest advice from you as to when the plan will be put into operation.

With kind personal regards, I am,

Sincerely yours,

WALTER J. DONNELLY

#### NEGOTIATIONS CONCERNING THE REDUCTION AND PAYMENT OF THE BRAZILIAN FOREIGN DEBT<sup>1</sup>

832.51/2152 : Telegram

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

RIO DE JANEIRO, June 19, 1943—2 p. m.

[Received 6:31 p. m.]

2993. My A-1183, June 12, 1943, 10:30 a. m.<sup>2</sup> At Souza Costa's<sup>3</sup> request, I met with him today at the Ministry of Finance. The purpose of the meeting was to inform me that he had been carrying on conversations with the British relative to a settlement of the debt.

Souza Costa read to me his confidential report to President Vargas on the proposed debt settlement which follows along the lines of the airgram under reference. He said that he would send me on Monday copies of the memorandum to the President and of the proposed debt plan.

The outstanding features of the plan are:

1. Transfer of the state and municipal debts into the consolidated debt of the Federal Government.
2. Scaling down of the principal of the debt.
3. Cash payments.
4. More favorable rate of interest than currently being paid under the revised Aranha plan.<sup>4</sup>

<sup>1</sup> For correspondence concerning efforts of the Department of State to secure a resumption of payments on the Brazilian foreign debt, see *Foreign Relations*, 1940, vol. v, pp. 559 ff.

<sup>2</sup> Not printed.

<sup>3</sup> Brazilian Minister of Finance.

<sup>4</sup> Oswaldo Aranha was Brazilian Minister of Finance, 1931-34. For correspondence regarding the debt plan, 1933-34, see *Foreign Relations*, 1933, vol. v, pp. 75 ff., and *ibid.*, 1934, vol. iv, pp. 602 ff. For correspondence on the revised plan, see *ibid.*, 1939, vol. v, pp. 357 ff., and *ibid.*, 1940, vol. v, pp. 559 ff.



Souza Costa said that he had hoped to conduct debt negotiations in Washington simultaneously with the monetary conference but that, in view of the delay in convening the conference, it might be advisable to hold the meetings here.

He said that the settlement of the debt is fundamental and that it is unsound to undertake other major financial measures pending a solution of this problem. He said that once the debt problem is settled the Government would proceed with plans for a central bank with the assistance of our experts. He remarked that he has no intention of changing the exchange rates [*rates?*] at this time current rumors to the contrary notwithstanding. He pointed out that this is one of the many fundamental financial problems that should be undertaken only after the debt is settled.

CAFFERY

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832.51/2162

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

No. 11934

RIO DE JANEIRO, July 10, 1943.

[Received July 16.]

SIR: Referring to the Department's instruction No. 4703 of July 1, 1943,<sup>5</sup> and to my telegram No. 2993 of June 19, 1943, 2 p. m., and despatch No. 11,735 of June 24, 1943,<sup>6</sup> I have the honor to submit for the Department's use a voluntary report, dated July 6, 1943, prepared by two officers of the Embassy and titled: "The Proposed Settlement of Brazil's Sterling and Dollar Funded Debt."<sup>7</sup>

The report's outline of Brazil's fiscal and exchange position is necessarily incomplete because of the lack of adequate data from Brazilian Government sources, but it is believed to be substantially correct. The Department's special attention is directed to the sections of the report which contain an analysis of the proposed settlement and which suggest an alternative approach to this problem.

With regard to the copy of the memorandum enclosed with the Department's instruction under reference, it will be recalled that in November, 1942, the local representative of the British bondholders had expressed a desire to have Mr. Clarence Dillon represent American interests in the debt negotiation, and that the Department in its

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<sup>5</sup>Not printed; in this instruction (832.51/2168a) the Department transmitted a memorandum of conversation between British and Department of State representatives on the Brazilian debt question, which indicated that the time was ripe for negotiations (832.51/2183).

<sup>6</sup>Despatch not printed.

<sup>7</sup>Report No. 391, not printed. For proposals presented to the Brazilian authorities pursuant to this report, see memorandum by the Second Secretary of Embassy in Brazil, September 21, p. 772.

instruction No. 3818 of December 19, 1942,<sup>s</sup> confirmed the Embassy's belief that this suggestion was designed to strengthen the interests of Federal bondholders, which would, in view of the distribution of Brazil's external issues, work to the advantage of the British bondholders. The conversation reported in the memorandum under reference appears to reflect a further move in this direction, or at least to remove from the scene of negotiations this Embassy and to substitute some person less well acquainted with Brazil's current economic situation and lacking the close working relationships which exist between Embassy personnel and the Brazilian officials who would be responsible for the debt settlement.

In this connection, it is pointed out that my Counselor for Economic Affairs is in contact with the Finance Minister on this matter, and that the results of their conversations have been reported to the Department. Furthermore, Third Secretary Ivan White, who prepared the main part of the attached report, is thoroughly familiar with the basic financial and economic problems concerned, and has close working relationships with the economists in the Finance Ministry who do the research and other technical works related to Brazil's financial negotiations. This Embassy personnel is available to extend any appropriate assistance to such representation as the Foreign Bondholders Protective Council may designate for negotiation purposes.

The Embassy has no objection to the Department, in its discretion, making available to the Council's officers the attached report. It should be mentioned, however, that certain of the data, particularly those related to exchange position, were transmitted to the Embassy on a strictly confidential basis, and that they are not subject to publication, public attribution or widespread distribution.

Respectfully yours,

For the Ambassador:

WALTER J. DONNELLY

*Counselor of Embassy for Economic Affairs*

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832.51/2189

*Memorandum by the Chief of the Financial Division (Livesey) to the  
Special Assistant to the Secretary of State (Finletter)*

[WASHINGTON,] August 10, 1943.

MR. FINLETTER: Every day for the past month or so the Brazilian Minister of Finance has telephoned the American Embassy at Rio and asked when someone will come down to negotiate the bond settlement he has proposed, which contemplates, I believe, cash payment of about \$70,000,000, and annual payments of some \$33,000,000 thereafter:

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<sup>s</sup> Not printed.

Today we have a telegram<sup>9</sup> reporting that the Finance Minister yesterday told the Embassy he would appreciate some information before his meeting with President Vargas tomorrow, Wednesday, August 11.

Every day for several days past I have telephoned Dana Munro of the Foreign Bondholders Protective Council at Princeton, with whom the matter was taken up in very urgent terms by Feis<sup>10</sup> about July 20. Last Friday he gave me the name of Robert McCormick, of Alexander and Green, as the man on whose acceptance the Council is waiting.

I told Mr. Feis, who asked me to handle the matter in his absence. This morning Munro, having telephoned Traphagen<sup>11</sup> in New York, tells me that the obstacle is that McCormick has a commitment to the Department of State which may conflict, and names Messrs. Labouisse,<sup>12</sup> Finletter, and Feis as the men who know about it. Labouisse and Feis are away.

Could I speak with you about this so that the Finance Minister may have some kind of an answer to report to the President of Brazil when he talks with him tomorrow?

Munro did not actually say that he was sure McCormick would go if he got a release from, or clearance in respect of, his other commitment to the Department, but if I had a clear "Yes" from you, I could at least telephone Munro, who could telephone Traphagen, who could telephone McCormick, if this is the way the thing would have to be routed. Then possibly I might really have something to say to the Embassy, the Minister of Finance, and the President of Brazil.

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832.51/2186a : Telegram

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

WASHINGTON, August 25, 1943—10 p. m.

3200. For the Ambassador and Walter Donnelly. Meetings have been held in the Department yesterday and today between representatives of the Foreign Bondholders Protective Council, Inc. and officers of the Department to discuss the Brazilian proposal for the adjustment of Brazilian dollar and sterling bonded indebtedness. Among the representatives of the Bondholders Protective Council were Robert E. McCormick and Mr. Lee Orton, who hoped to be able to leave New York for Rio on or about September 2 to act as the Council representatives in the forthcoming negotiations.

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<sup>9</sup> No. 3819, dated August 9, from the Ambassador in Brazil, not printed.

<sup>10</sup> Herbert Feis, Adviser on International Economic Affairs.

<sup>11</sup> John C. Traphagen, of the Foreign Bondholders Protective Council, Inc.

<sup>12</sup> Henry R. Labouisse, Jr., Assistant Chief, Division of Defense Materials.

The Department has agreed upon the following informal memorandum of understanding, which will be subject to your concurrence as a general guide for the negotiators:

"(a) Grades I to VII, inclusive,<sup>13</sup> under the Aranha Plan now operating under Decree 2085 to be regrouped as follows: Group A formerly Grades I and III; Group B formerly Grade IV; Group C formerly Grades II, V and VI; Group D formerly Grade VII; Group E formerly Grade VIII (it being understood between the Department and the Council that the chances of obtaining a regrouping with respect to Grade II are slight); or as an alternative,

(b) Give the holders of Grade III substantially the same interest rates as enjoyed by Grade I—this to be accomplished through raising the new principal amount from 60 percent to 70 percent but without altering the proposed cash payment or coupon rate proposed by Brazil.

(c) Reclassification of the State of Maranhao bonds from Grade VII to VI.

(d) Attempt to obtain within the limits of the present Brazilian proposal (approximately \$33 million) a re-shuffling of the funds allocated to interest and to amortization from the present approximately 54 percent for interest—46 percent for amortization to approximately 66 percent for interest and 34 percent for amortization.

*Option A under 1943 Proposal*

1. Same as (a) under Option B above.<sup>13a</sup>

2. To secure an increase in the interest percentages of the last year (1938) of the Aranha Plan e. g., from 70 percent to 75 percent. (This is the position being taken by the British.) It would be argued that these increased payments should be obtained from the Brazilian Government, and failing this from the amortization funds.

3. To treat arrears of interest on an annual basis, one coupon to be paid annually at the rate provided in Decree 2085, and failing that to obtain a partial settlement on an annual basis.

It is believed that the Brazilian Government contemplates that these arrears of interest under "Option B" are to be cancelled in partial consideration of the cash payment.

August 24, 1943."

You will observe that the afore-quoted memorandum takes into account the points made in the Embassy's very comprehensive report no. 391 of July 6, 1943,<sup>14</sup> which was of great help to the Department and the Council in the discussions here. While it is believed that this memorandum will in general be acceptable to you, please endeavor to comment promptly so that there may be ample time for the discussions with the Council's representatives prior to their departure.

<sup>13</sup> The grading of Brazilian loans into seven groups was proposed by Brazil and incorporated as a schedule in decree No. 23829 of February 5, 1934. For description of the grades, see *Foreign Relations*, 1933, vol. v, pp. 77 ff. For negotiations concerning the modifications of this schedule, see *ibid.*, 1939, vol. v, pp. 357 ff., and *ibid.*, 1940, vol. v, pp. 559 ff.

<sup>13a</sup> For substance of Options (Alternatives) A and B, see memorandum by the Second Secretary of Embassy in Brazil, September 21, p. 772.

<sup>14</sup> Not printed.

The Department wishes to point out that this memorandum represents the general objectives of the Department and the Council, subject of course to the peculiarities of the situation that may develop in the course of negotiations.

HULL

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832.51/2191 : Telegram

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

RIO DE JANEIRO, September 17, 1943—noon.

[Received 3:20 p. m.]

4417. Council<sup>15</sup> and Embassy representatives met twice yesterday with Souza Costa, British representative<sup>16</sup> being present at second meeting.

American representatives presented counter-suggestion to Finance Minister's basic proposal which covered only "alternative A" and was based on two principles of (a) regrouping and (b) establishment of total annual interest payments in an approximate amount which would be required by application of last year of Aranha plan to bonds outstanding with amortization at 50% of such annual interest charges.

Souza Costa indicated informally that (a) both amounts suggested were too high and that (b) regrouping was principally [*primarily*] a question between British and Americans. He will comment more specifically at meeting to be held tomorrow (Saturday) morning.

Please inform Foreign Bondholders Council immediately.

CAFFERY

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832.51/2193 : Telegram

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

RIO DE JANEIRO, September 18, 1943—5 p. m.

[Received 7:05 p. m.]

4465. My 4417, September 17, noon. The Finance Minister yesterday informed Embassy that American representatives' original suggestion for a debt settlement as reported my telegram under reference was definitely not acceptable.

At meeting this morning with Brazilian and British representatives, the former requested a memorandum of our reasons for stipulating regrouping, which we are now preparing. In view of Souza Costa's previous expression of indifference on this point, it is believed this request originated with British representative.

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<sup>15</sup> Foreign Bondholders Protective Council.

<sup>16</sup> John Phillimore.

While Brazilian representatives indicated that on alternative A, in contrast to alternative B, they were not prepared to go beyond a total debt service of 30 millions, they would study any "alternative A" schedule presented by us based on \$33 million total service. Such a schedule is being prepared within framework of Council-Department's memorandum of understanding and providing for approximately \$22 million interest and \$11 million amortization, such schedule being entirely contingent on our regrouping. This schedule will be presented at next meeting Tuesday morning, solely, however, as a basis for discussion.

It is clear from discussions to date that Brazil is essentially interested only in debt reduction and, therefore, in the "B" option.

It now appears that settlement acceptable to bondholders is largely dependent on regrouping and it is suggested that Council and Department make it clear to London that our position on this point is firm and mutually accepted by Council, Department and Embassy. Please telegraph when this has been done.

Please inform Council.

CAFFERY

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832.51/2199

*Memorandum for the Information of Embassy Officials in Brazil  
Concerned With the Brazilian Debt Question*<sup>17</sup>

[RIO DE JANEIRO,] September 20, 1943.

The "Niemeyer Plan"<sup>18</sup> on which Brazil's external debt service has been based during the 1934-1943 period has never been accepted by the Foreign Bondholders Protective Council on the ground that it was grossly discriminatory.

The "special treatment" accorded to the funding loans and coffee realization loans has never had a basis of equity and would be particularly unjustified in any permanent plan of settlement. The cumulative result of the "Niemeyer Plan" has been that holders of the funding loans have had their arrearages capitalized and have received interest thereon on a preferential basis, while the holders of other Federal secured issues have received neither of these benefits.

The Council's suggestion, which is fully supported by the Department of State and the Embassy, is based on the premise that Brazil's undertaking on any one of its secured issues is entitled to the same respect as its undertaking on any other secured issue, and that in any

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<sup>17</sup> Copy transmitted to the Department by the Ambassador in Brazil in his despatch No. 12846, September 24, printed on p. 773.

<sup>18</sup> Sir Otto Niemeyer represented the Bank of England in debt negotiations with Brazil in 1933. See *Foreign Relations*, 1933, vol. v, pp. 76 and 87.

permanent settlement Brazil will want to provide equitable treatment for the entire group of bondholders, rather than to extend preferential treatment to "Special interests" such as has existed under the old Grade I and II issues.

832.51/2199

*Memorandum by the Second Secretary of Embassy in Brazil (White)  
to the Ambassador in Brazil (Caffery)*<sup>19</sup>

[RIO DE JANEIRO,] September 21, 1943.

MR. AMBASSADOR: There are attached copies of "Alternative A" and "Alternative B" proposals,<sup>20</sup> prepared by Embassy and Council representatives, and presented today to the Brazilian representatives as a basis for discussion. These schedules are based on the plan suggested in our report to the Department of July 6, and they incorporate the principles outlined in my memorandum to you of July 12:<sup>21</sup> namely, acceptance of Finance Minister's proposal on (1) total debt service \$33,000,000, (2) cash available for debt reduction \$83,000,000 and amount of debt reduction desired of \$340,000,000. Within this framework, it was pointed out that American bondholders could receive more equitable treatment by eliminating the preferred position of fundings and coffee realizations and by allocating total debt service on a \$22,000,000 interest and \$11,000,000 [amortization] basis.

The two alternatives presented are in substance the following:

\$000 Omitted				
	Amount Outstand- ing	Suggested Debt Re- duction	Suggested Cash Payment	Suggested Annual Interest
Suggested "A"	862, 358	—	—	22, 303
Suggested "B"	862, 358	333, 995	82, 422	20, 935
	Suggested Amortization	Total Annual Debt Service		
Suggested "A"	11, 151	33, 454		
Suggested "B"	10, 467	31, 402		

These schedules are, with slight adjustments, based on the regrouping outlined in the report under reference. The schedules do nothing to impair the overall British position and if the British Council is

<sup>19</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 12846, September 24, printed *infra*.

<sup>20</sup> Neither printed.

<sup>21</sup> This memorandum does not appear to have been transmitted to the Department.

truly representative, I am convinced it will find the program acceptable because it is substantially better for sterling bonds *en toto* than was the June proposal<sup>22</sup> which they appeared willing to accept. For instance, under our "Alternative A", sterling bonds would receive 46.1 per cent of contractual interest, compared with only 42.8 per cent of contract for dollar bonds. This derives from the fact that we have voluntarily adopted the principle that high interest bonds (mostly dollars) should take in a permanent settlement a larger proportionate reduction than the others.

Mr. Donnelly has gathered from conversations with Souza Costa that the latter is conciliatory and appears anxious to reach an early settlement. I have discussed the details of our schedules with Bulhões of the Finance Ministry and Cox of the Conselho Técnico and am convinced that the margin between our suggestions and what they have in mind is very small. On the key point of interest payments under "Alternative A", they both agreed with my thesis that any material reduction in the \$22 million figure would result in psychological losses to Brazil (receptivity of bondholders) out of proportion to the small savings which could be effected.

The conclusion reached is that, barring the intervention of special interest[s], the chances of a settlement creditable to both Brazil and the creditor countries are good.

IVAN B. WHITE

832.51/2199

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

No. 12846

RIO DE JANEIRO, September 24, 1943.

[Received October 1.]

SIR: Referring to my despatch No. 12810 of September 22, 1943,<sup>23</sup> I have the honor to enclose revised schedules of suggested bases for discussion, together with copies of minutes and memoranda, in regard to the proposed settlement of Brazil's external debt.<sup>24</sup>

The representatives of the Foreign Bondholders Protective Council, Messrs. Robert E. McCormick and Lee Orton, are working very closely with the Embassy in this matter. I am pleased to report that their practical approach towards and comprehensive grasp of the complex debt problem have served to avoid the creation of frictions with the Brazilian representatives. Furthermore, their technical knowledge has been of much value to the Embassy and the Brazilian Government in the preliminary exploration of this problem.

<sup>22</sup> For principal features of the plan, see telegram No. 2993, June 19, 2 p. m., from the Ambassador in Brazil, p. 765.

<sup>23</sup> Not printed.

<sup>24</sup> Only two of the 13 enclosures are printed; for these, see pp. 771 and 772.



The Embassy has made office space and stenographic assistance available to the Council's representatives and I have assigned one foreign service officer and one auxiliary officer to work with them. My Economic Counselor is in daily touch with the Finance Minister and Mr. Bouças<sup>25</sup> in regard to various phases of this matter and I am closely watching developments.

While the preliminary discussions have taken place in a friendly atmosphere, it should be pointed out that the attainment of the Council's objectives is conditioned by the fact that the Finance Minister is the only high official in Brazil who has a real interest in reaching a debt settlement. Others appear apathetic towards the question, while a few have indicated outright opposition to any program which would substantially increase payments beyond the point of the 1940 arrangement.

Respectfully yours,

For the Ambassador:  
HAROLD S. TEWELL  
*First Secretary of Embassy*

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832.51/2210

*Memorandum by the Second Secretary of Embassy in Brazil  
(White)*<sup>26</sup>

[RIO DE JANEIRO,] September 30, 1943.

The attached memorandum,<sup>27</sup> presented to the Brazilian Government and Embassy yesterday, constitutes the comment of the British Corporation of Foreign Bondholders in regard to the suggested bases for discussion prepared by the American representatives and submitted to the negotiating group on September 20 and 22.

An examination of its contents, with the elimination of "smoke-screen" elements, reveals the fundamental difference in principles which created such a wide separation between the creditor nation[s] in 1934 and 1940, and which, it is now clear, constitutes a major impediment to a permanent settlement of Brazil's external funded debt. The British suggestions are designed, through sharply increased interest rates and the concentration of amortization, to bolster the funding and coffee realization issues to the point where their owners would eventually recapture their original investment. In view of the limited total debt service available, this could only be accomplished by severe reductions in interest payments to the holders of federal unsecured,

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<sup>25</sup> Valentim F. Bouças, head of the Brazilian delegation on the debt question.

<sup>26</sup> Addressed to the Counselor of Embassy for Economic Affairs (Donnelly) and to Ambassador Caffery. Copy transmitted to the Department by the Ambassador in his despatch No. 12927, September 30; received October 9.

<sup>27</sup> Not printed.

state and municipal bonds. Furthermore, the channelizing of amortization would leave the market for the latter group of bonds with a greatly restricted "cushion" and the eventual severe loss on the original investment would constitute an unwarranted degree of sacrifice by their holders.

The American suggestions, in contrast, adhered to the well-known Brazilian axiom that "when it rains in Brazil everyone gets wet". It was recognized that there were qualitative differentials as between issues, based on differences in the original risk element, but it is believed that these were fully compensated by the regrouping plan suggested.

It is impossible at this point in the negotiations to indicate whether the British and American approaches can be reconciled. Further exploration, however, may point to the need for a British-American agreement as to the percentages of Brazil's total interest and amortization payments which should be allocated to sterling and dollar bonds, respectively. This would then permit the American representatives to suggest a distribution of the dollar bond share on an equitable basis as between groups of issues. The British Council would then be free to enrich their funding and coffee realization bondholders (it would be interesting to know who they are) at the expense of the other sterling bondholders.

IVAN B. WHITE

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832.51/2200 : Telegram

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

RIO DE JANEIRO, October 2, 1943—1 p. m.

[Received 5:10 p. m.]

4681. My despatch No. 12846 of September 24 and No. 12927 of September 30.<sup>28</sup> Despite British Council opposition, Brazilians appear receptive to our plan of regrouping, particularly as to interest distribution. The Brazilians however have requested our assistance in meeting, at least partially, British proposal regarding amortization which stipulates exceptionally heavy purchases in categories A and B. The disequilibrium is so great that American bondholders as a group might regard such proposal as inequitable.

One possible solution would be to reach an agreement as to the relative amounts of amortization to be allocated to sterling and dollar bonds respectively. Our amortization could then be allocated between categories on a qualitative basis perhaps somewhat parallel to our interest schedules. The British Council would then be able to arrange their own amortization distribution with Brazil.

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<sup>28</sup> Latter not printed, but see the memorandum *supra*.

Please request Foreign Bondholders Protective Council to express its views on this point and in regard to basic principles to be used in discussions regarding amortization.

Telegraphic reply requested.

CAFFERY

832.51/2215

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

No. 12988

RIO DE JANEIRO, October 7, 1943.

[Received October 14.]

SIR: Referring to my despatch No. 12959 of October 2, 1943,<sup>29</sup> I have the honor to enclose<sup>30</sup> a memorandum prepared by Council and Embassy representatives, in regard to the "Estudo Bouças", a translation of which was attached as Enclosure I to my despatch under reference. There are also enclosed copies of the minutes of the sixth and seventh meetings held on September 26 and October 1.

Debt negotiations, which had been in a state of suspended animation for several days, took a new turn on October 6 when Finance Minister Souza Costa, after formally presenting the "Estudo Bouças" as the "Estudo Brasileiro", offered to increase the interest total under "Alternative A" to \$19,936,000, compared with \$17,552,000 in his original June proposal. In regard to "Alternative B", the Finance Minister suggested 3.6 per cent on the new principal, and finally offered, with apparent reluctance, to consider 3.75 per cent. There is attached, as Enclosure IV, a copy of a memorandum, prepared by a member of my staff, which summarizes the status of the negotiations in regard to the key question of interest.

In view of the Finance Minister's renewed personal interest in the debt settlement, it was believed desirable to maintain the negotiations in an active status. For this purpose, and pending interchange of communications with the Foreign Bondholders Protective Council in regard to the Finance Minister's new offer, a new study was prepared for presentation at the October 7 meeting, based on adjustment of our "Alternative B" to a 3.75 per cent interest rate and additional cash payments of \$17,127,000. The Brazilian representatives are now examining this study, an outline of which is contained in a memorandum, copy of which, without enclosures, is attached as Enclosure V. There are also transmitted as Enclosures VI and VII minutes of the meetings of October 6 and 7.

The facts available indicate that the Brazilian Government is approaching its maximum position in regard to interest.

<sup>29</sup> Not printed.

<sup>30</sup> Enclosures mentioned in this despatch not printed.

It is respectfully suggested that a copy of this despatch be transmitted to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York City. In as much as future communications will be related to the revised schedules of "Alternative A" and "Alternative B", adjusted to the records of the Brazilian Government of amounts outstanding, it is requested that, unless it has already been done, a copy of the Embassy's Despatch No. 12846 of September 24, 1943, be forwarded to the Council.

Respectfully yours,

For the Ambassador:

WALTER J. DONNELLY

*Counselor of Embassy for Economic Affairs*

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832.51/2228

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

No. 13131

RIO DE JANEIRO, October 18, 1943.

[Received October 26.]

SIR: Referring to my despatch No. 12988 of October 7, 1943, I have the honor to report the following developments in regard to negotiations for the permanent settlement of Brazil's external debt, and to attach as Enclosure I the "Alternative A" schedule which was signed by the Brazilian, British and American representatives on October 16.

Negotiations appeared to have reached an impasse when the Finance Minister's offer of October 6 and the October 9 telegram of the Foreign Bondholders Protective Council revealed a wide gap in views. The difficulty was that the Finance Minister's interest offer of \$19,936,000 was somewhat lower than the figure of \$22,320,000 in the schedule of September 20 which the Council had found acceptable. Furthermore, the Finance Minister's proposal was so low as to make the American regrouping proposal unacceptable to the British Council.

On October 11 the Embassy prepared and, with the approval of the Council's representatives, presented to the Finance Minister a memorandum, a copy of which is attached as Enclosure IV.<sup>31</sup> This was done for the purposes of preventing lapse in active negotiations and of ascertaining, if possible, the maximum Brazilian position. The Finance Ministry in its reply of October 13 indicated that it would accept the suggested total debt service figures of \$29,746,000 for "A" and \$31,315,800 for "B", but that the September 20 "A" interest schedule would be reduced by a flat  $\frac{1}{4}$  per cent and that the September 20 "B" interest schedule would be adjusted downward from 4.00 to 3.75 per cent.

My Economic Counselor pointed out to the Finance Minister the inadequacies of this offer, and requested that the "A" interest figure

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<sup>31</sup> Not printed.

be raised to \$20,500,000. After some deliberation and with considerable reluctance, the Finance Minister agreed. It was this concession which brought a debt settlement within the range of possible achievement.

At the joint meeting on October 15, Mr. McCormick said that he believed it would be possible to prepare acceptable schedules on the new amount, provided the sum could be applied to bonds now outstanding rather than to those outstanding at the end of 1942. The Brazilian delegation, after consultation with the Finance Minister, agreed to this plan which had the effect of making an additional \$260,000 available for interest purposes.

During the afternoon of October 15, Second Secretary White held separate conversations with Dr. Bulhões and Mr. Claudinor of the Brazilian delegation for the purpose of ascertaining their views on the distribution of interest plan which, within the regrouping framework, would best meet Brazil's and Great Britain's wishes. The Brazilian delegates indicated that they were not inclined, for reasons of financial prestige, to lower the interest rate on any issue below the level of the 1940 Arrangement. This view referred specifically to the Coffee Realization issues. Furthermore, they indicated that Brazil was not anxious to pay as high as 3.75 per cent interest on any issue under "Alternative A". Their views on this point appeared to be based on considerations of official and public acceptance of any agreement in Brazil, and on the thought that a 3.75 per cent rate in any "Alternative A" proposal would make the "Alternative B" proposal correspondingly less attractive to bondholders in the exercise of their option. Finally, they said that the British representative was still demanding 4.5 per cent for the coffee loans and 3.75 per cent for the fundings and that any Brazilian offer of less than 3.0 per cent for the latter had little hope of success.

The same evening Messrs. Orton and White, after testing several possibilities, devised the *Plano Meia-Noite*, a translation of which is attached as Enclosure III. The following morning Mr. McCormick took this plan to Mr. Bouças, head of the Brazilian delegation, and suggested that, if he agreed with it, the plan should be presented to the joint meeting as a Brazilian proposal. It was thought that this procedure would please Mr. Bouças and tend to minimize the objections of the British representative. After consultation with the Finance Minister, Mr. Bouças presented the plan as a Brazilian proposal and it was approved by both the American and Brazilian delegates. The British representative signed the plan but qualified his action by the statement that it was doubtful whether the British Council would accept it and they would certainly not accept it unless the plan was accompanied by very heavy amortization provisions for the Fundings and Coffee Realization issues.

Discussions are now proceeding between the American and Brazilian representatives on questions of readjustment of "Alternative B", amortization and arrearages. If it were not for the wide differences of opinion held by the British Council, there is reason to believe that a debt settlement could be reached within the next few days. The Finance Minister has informed my Economic Counselor that he had hoped to reach an agreement this week, but was still waiting for confirmation from the British Council of the understanding reached last Saturday.

It is requested that a copy of this despatch be transmitted as expeditiously as possible to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York City.

Respectfully yours,

For the Ambassador:

HAROLD S. TEWELL

*First Secretary of Embassy*

[Enclosure I—Translation]

ALTERNATIVE "A"

VALUES IN THOUSANDS OF DOLLARS

INTEREST STUDY

October 16, 1943

Loans	Interest		Circulation on October 16, 1943		Interest	Sterling	Dollars
	Current	Contract	Sterling	Dollars			
Funding <sup>1</sup>	2.5	5	103, 247	18, 689	3	3, 097	561
Coffee Realization..	3.5	7	22, 447	14, 646	3.5	786	513
Union—Grade III..	2.	8	—	26, 669	3.5	—	934
“ III..	1.75	7	—	14, 387	3.5	—	503
“ III..	1.625	6.5	33, 489	81, 892	3.375	1, 130	2, 763
“ III..	1.25	5	25, 977	—	3	779	—
“ IV..	1	5	61, 745	—	1.875	1, 157	—
“ IV..	0.9	4.5	18, 958	—	1.75	332	—
“ IV..	0.8	4	140, 533	—	1.625	2, 283	—
Coffee Institute—							
“ V....	1.406	7.5	34, 081	—	2.375	810	—
States “ VI..	1.4	8	6, 022	18, 175	2.50	150	455
“ VI..	1.225	7	7, 474	14, 613	2.25	168	329
“ VI..	1.138	6.5	6, 333	11, 261	2.125	134	239
“ VI..	1.05	6	19, 365	14, 648	2.0	387	293
“ VI..	0.875	5	14, 832	—	1.75	260	—
States and Municip- alities—							
Grade VII..	1.3	8	—	15, 760	2.375	—	374
“ VII..	1.219	7.5	—	2, 641	2.25	—	60
“ VII..	1.138	7	21, 262	10, 556	2.125	451	225
“ VII..	1.056	6.5	—	35, 511	2.0	—	710
“ VII..	0.975	6	1, 980	6, 476	1.875	37	121
“ VII..	0.894	5.5	6, 817	—	1.75	119	—
“ VII..	0.812	5	17, 811	—	1.625	289	—
“ VII..	0.731	4.5	6, 872	—	1.5	103	—
Total.....			549, 245	285, 924		12, 472	8, 080
			835, 169			20, 552	
Percentages..			65. 7%	34. 3%		60. 6%	39. 4%

[Enclosure III—Translation]

## MEMORANDUM

OCTOBER 15, 1943.

In an effort to find a solution to the debt problem, a number of plans were formulated. Testing each one relative to the interests of the three countries, the conclusion reached was that the following formula was probably the most acceptable:

1.—Recognition of Brazilian principle that it is undesirable to pay as high as 3.75% for any coupon under Alternative A.

2.—Recognition of Brazilian and British principle that it is undesirable to reduce coffee realization loans below the 3.5% which they are now receiving.

3.—Accordance to the funding loans of an interest rate (3.0%) which is the highest percentage of original contract of any issue.

4.—Necessity of keeping close to the total interest figure of \$20,500,000 on bonds now outstanding.

*Plano Meia-Noite*

“Alternative A” Suggested Basis of Discussion of September 20, with following modifications:

1.—8% dollar bonds in Category A to receive 3.5% instead of 3.75%.

2.—Reduction of  $\frac{1}{4}$ % interest in Categories C and D.

3.—Reduction of  $\frac{1}{8}$ % interest in Category E.

The total interest charges for the first year would be:

In U.S. \$ thousands			
Category	Total interest	Dollar Bonds	Sterling Bonds
A	9,769	4,762	5,007
B	1,299	513	786
C	3,773	—	3,773
D	3,225	1,315	1,910
E	2,493	1,491	1,002
Total—	20,559	8,081	12,478

832.51/2217: Telegram

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

RIO DE JANEIRO, October 18, 1943—2 p. m.

[Received 4:24 p. m.]

4895. Reference my 4894 of October 18, 1 p. m.<sup>32</sup> Agreement of October 16<sup>33</sup> should be studied in relation to enclosure 2,<sup>34</sup> my despatch 12846 of September 24. For dollar bonds this represents an

<sup>32</sup> Not printed.

<sup>33</sup> See despatch No. 13131, October 18, from the Ambassador in Brazil, *supra*.

<sup>34</sup> Enclosure 2 not printed.

improvement in the neighborhood of 15% above minimum interest indicated Department-Council memorandum of understanding and is only 3.6% less than our basic suggestion. These gains were achieved through a combination of successes in (1) maintaining our regrouping arrangement, (2) obtaining from the Finance Minister an additional \$414,000 in cash, and (3) his agreement to apply total interest sum of \$20,500,000 to bonds outstanding as of October 16.

It now appears probable that a satisfactory permanent debt settlement can be attained, barring unforeseen complications (the possibilities of which can be minimized by speedy action this week). In this connection, the Brazilians feel that they have made (as they have) substantial interest concessions to us, and we should minimize any additional requests which modify other aspects of their program. The most difficult remaining problem is the distribution of amortization between grades. The heavy concentration of amortization proposed by the British, if adopted for option A, would be so attractive for certain issued [*issues*] as to defeat partially the Brazilian debt reduction objective under option B.

The Council is to be commended for its pragmatic approach to the debt problem, which has made possible a local solution to the interest question more favorable than original expectations.

Any assistance the Department can give in expediting decisions by the Council on the remaining questions would be very helpful.

I desire to repeat that Souza Costa is the only Cabinet Minister in favor of a debt settlement at this time. I am reliably informed that Aranha considers the proposed settlement as too liberal and that he has told Souza Costa that the Americans and British were prepared to accept less favorable terms.

CAFFERY

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832.51/2227 : Telegram

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

WASHINGTON, October 27, 1943—6 p. m.

4013. For McCormick from Munro. Your 5027.<sup>35</sup> Regret we<sup>36</sup> cannot accede to change of interest agreement of October 16 which was in our opinion a very considerable compromise under our original views of proper distribution.

While we did agree to distribution of amortization to meet British insistence, we feel we cannot under any circumstances justify dif-

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<sup>35</sup> Telegram of October 26, not printed; it reported British dislike of option A of the October 16 understanding, and indicated that Brazil was considering the desirability of a last-resort plan of interest redistribution.

<sup>36</sup> The Foreign Bondholders Protective Council, Inc.



ferentiation as to interest payments between dollar and sterling bonds.

We consider any representation that credit of Brazil will be enhanced by more favorable treatment to banker-held loan is absolutely contrary to fact and certainly would receive widespread unfavorable public comment here.

Phillimore's statement with respect to Brazil's looking ridiculous in London's financial circles is, in our opinion, purely a trading plea. We believe market for future Brazilian loans much more likely to open up in New York before it does in London. [Munro.]

STETTINIUS

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832.51/2227: Telegram

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

WASHINGTON, October 29, 1943—2 p. m.

4037. Department is greatly concerned at situation presented in Embassy's 5027 of October 26<sup>37</sup> and Department's 4013 of October 27. Department is particularly apprehensive of breakdown of negotiations. This it desires to avoid if at all possible. In order that the Embassy may know the Department's attitude, you are informed that Department believes British position so unjustifiable and unfair to great bulk of bondholders that it could not be sustained before the public opinion of any of the countries concerned.

The Department does not believe that the Brazilian authorities could possibly entertain a proposal for discrimination between sterling and dollar interest rates on identical or closely comparable issues. Such discrimination would have a most unfortunate effect destructive of the strongly favorable public reaction otherwise anticipated in this country from the lines of settlement on which American and Brazilian negotiators have appeared to be in agreement.

So strongly does Department hold this view that it is prepared to ask Brazilian Government to make agreement effective regardless of opposition of British. You are authorized to inform the Government of this position if and when in your judgment the American negotiator is unable to conclude negotiations without this assistance. While the specific method of accomplishing the purpose stated is properly a matter for Brazilian determination, you are requested to make it clear that in our opinion method chosen should be one that would definitely provide for same interest rate and cash payments on comparable dollar and sterling bonds in same group.

STETTINIUS

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<sup>37</sup> See footnote 35, p. 781.

832.51/2237 : Telegram

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

RIO DE JANEIRO, October 31, 1943—10 a. m.

[Received 12:55 p. m.]

5106. Department's 4037, October 29, 2 p. m. Following their telephone conversation with Department yesterday, I sent two members of my staff to see Souza Costa.

The Finance Minister was given a memorandum summarizing first two paragraphs Department's telegram and he was informed orally of general line of policy expressed in third paragraph and that American Council was not disposed to agree to a modification of October 16th agreement to permit  $3\frac{1}{8}\%$  for the fundings. The following understanding was reached:

Souza Costa will call in Phillimore today. He will tell him (1) that the October 16th agreement will be adhered to; and (2) that if the British will accept the agreement, the Finance Minister will request the State Department to obtain American Council consent to a rate of  $3\frac{1}{8}\%$  for the fundings. To strengthen his presentation, the Finance Minister will point out to the British representative that American agreement to division of amortization on basis bonds outstanding instead of contract was a concession contingent on British acceptance October 16th agreement and that failure of this agreement would result in sterling bonds receiving less amortization. Inasmuch as Phillimore told Souza Costa on Friday that he thought McCormick and Orton were bluffing, Finance Minister also intends to point out firm position of State Department as per our memorandum.

With reference to  $\frac{1}{8}\%$  increase in fundings, Embassy comments as follows (Orton is in full agreement—McCormick is out of town temporarily):

A—Parity between dollar and sterling issues—September 20th schedule was generally regarded as establishing parity. October 16th agreement with  $3\frac{1}{8}\%$  for all 8% bonds in category A represents on bonds now outstanding 96.8% of September 20th schedule for dollar bonds as a group and approximately 96% for sterling bonds.

B—Equity between issues—while it is true that modification suggested does not maintain the same precise relationship between issues in category A that we have for other categories, the gradation of  $3\frac{1}{8}\%$  for 5's,  $3\frac{3}{8}\%$  for  $6\frac{1}{2}$ 's and  $3\frac{7}{8}\%$  for 7's and 8's appears justifiable, particularly when compared with Aranha plan.

It is doubtful whether British Government is aware of principles involved and implications of British Council's position. Now that the Department has decided upon its strong stand, as per telegram under reference, it becomes especially important that all the facts

be laid before the British Embassy in Washington for communication to London.

If British Council rejects Souza Costa's solution we are faced with a difficult problem because the Finance Minister has no intention of including sterling issues in his Decree-Law unless British Council will recommend to bondholders. His position on this is that unilateral action would cost him 60% more on his sterling bonds than the present arrangement without corresponding benefits in financial prestige.

Souza Costa expressed desire to complete negotiations this week. (It is probable that he hopes to announce debt settlement on occasion official opening new Finance Ministry building November 10th.)

Please keep Council in an active status during next few days. The Finance Minister has promised us a report tonight or tomorrow morning on his conversation with Phillimore.

CAFFERY

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832.51/2315

*The British Embassy to the Department of State*

AIDE-MÉMOIRE

Negotiations on the Brazilian foreign debt are now proceeding between the Brazilian Government and representatives of the British and American bond-holders. The British and American interests are naturally not identical but there is every reason to believe that a scheme can be worked out which could be put forward by the representatives of both countries' bond-holders as a reasonable compromise.

2. It is clear that there is little hope of reaching a settlement unless the British and American negotiators show a common line in their discussions with the Brazilian Government. The British Council have maintained close touch with the American Council during the discussion, but the latter have, on more than one occasion, put counter-proposals to the Brazilians without prior discussion with the British negotiators and which were impossible for the British Council to put before their holders.

3. It seems to His Majesty's Government that to create an impression of disunion can do nothing but harm. His Majesty's Government have no desire to create an offensive front against the Brazilians, but the Brazilians have told the British negotiators that the British and United States negotiators must resolve their own differences between themselves before they can do more.

4. His Majesty's Government hope that the State Department will impress on the Protective Council and their negotiators in Rio the

desirability of common action and of prior consultation before further proposals are put to the Brazilians.

5. The Council of Foreign Bond-holders are anxious to go as far as they can to meet the American point of view, and have therefore authorised their representatives to agree to the following terms as regards loans which have been principally in dispute:

(a)  $3\frac{1}{2}$  per cent. interest for the coffee loan under option one, provided it receive not less than double its present sinking fund, say 40 per cent. of the contractual sinking fund made cumulative;

(b)  $3\frac{1}{2}$  per cent. interest for the funding loans (i.e. the same interest rate as the highest loan in grade 3) provided that they are given not less than 70 per cent. of their respective contractual sinking funds.

These terms would be acceptable to the Council of Foreign Bond-holders provided that the Brazilian authorities and American holders agreed to the following counter-concessions:

(a) Grades one and two (and, if the American holders so desire, grade three as well) to be excluded from option 2, the saving being applied to improve payments on other grades;

(b) In the case of both options, the total annuity to remain constant; that is when any loan is paid off, the service of such loan to be distributed among the other loans.

6. The Council have offered these proposals in a spirit of compromise, in the hope of reaching an agreed settlement. They feel that they can go no further without the risk of repudiation by their holders. If the American holders will support a scheme on these lines, His Majesty's Government believe that agreement can soon be reached. If not, there is every reason to fear a break and an open confession of divided counsel. His Majesty's Government hope that the State Department will agree that this should not be risked when it might be avoided by consultation in a spirit of reasonable compromise.

WASHINGTON, 2 November, 1943.

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832.51/2245 : Telegram

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

RIO DE JANEIRO, November 5, 1943—6 p. m.

[Received 10:14 p. m.]

5117. We have made some progress the past 3 days in the interest problem mentioned in Department's 4124, November 4, midnight.<sup>38</sup>

British representative has accepted our position on coffee realizations and has abandoned effort to reduce any of the dollar interest

<sup>38</sup> Not printed.

rates we obtained on October 16. (The Brazilians helped us on this latter point.) Phillimore is now engaged in readjusting those sterling issues which have no identical dollar issues. He proposes, relative to October 16 schedule, (1) to improve his coffee institute loan (old grade five) at the expense of sterling 5% non-funding loan (old grade three) and (2) to improve his 1898 and 1914 fundings at the expense of sterling federal unsecureds (old grade four). Brazilians appear receptive to this and I see no grounds which we can with logic oppose it. Please point out to American Council that it could adequately defend on grounds that discrimination would be entirely at expense of other sterling bondholders; that Decree-Law schedule will refer only to individual issues and that grades will not be mentioned.

The only remaining knotty issue on British problem under option appears to be proposal Phillimore made to pay 3⅜% on 1931 fundings (40 years) and only 3⅛% on 1931 fundings (20 years). Unfortunately, one member of Brazilian delegation inadvertently gave a semi-commitment on this request. We have told Brazilians that under no circumstances would either the American Council or State Department agree to such a discriminatory proviso. State Department reply to British Embassy along lines we have previously suggested might prove efficacious in preventing deadlock.

CAFFERY

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832.51/2315

*The Department of State to the British Embassy*

AIDE-MÉMOIRE

The terms of the British Embassy's *aide-mémoire* of November 2, 1943, regarding the negotiations now in progress in Rio de Janeiro looking to a permanent settlement of the Brazilian sterling and dollar bonded indebtedness, indicate some possibility of misunderstanding which may arise from the wartime difficulty of prompt full communication over the distances involved.

It was reported to the Department of State from Rio de Janeiro in December 1942 that Mr. John Phillimore, who had just returned from consultations in England, was about to initiate discussions with the Brazilian authorities looking to a readjustment of the Brazilian foreign bond service without awaiting the expiry of the current temporary service scheme on March 31, 1944. Mr. Phillimore's conversations continued until June 1943 without attempt to obtain, either directly or through the American Embassy at Rio de Janeiro, the views of the American Foreign Bondholders Protective Council. This procedure appears to have been more or less in conformity with

precedents followed in the development of the temporary plans of 1934 and 1940. In June 1943, the American Embassy was informed by the Brazilian Minister of Finance that he and Mr. Phillimore had been exploring the debt situation in an effort to find a mutually satisfactory basis for negotiation and that the interests of American bondholders would be protected. On inquiry by the American Embassy, Mr. Phillimore confirmed this and stated that he had given a commitment to keep the tenor of the conversations secret. Draft proposals emanating from these discussions were communicated to the American Embassy on June 21, 1943, and first reached the American Council in full textual form on July 22.

The President of the British Council had addressed to the American Council a letter dated June 19, 1943, which, so far as the Department of State is informed, was his first communication to the American Council regarding the negotiations with the Brazilian Government. The draft proposals communicated in June comprised two options. The first option called for interest (except for a slight deviation in one issue) of 70 percent of the interest rate payable in the last year of the 1934 temporary service plan. The British Council's letter appears, *inter alia*, to have expressed a doubtful hope that this basis could be raised to 75 percent.

After study, the American Council decided to seek improvement of the offer in various regards, and notably by raising the interest rates at the expense of the amortization and by correcting what it had always regarded as discriminatory and unjustified preferences given the five percent funding loans and the São Paulo Coffee Realization Loan. Calculations showed that the June proposal allocated to these issues, outstanding in par value equivalent of some \$162,000,000, interest of \$6,000,000 and amortization of \$6,200,000, leaving interest of \$11,600,000 and amortization of \$5,700,000 for the remaining approximately \$700,000,000 par value of other Brazilian bonds.

The American Council dispatched representatives to Rio de Janeiro who, after making contact with Mr. Phillimore and after a first preliminary meeting with the Brazilian negotiators on September 16, have engaged in a series of official meetings with them in which Mr. Phillimore has participated. At the fourth meeting on September 20 by request of the Brazilian delegates, they submitted a draft schedule of payment which became the basis of discussion. After much discussion and exchange of proposals and counter-proposals, a modified version proposed by the Brazilian negotiators was initialed on October 16 by them, by the American negotiators and by Mr. Phillimore, the latter making an oral reservation to the effect that he doubted the British Council would accept the arrangement and that they would

not accept it unless there were heavy amortization for the funding and coffee realization issues.

The schedule of interest rates thus approved represented an overall increase of some 20 percent over the interest offered in June and considerably greater increases for bonds other than the funding and coffee realization bonds. The 3½ percent rate for the coffee realization bonds, which is the rate they currently receive, was set by the Brazilian negotiators as the highest rate Brazil is prepared to offer upon any bonds under the first option, which involves no decreases in principal. The three percent rate on the funding 5s, which also corresponds with what they are currently receiving, represents the highest percentage of original contract rate that has been granted to any loan.<sup>39</sup> As the result of substantial concessions made to the British position during the negotiations, the interest schedule represented 41.6 percent of contract rates on dollar bonds and 43.3 percent on sterling bonds. In view of the insistence of the British negotiator on high amortization of the fundings and the coffee realization loan, which would be impracticable on an overall basis, it was agreed that there should be separate amortization schedules for the dollar and sterling issues and the total amortization fixed at \$9,225,000 was divided in the proportion of 34.2 percent for dollar bonds and 65.8 percent for sterling, these proportions corresponding to the principal amounts now outstanding in the respective currencies. This basis of division which gives sterling bonds \$989,000 more in annual amortization under the October 16 agreement than they were entitled to under a division based on contract provisions was conditioned on British acceptance of the interest schedule provided in the October 16 agreement.

The American and Brazilian negotiators have agreed on the bases on which the amortization quota will be divided among the dollar issues; it is left to the British Council to determine the amortization distribution for sterling bonds. The American negotiators have accepted this arrangement only with reluctance and of course have not been in a position to concede similar freedom of separate action on interest rates where different rates for sterling and dollar bonds would provoke public reaction destructive of the good will the debt settlement plan would otherwise create.

It was in this posture of events and while the Brazilian Minister of Finance was pressing to complete the negotiations in the following week that he was told by Mr. Phillimore on October 31 that discussions were under way between the British and American Councils and that no action should be taken at Rio de Janeiro until the results

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<sup>39</sup> A marginal notation initialled "FL" opposite this sentence reads: "error, current rate was 2.5%."

were known. This is the Department's information most nearly corresponding to the statement in the British Embassy's *aide-mémoire* that the Brazilians have told the British negotiators that the British and United States negotiators must resolve their own differences between themselves before they can do more.

The American Embassy at Rio de Janeiro has already been informed, and has informed the Brazilian Minister of Finance, that the Department of State strongly shares the opinion that the undue preferences proposed for the funding and coffee realization loans could not be sustained before the public in comparison with the terms agreed upon October 16 and that the Department will urge that a separate agreement covering the dollar bonds, duly protected by a most favored nation clause, should be proceeded with in case a joint agreement should be made impossible by disagreement over this point, which has appeared to be the only one seriously in controversy in any quarter.

It is understood that negotiations in Rio de Janeiro are still proceeding, although the last minute delay interposed by the British Council has seriously endangered the possibility of making an agreement effective on January 1, 1944. Delay of the effective date to April 1, 1944 would involve a substantial sacrifice of interest by bondholders.

WASHINGTON, November 8, 1943.

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832.51/2257 : Telegram

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

RIO DE JANEIRO, November 18, 1943—noon.

[Received 1:56 p. m.]

5345. Department's 4015, October 27; and 4290, November 17; and my 5414 [5314], November 16.<sup>40</sup> Finance Minister yesterday agreed to make debt settlement effective January 1 instead of April 1, 1944, provided it is administratively possible. This would mean an extra \$900,000 in interest for dollar bondholders, as well as better amortization during first 1944 quarter.

The registration requirements constitute principal impediment. Is SEC<sup>41</sup> willing on the basis of information available in Department's files to authorize fiscal agents to send preliminary notice to bondholders immediately after promulgation of Decree-Law? (This should be done by the end of November.)

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<sup>40</sup> None printed.

<sup>41</sup> Securities and Exchange Commission.



Embassy suggests that Department obtain from SEC and forward immediately by air mail pouch complete statement of requirements and set of forms. This would permit immediate compilation of required data which Brazilian representative could take to Washington in early part of December for completion of registration formalities prior to January 1.

Telegraphic reply requested.

CAFFERY

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832.51/2262 : Telegram

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

RIO DE JANEIRO, November 20, 1943—1 p. m.

[Received 7:17 p. m.]

5396. See my 5390, November 19, 8 p. m.<sup>42</sup> To Foreign Bondholders Protective Council from Orton. The following translation of the proposed Decree-Law was made by the Embassy. Official Brazilian translation has not as yet been made, but it is not believed that there will be any important textual differences:

"The President of the Republic using the powers conferred on him by article 180 of the constitution, and

"Considering the understanding reached with the representatives of the Council of the Corporation of Bondholders of London and of the Foreign Bondholders Protective Council, of New York, for the purpose of establishing definitive forms for payment and service of Brazil's external debt in pounds sterling and dollars, decrees:

"Article I—effective January 1, 1944—the payment of interest and amortization of the bonds of the external loans issued in pounds sterling and dollars by federal, state and municipal governments, Coffee Institute of the State of São Paulo and the Banco do Estado de São Paulo, will be made in accordance with one of plans A or B annexed,<sup>43</sup> at the option of the bondholders.

"Paragraph 1—plan A maintains the nominal and original value of the bond, establishing new and definitive rates of interest and quotas of amortization.

"Paragraph 2—plan B establishes a reduction in the nominal original value of the bond, compensated by payments in cash, establishing a uniform rate of interest and quotas of amortization.

"Paragraph 3—the option will be made before the respective paying agent who, by means of an appropriate legend, will record on the bond the terms of the plan accepted.

"Paragraph 4—there is conceded to the bondholders of the sterling loan, Distrito Federal 1904—5%, the right to exercise the option treated by the present Decree-Law, guaranteeing to them the advantages granted to equivalent loans.

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<sup>42</sup> Not printed.

<sup>43</sup> For Portuguese text of attachments mentioned in this document, see Brazil, *Diario Oficial*, November 25, 1943.

"Article II—the Federal Government will redeem at sight, effective January 1, 1944 the bonds of loans included in attachment No. 2 on the basis of 12% of their nominal value, against their delivery to the paying agents, all coupons due or to become due relative to such bonds being considered canceled.

"Sole paragraph—the conditions to which the present article refers are applicable to the loan issued in pounds sterling by the municipality of Belo Horizonte in 1905.

"Article III—the Federal Government will redeem at sight, effective January 1, 1944 the coupons included in attachment No. 3 on the following bases:

1. Ten percent of the rates of the last period of the plan approved by Decree-Law 2085 of March 8, 1940 those included in column one which relate to arrears previous to Decree number 23829 of February 5, 1934.

2. Twenty-five percent of the rates referred to in the previous item, those included in column two, referring to coupons whose due dates are included in the period between July 1, 1939 and December 31, 1943.

3. At the rates fixed in the referred to Decree-Law number 2085, those included in column three and referring to arrears occurring during its effective period.

"Article IV—the period conceded to bondholders to exercise the option referred to in Article I of this Decree-Law will be 12 months from January 1 to December 31, 1944 inclusive, the Minister of Finance having the power to authorize its extension.

"Paragraph 1—the bondholders who exercise during the period granted the option to which Article I refers will be guaranteed the advantages and the payment of the interest due from January 1, 1944 on the basis of the plan elected.

"Paragraph 2—if the period established in this article lapses without the bondholder having exercised the option, he will be automatically included in plan A, there being assured to him the right of receiving the interest due, beginning with the date to which the previous paragraph refers.

"Paragraph 3—to the bondholders who have not exercised the right of option for reasons independent of their will and who have submitted sufficient proof to the respective paying agent, there will be conceded a supplementary period by the Minister of Finance.

"Article V—in case of the loans included in plan A, the responsibility lies with the original debtor, exchange drafts being assured by the appropriate authority, against a previous deposit to be made in national currency by the respective debtors.

"Article VI—the Federal Government makes itself responsible for the payment of service of state and municipal bonds, inclusive of those of the Coffee Institute of the State of São Paulo and of the Banco do Estado de São Paulo whose bondholders have chosen plan B.

"Article VII—the Minister of Finance is authorized to convoke, opportunely, a reunion of interested state and municipal governments in order to establish norms for the exact execution of the obligations resulting from this Decree-Law.

"Article VIII—it is the duty of the Contadoria Geral da República, relative to federal loans, and of the technical section referred to in Decree number 22089A of November 16, 1932, in that which concerns state and municipal loans, to supervise the execution of this Decree-Law.

"Article IX—the respective paying agents should adjust directly with the Minister of Finance the amount of the remuneration due for the payment of interest, redemption and stamping of bonds.

"Sole paragraph—the paying agents of dollar loans will deduct in the payment of the first coupon one-eighth of one percent of the nominal and original value of the bond, which amount will be delivered to the Foreign Bondholders Protective Council Inc. of New York.

"Article X—the Federal Government as it is found practicable, will extend to the bondholders of the state and municipal loans, issued in francs and florins, treatment corresponding to that extended to bondholders of equivalent dollar and sterling loans.

"Article XI—there shall be included in the federal, state and municipal budgets the appropriations necessary to the payments foreseen in this Decree-Law, by means of instructions issued by the appropriate authorities.

"Article XII—the amortization funds will be cumulative and employed in the purchase of bonds when quoted below par and in the drawing at nominal values when at par or above.

"Paragraph 1—in plan A the total annual service of interest and amortization established for each debtor will be constant until the final redemption of all the bonds issued by it and currently in circulation.

"Paragraph 2—in plan B the total annual service of interest and amortization will be constant until the final liquidation of all the bonds included in the plan referred to.

"Article XIII—the loans issued in pounds sterling and dollars will be paid in the respective currencies of legal tender.

"Article XIV—exchange drafts being available, it is optional to apply them to extraordinary redemption of bonds of Brazil's external debt.

"Article XV—the text A of this Decree-Law and of the plans referred to therein shall be transmitted *en toto* immediately to the Brazilian Ambassadors in England and the United States for purposes of publication.

"Article XVI—the Minister of Finance is authorized to issue regulations, instructions and to promote the necessary arrangements for making effective the operations pertaining to the present Decree-Law.

"Article XVII—cases of omission will be considered and decided by the Minister of Finance, upon representation by the interested parties through the respective paying agents.

"Article XVIII—dispositions to the contrary are revoked."

Interpretative telegrams from Embassy and Council's representative will follow this afternoon. [Orton.]

832.51/2264 : Telegram

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

RIO DE JANEIRO, November 21, 1943—1 p. m.

[Received 5:29 p. m.]

5401. Embassy is informed that Finance Minister has approved Decree-Law (my 5396, November 20, 1 p. m.) and attachments and that they are being submitted to President Vargas today and to Brazilian Cabinet tomorrow for ratification. Plan is to telegraph text Decree-Law and summary of attachments to Brazilian Missions Washington and London Monday evening. Simultaneous release Rio, Washington and London is planned immediately after closing of stock market Tuesday afternoon—probably immediately after 4 p. m. Rio time (3 p. m. Washington time).

Department will be informed of any changes in above schedule.

I plan to give American correspondents here a brief statement and Embassy is preparing an interpretive summary for their use.

Embassy was given this morning copies of attachments to Decree-Law which are based on bonds outstanding November 1. The following summary of their contents as they relate to dollar bonds is transmitted for use of Department and Council in preparation of press releases:

A—Attachment 1—bonds outstanding—\$286,065,645; Plan A—interest \$8,137,370; amortization \$3,415,115; Plan B—cash payments—\$35,948,921; reduced circulation \$189,872,016; interest \$7,120,197; amortization \$5,031,612.

B—Attachment 2—offer to purchase at 12% Ceará—amount outstanding \$1,980,000.

C—Attachment 3—pre-February 5, 1934 (10% of last year 2085) \$337,849; July 1, 1939 to December 31, 1943 (25% of last year 2085) \$2,248,308; arrears during effective period 2085 (at full rates—state of Rio de Janeiro) \$165,030.

Of total dollar and sterling bonds included in plans A and B, dollar bonds represent the following percentages—bonds outstanding 34.2%, plan A interest 39.3%, amortization 34.2%, total service 37.6%; plan B cash payments 39.2%, 36.4% for reduced circulation, interest, amortization and total debt service. Approximately 50% of the dollar bonds and 30% of the sterling bonds are improved qualitatively under plan B by federal assumption of responsibility for state and municipal issues.

For dollar bonds, plan A provides interest rates of 3 $\frac{3}{8}$ % and 3 $\frac{1}{2}$ % for federal issues and coffee realization; rates varying from 2% to 2 $\frac{1}{2}$ % for state issues and from 1 $\frac{7}{8}$ % to 2 $\frac{3}{8}$ % for municipal issues. Plan A amortization is 45.5% of interest for federal issues and coffee realization and 35.5% for state and municipal issues.

Plan B provides a reduced principal of 80% for federal and coffee realization issues and 50% for states and municipals with uniform interest rate of 3.75% and amortization uniform at 2.65% of new principal. Cash payments are designed as offset both for (a) loss in principal and (b) common interest rate. Cumulative amortization features are contained article XII Decree-Law.

CAFFERY

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832.51/2267 : Telegram

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

RIO DE JANEIRO, November 23, 1943—2 p. m.

[Received 2:20 p. m.]

5429. The statement issued yesterday evening (see my 5403, November 22, 4 p. m.)<sup>44</sup> was:

"The President of the Republic convened the Cabinet this afternoon to hear an exposition by the Minister of Finance concerning the recent understanding with respect to Brazil's external debt, his conclusions being approved."

Souza Costa informed me last night that the Cabinet has unanimously approved all of the provisions of the agreement; that President Vargas was very pleased; and confirmed that the text of Decree-Law and attachments would be released to press at 4:00 p. m. (Rio time), Thursday for publication Friday morning's press.

CAFFERY

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**AGREEMENTS BETWEEN THE UNITED STATES AND BRAZIL PROVIDING FOR A HEALTH AND SANITATION PROGRAM, SIGNED FEBRUARY 10, 1943, AND NOVEMBER 9 AND 25, 1943**

[For text of the agreement signed at Rio de Janeiro, February 10, 1943, see Department of State Executive Agreement Series No. 374, or 57 Stat. (pt. 2) 1333; and for texts of the agreement and exchange of notes signed at Rio de Janeiro on November 9 and 25, 1943, see Executive Agreement Series No. 375, or 57 Stat. (pt. 2) 1338.]

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<sup>44</sup> Not printed.

## CHILE

### INTEREST OF THE UNITED STATES IN THE BREACH OF DIPLOMATIC RELATIONS BETWEEN CHILE AND THE AXIS

740.0011 European War 1939/27216

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

No. 5401

SANTIAGO, January 9, 1943.

[Received January 16.]

SIR: With reference to my despatch No. 5386 of January 7, 1943,<sup>1</sup> with which I enclosed a memorandum of my conversation with Dr. Raúl Morales Beltramí,<sup>2</sup> in which he outlined to me the contemplated steps which would proceed [*precede*] the break of relations between Chile and the Axis powers, I have the honor to report that to date the plan explained by Dr. Morales has been followed: the President of the Republic,<sup>3</sup> accompanied by his Minister for Foreign Affairs, Dr. Joaquín Fernández Fernández, left last night for Viña del Mar, and the papers announced for next week a Cabinet meeting and a meeting of the Senate at which the Foreign Minister would explain the proposed change in Chile's international policy.

The Foreign Minister sent word to me yesterday that everything was progressing rapidly toward the break.

Respectfully yours,

CLAUDE G. BOWERS

740.0011 European War 1939/27053 : Telegram

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

SANTIAGO, January 11, 1943—midnight.

[Received January 12—2:25 a. m.]

59. . . . ex-President Arturo Alessandri tonight made a last desperate attempt to forestall a break with the Axis. He sent to all Santiago newspapers an article asserting his friendly feeling toward the United States and the Allies but denying that any offense or action had occurred which would justify Chile severing its ties with the totalitarian powers. The article urged that the question be submitted to a national plebiscite which he asserted would be unfavorable to rupture of diplomatic relations.

BOWERS

<sup>1</sup> Not printed.

<sup>2</sup> Chilean Minister of the Interior.

<sup>3</sup> Juan Antonio Ríos.

740.0011 European War 1939/27413

*Memorandum by the Ambassador in Chile (Bowers)*<sup>4</sup>

[Extracts]

[SANTIAGO,] January 12, 1943.

Conversation between: Foreign Minister Joaquín Fernández F.,  
Ambassador Bowers,  
Second Secretary Lyon.

I called on the Foreign Minister this afternoon by appointment, at 4 o'clock, and left with him a note containing the information set forth in the Department's telegraphic instruction No. 28 of January 9, 10 p. m.<sup>5</sup> The Minister read the note and said he found it very interesting and would take the matter up immediately with the President.

. . . He explained that, while Chile had always been very courteous with her neighbour the Argentine, and he would be frank to tell me that recently Chile had invited the Argentine to go along with her in the break of relations, he did not feel that Chile could postpone assuming a new international position which was to her own interest and the interest of the other Americas. I said that I understood that when the proposal to break had been made to the Argentine, Señor Ruiz Guíñazú<sup>6</sup> had implied that whether Chile broke or not there would be no change in the traditional Chile-Argentine relations. Señor Fernández said that this was correct, and added that he would tell me in confidence that the Argentine had made very advantageous commercial proposals to Chile, amounting, among other things, to a customs union. Moreover, the Argentine Ambassador<sup>7</sup> had insisted that whether or not Chile broke relations with the Axis powers, these proposals stood. The Foreign Minister reiterated that he felt that whatever Chile's own international position might be, she would continue to be friendly with the Argentine, and he was considering issuing a statement to that effect.

I then asked the Foreign Minister what progress had been made with regard to the actual break. He said that, for my strictly confidential information, there would be a meeting at 5 o'clock this afternoon of the National Defense Council, at which the President would preside and at which he would announce that it was necessary for Chile to

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<sup>4</sup> Transmitted to the Department by the Ambassador in his despatch No. 5435, January 13; received January 23.

<sup>5</sup> Not printed; it indicated the status of conversations being carried on by military and naval experts of the United States and Chile concerning war material (825.24/773a).

<sup>6</sup> Argentine Minister for Foreign Affairs.

<sup>7</sup> Carlos Guiraldes.

break relations. "This morning there was a Cabinet meeting at which I made an exposition," he added. It was the plan at present to have a secret meeting of the Senate next week, at which the President would inform that body through the Foreign Minister of his intention of breaking and ask for a vote on the proposition. The Foreign Minister said that the vote would undoubtedly be greatly in favor of the break. The Foreign Minister then said that they were not hurrying the procedure because they hoped that in the meantime some of the military equipment might have arrived from the United States, which would strengthen their position. He wondered whether some of the airplanes, instead of being sent down by ship, could not be flown down. I said I did not know whether there were sufficient aviators available, to spare for this, but that I would send a telegram setting forth his views. The Foreign Minister said that he was constantly having to fight against the current against the break set in motion by his predecessor and Señor Alessandri. I said that I understood that Señor Barros Jarpa<sup>8</sup> was still working against us. "Everywhere," replied Señor Fernández. "Recently, in the Club, he made a joke. It was said that the United States had taken the Island of Juan Fernández, to which Señor Barros Jarpa replied, 'Not Juan Fernández. They've taken Joaquín Fernández.'" The Foreign Minister said that he had replied to his informant that the Axis seemed to have got Sr. Barros Jarpa, and that was more grave, since Barros Jarpa should owe gratitude to the United States. Señor Fernández emphasized again the strong fight which Alessandri, Barros Jarpa and their friends were making against the break of relations.

CLAUDE G. BOWERS

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740.0011 European War 1939/28018

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

[WASHINGTON,] January 13, 1943.

The Chilean Ambassador<sup>9</sup> called this morning. He expressed anxiety with regard to the manifesto published yesterday by ex-President Alessandri. He said he thought it was an appeal to the Chilean Army and was a clear indication that Alessandri was trying to make trouble of a serious character for the Government.

The Ambassador likewise expressed very serious concern at the delay involved, according to Mr. Bowers' report, between the announcement by the President of Chile at the Cabinet meeting yesterday that he had decided to break relations with the Axis, and the

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<sup>8</sup> Former Chilean Minister for Foreign Affairs.

<sup>9</sup> Rodolfo Michels.



special session of the Senate at which this action would be reported, which was not to be held until next Tuesday. The Ambassador said that this delay would afford the opportunity for much influence to be brought to bear upon the Senate, and that the only logical course for his Government to have taken was to have had the special meeting of the Senate today immediately after the decision of the President had been announced to the Cabinet.

S[UMNER] W[ELLES]

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740.0011 European War 1939/27230 : Telegram

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

[Extract]

SANTIAGO, January 18, 1943—6 p. m.

[Received 10:44 p. m.]

102.

Quite thoroughgoing preparations have been made by the Chilean Government to prevent any totalitarian activities on announcement of rupture. The Ministry of Interior has confidentially furnished us with a list of 1114 Axis nationals who are to be arrested immediately. I understand that many arrests will be made in advance of rupture, even beginning today. Thirty secret agents with sealed orders are being sent to all prefects with lists of local suspects for apprehension, and the prefects have been told that if they divulge these lists they will be subject to maximum punishment. The Ministry of Interior list of dangerous Axis nationals is larger than ours. We have already heard from our people in Valdivia that effective advance steps toward the security of the district are being taken.

If, as I anticipate it will, the Government takes quite effective measures against Axis nationals and organizations operating in Chile, I think we should be prepared to have approving editorial and other comment sent by the press services to the Chilean papers, for such compliments will spur the zeal of the Government. Apart from the question of Chilean Government action against totalitarian organizations and nationals here, I think there should be a good burst of editorial praise of Chilean action in the States—forgetting the fact that it comes later than that of the other American states. Tepid editorial and official comment in the States on Chilean rupture with the Axis would leave a scar on our relations.

BOWERS

740.0011 European War 1939/27259 : Telegram

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

SANTIAGO, January 19, 1943—6 p. m.

[Received 9:55 p. m.]

113. The principal events of the last 24 hours were the publication of the Gustavo Ross<sup>10</sup> strong declaration in favor of rupture (transmitted in my 105, January 18, 1943)<sup>11</sup> and the action of the Government in creating emergency zones in 11 Chilean key provinces. The public manifestation against rupture scheduled for yesterday evening faded out in view of Alessandri's disavowal of it, only a relatively few attending. Pro-rupture elements mingled with the group, interrupting the manifestations. There were several street fights; the place was cleared by *carabineros*.

In addition to declaring emergency zones, which permits the local application of martial law, special measures were taken to guard all the passes and points of exit with view to forestall the escape of pro-Axis elements who are to be placed under detention following the announcement of rupture of relations. All leaves to *carabineros* have been canceled and are all ordered to sleep in the barracks. All police stations today received sealed orders to be opened as soon as rupture of relations is declared.

BOWERS

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740.0011 European War 1939/27258 : Telegram

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

SANTIAGO, January 19, 1943—11 p. m.

[Received January 20—12:55 a. m.]

115. Following Foreign Minister Fernández's exposition of Chilean foreign policy before the Senate this body at 9 p. m. today voted 30 for, 10 against, with 2 abstentions, its approval of "policy adopted by the President of the Republic who, in exercise of his constitutional prerogatives, has announced his decision to break relations of Chile with the Axis Governments". No official statement has yet been issued by the Government in this connection.

BOWERS

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<sup>10</sup> Onetime Minister of the Treasury and candidate for the Presidency.

<sup>11</sup> Not printed.

740.0011 European War 1939/27256 : Telegram

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

SANTIAGO, January 19, 1943—midnight.

[Received January 20—2:27 a. m.]

116. The Minister of Foreign Affairs has just telephoned the Embassy to say that he was giving me exclusive advance notice of the official decision of the Chilean Government to sever diplomatic relations with the Axis powers. All chiefs of diplomatic missions have been requested to come to the Foreign Office at 11:00 o'clock tomorrow morning at which time the decision of the Chilean Government will presumably be made public.

During the secret session of the Senate Cruchaga<sup>12</sup> endeavored to stem the Government's decision by offering a compromise resolution in favor of "suspension" of relations which would have permitted Axis consular representatives to have remained officially in Chile and diplomatic representatives, perhaps, to have remained unofficially. President Ríos sent back word to the Senate floor that the Government insisted upon a motion in favor of complete severance of relations. Cruchaga and certain other conservative and liberal Senators, however, voted against complete rupture.

Urgently to the attention of the White House, Secretary, Welles, and Duggan.<sup>13</sup>

BOWERS

740.0011 European War 1939/27596a : Telegram

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

WASHINGTON, January 20, 1943—4 p. m.

68. When Chile breaks relations with the Axis, the Department is confident that you will follow closely the action of the Chilean Government along the following lines, offering such informal suggestions and assistance as, in your judgment, may be appropriate:

1) Implementation of the Rio Resolutions (including especially the one on telecommunications)<sup>14</sup> and the Washington resolutions on economic and financial controls.<sup>15</sup> You may in your discretion

<sup>12</sup> Miguel Cruchaga Tocornal.

<sup>13</sup> Laurence Duggan, Adviser on Political Relations.

<sup>14</sup> For correspondence on the Third Meeting of the Foreign Ministers of the American Republics held at Rio de Janeiro January 15-28, 1942, see *Foreign Relations*, 1942, vol. v, pp. 6 ff. For text of resolutions, see Department of State *Bulletin*, February 7, 1942, pp. 117-141; the resolution on telecommunications is Resolution XL, *ibid.*, p. 140.

<sup>15</sup> For comment on the Inter-American Conference on Systems of Economic and Financial Control, held at Washington June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff. For text of resolutions, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942).

make available to the Chilean Government details in your possession concerning measures taken by the other American republics which have broken with the Axis in this respect.

2) Regarding exchange of officials with European Axis powers you may state that the United States Government is willing to facilitate such exchange by issuance of safe conducts and by any other necessary and proper measures. As you know, the practice followed in many cases has been to assemble the departing officials in a suitable hotel at some distance from the capital pending final arrangements for their departure. After negotiations are completed and the release of the Chilean officials in Europe is assured the release of the Axis officials from Chile might be arranged for a date immediately preceding the departure from Buenos Aires of a neutral vessel bound for a European port. The Chilean Government presumably would wish to assure itself that the Argentine Government would require all members of the party to embark on the designated vessel, since failure of any member of the departing party to arrive at Lisbon might be taken by the Axis Governments as an excuse for the detention of Chileans. The United States Government would be willing to cooperate to the best of its ability in issuance of safe conducts to non-official nationals in the event the Chilean Government is able to make satisfactory arrangements with the German Government for their exchange. It is assumed, however, that the Chilean Government would be unwilling to arrange for repatriation of those German nationals whose repatriation in its opinion or that of the United States or British Embassies, might be prejudicial to the cause of the United Nations.

3) The United States Government would be pleased to extend to the Chilean Government on the basis of equality any facilities for exchange of officials and non-officials under the American-Japanese arrangements. Documents relating to these arrangements were sent you last year under cover of various instructions and you are aware that the inclusion of certain Chilean nationals has been authorized in the proposed second exchange. The Chilean Government may wish to note that in the second exchange operation the United States Government has experienced difficulty in determining exactly what the Japanese Government desires. The Japanese Government has already rejected the proposed sailing list for the *Gripsholm* composed of Japanese who desire repatriation, and another proposed list composed of Japanese designated by the Japanese Government for repatriation. Negotiations on the second exchange operation are continuing.

4) Press reports have stated that Argentina may undertake the representation of Chile in the Axis territory. This would, of course,

be undesirable. Have you any information on this subject? You will recall that all of the American Republics in which Argentina had consented to represent Italian interests requested that other arrangements be made.

5) More detailed instructions regarding the issuance of safe conducts granted by this Government and the considerations involved therein will be sent you by mail.

6) Production of strategic materials will be of primary importance in Chile's new relationship, reference being made in this connection to Resolution II<sup>16</sup> of the Final Act of the Rio Conference. From recent reports, it is assumed that you have given due and thorough consideration, in consultation with the Chilean Government, to the anti-sabotage control program which is essential in this connection, but additional consideration should be given to this matter at once.

7) Chilean measures for the control of subversive activities should be followed in considerable detail, especially the movement of enemy aliens from southern Chile into Argentina. It is assumed that prevention of such a movement would require personnel additional to that now available to the Chilean police. Proper implementation of the recent Security law should help in solving this problem. It is believed that the Committee on Political Defense in Montevideo,<sup>17</sup> of which Chile is a member, can also be of assistance in this respect, if it should be approached by the Chilean Government in case of need.

HULL

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740.0011 European War 1939/27297 : Telegram

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

SANTIAGO, January 20, 1943—midnight.

[Received January 21—3:32 a. m.]

131. President Ríos in a nation wide radio hookup at 7 p. m. today announced to the Chilean public his decision to break relations with the Axis countries. The full text of his address is being sent by airgram.

He analyzed at length the various inter-American accords of solidarity and mutual defense, stating it was clearly the moral duty of Chile to proceed to the step of severing diplomatic relations with the Axis countries. He insisted that while moral reasons impelled Chile to such action the only definite juridical obligation was that of according status of non-belligerency to the United States, Mexico and Brazil which had been done.

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<sup>16</sup> Department of State *Bulletin*, February 7, 1942, p. 119.

<sup>17</sup> For correspondence concerning this committee, see pp. 2 ff.

There was a direct intimation that, morally, rupture of relations should have immediately followed the attack on Pearl Harbor although he pointed out that the Habana declaration of mutual assistance<sup>18</sup> called only for consultative action following an act of aggression.

An important part of Ríos' address was devoted to the defense of Chile's delay in breaking relations with [the Axis] which he asserted was due to the necessity of obtaining national unity for such a step and difficult in view of Chile's internal problems and the violent partisan emotions aroused by the war. While asserting Chile's entire devotion to the democratic principles and assuring that it would always remain a free country, the speech contained no direct attack on totalitarian ideology or governments and included a paragraph stating that the action of the Chilean Government in breaking relations was not against the peoples of the three powers who had contributed greatly to the development and growth of Chile. He also announced that he would combat any violence or persecution of the persons or property of individuals who hold different beliefs than those which impelled him to take this step of severance of relations.

There was also an indirect reference to Argentina in his statement, namely his firm determination to maintain the most cordial relations with all the sister American Republics "whatever be the course" of their foreign policies.

The address ended with an appeal for national support, unity and willingness to accept sacrifices.

Attention Under Secretary and Duggan.

BOWERS

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740.0011 European War 1939/27704 : Telegram

*The President of Chile (Ríos) to President Roosevelt*

[Translation]

SANTIAGO, January 20, 1943—3:45 p. m.

I have the honor to advise Your Excellency that, after consulting the representative organs of national opinion and in accordance with our obligations of continental solidarity, I have just decided upon rupture of our diplomatic and consular relations with the Governments of Germany, Italy and Japan. I further advise Your Excellency of the firm intention of the Chilean Government and people to continue to cooperate within the possibilities which our means permit

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<sup>18</sup> The declaration was made at the Second Meeting of Foreign Ministers of the American Republics July 21-30, 1940. For correspondence regarding the meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff. For text of the declaration, see Department of State *Bulletin*, August 24, 1940, p. 136.

in the work of the defense of our Continent and of the democratic ideal in which Your Excellency and the great American people are engaged at so enormous a sacrifice. I have absolute confidence in a definitive triumph of the noble cause for which we are all striving and I hope that there will soon come days of peace which will guarantee respect for and independence of all peoples and which will make possible unselfish cooperation toward the resurgence and prosperity of those nations which today are bearing the cruel consequences of the war.

JUAN ANTONIO RÍOS

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740.0011 European War 1939/27401 : Telegram

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

SANTIAGO, January 22, 1943—7 p. m.

[Received 10:48 p. m.]

149. For Under Secretary. Saw Fernández this morning and told him reason for delay in President's reply <sup>19</sup> under pledge of absolute secrecy to be known solely to him and President Ríos. The latter left for Viña del Mar this morning because of son's illness leaving instructions that anything from Roosevelt be sent him at once. Thus explanation given was all the more necessary.

He said that the necessary steps are being taken to implement the agreements after the rupture. Chile is asking Switzerland to take over Chilean interests on [*in*] Axis countries and if refused, Sweden will be asked. Yesterday Spanish Ambassador told him he had not received instructions from his Government but German Ambassador had said that naturally he assumed Spain would take over.

He said Fresco, the Argentine Fascist, now here has been under closest observation of Secret Service and that he attended a dinner of 20 including von Mares, the crazy leader of the Nazi party, and that not only were the speeches taken down but a photograph was taken. Fresco was given 24 hours to leave the country. He protested his inability to get reservation before Monday and Government promised to secure the reservation. It did appeal to us and we got the reservation for today. But Argentine Ambassador made an appeal on ground Fresco a very prominent Argentinian who had come here with a letter from Castillo <sup>20</sup> and begged he be permitted to stay until Monday and not openly expelled. Out of deference to Ambassador this agreed to with notice to Fresco should he see anyone [he?] would be taken up.

This section sent to Buenos Aires.

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<sup>19</sup> President Roosevelt was attending the war conference at Casablanca.

<sup>20</sup> Ramón Castillo, President of Argentina.

German press appeared yesterday and misrepresented President's speech and I discussed this [apparent omission] with Fernández who was surprised and promised to take it up with Morales at once.

Important—he said that since we are now all together it would be greatly appreciated and helpful were the Government permitted to have a representative on the secret committee passing on the Black List<sup>21</sup> so if at any time Chilean economy is threatened in any proposed case it can be discussed. Since the vote in the contested case would be 2 to 1, the British and American on one side, and especially since instructions received sometime ago said that in the event of rupture this would be considered, would like instructions as soon as possible.

BOWERS

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740.0011 European War 1939/27476 : Telegram

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

SANTIAGO, January 26, 1943—3 p. m.

[Received 5:20 p. m.]

163. For Secretary and Under Secretary and Duggan. Just came from Fernández. Informs me President has just signed the order for taking in 200 of the first order of enemy agents et cetera. This is to be done today. He said President displeased that no action taken to suppress certain papers. This was Morales' job. I discussed these papers with him and urged action and found Fernández in complete accord. Called his attention to the fact that Chile does herself an injustice in not freezing credits at once since money frozen could be taken as compensation in event of damage by enemy nations, and urged that the secret committee working on it act. He agreed and promised to press the committee. He explained delay to fact that within 36 hours of rupture President had to leave for Viña where his son is gravely ill but he has returned. Annoying as this deliberation [is] it is typical and I am persuaded that with a little patience everything will work out very soon as we wish.

Am I right in assumption we have no objection to a representative of Chilean Government sitting in with our Black List man and the British since it apparently is done in Brazil. Personally see an advantage. Government primarily concerned in preventing if possible action seriously affecting national economy and since we with 2 to 1 have a majority this merely means the right of Chilean Government to consult with us. Call immediately attention Hull, Welles and Duggan.

BOWERS

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<sup>21</sup> For correspondence on Proclaimed or Black List matters and efforts to control financial transactions involving the Axis, see pp. 308 ff.



701.9425/52 : Telegram

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

SANTIAGO, January 30, 1943—noon.

[Received 4:44 p. m.]

205. Chilean Government last night placed Japanese Minister and all Japanese diplomatic personnel in detention under police guard, in residence of Japanese mission from which radio receiver was removed and telephone line severed. Chancery of Japanese Legation was closed and also placed under police guard. Previous to taking this action police searched chancery where Legation personnel was apprehended burning documents. Search of Legation produced little or no information of value I understand. Chilean Government's decision to detain, in effect incommunicado, Japanese diplomats was based on reported humiliating treatment of Chilean official personnel in Japan by the Government of that country.

Yesterday secret police raided and indefinitely closed the German club in Santiago. Raid was made on information that a clandestine radio was being operated on premises but no transmitter was found.

Pursuant to decree numeral 2 my telegram 182, January 28, 1 p. m.,<sup>22</sup> the Director General of Posts and Telegraphs yesterday cancelled the authorizations of Ernesto Samhaber Marzell, correspondent of Axis newspaper, Deutscher Verlag, Transocean, Stefani Mundial, Agencia Noticiosa Alemana (DNB) and Hans North Amannezeiss<sup>23</sup> to transmit press despatches abroad and in Chile. As this action does not prohibit Transocean and Stefani, which have their own radio receivers, from receiving news from abroad I am suggesting to the appropriate authorities that the use of this equipment be prohibited immediately.

A decree suspending the granting of Chilean citizenship, except in special cases, to Axis nationals was signed yesterday by the Minister of Interior. This decree probably will be promulgated Monday next.

BOWERS

740.0011 European War 1939/27603 : Telegram

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

SANTIAGO, February 1, 1943—noon.

[Received 2:42 p. m.]

210. Now that the President is back the telegram to Ríos must not be delayed since telegrams from all American Presidents and King of England came almost 2 weeks ago, and Hull's telegram to Fernández<sup>24</sup>

<sup>22</sup> Not printed.<sup>23</sup> Phrase evidently garbled; reference is to Hans Northmann, correspondent for a German information agency known as "Eildienst".<sup>24</sup> Telegram No. 76, January 22, not printed.

and Rockefeller's<sup>25</sup> to Ríos, Morales and Fernández cannot be given out before Roosevelt's to Ríos. The latter understands but the public does not and it is not doing us any good.

Confidential to the President, Secretary and Under Secretary.

BOWERS

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740.0011 European War 1939/27704 : Telegram

*President Roosevelt to the President of Chile (Ríos)*

WASHINGTON, February 2, 1943.

The information that Your Excellency's Government has severed diplomatic and consular relations with Germany, Italy and Japan reached me in Casablanca. It was received with the most profound satisfaction by all of us who had assembled there to plan the offensives which will destroy the Axis menace. Upon my return to Washington I hasten to reply to your cordial message of January 20.

The decision which has been taken under your leadership will be welcomed not only by the peoples of the other American republics but also by liberty-loving people everywhere as a practical measure of support from a nation whose tradition of freedom and whose devotion to democratic institutions are known wherever liberty and individual dignity are cherished. I share the confidence expressed by Your Excellency in the definitive triumph of the noble cause for which we are all striving.

I am pleased to have this opportunity to renew to Your Excellency my very best wishes for your personal well being.

FRANKLIN D. ROOSEVELT

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701.5125/29 : Telegram

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

SANTIAGO, February 14, 1943.

[Received February 14—8:38 p. m.]

289. Chilean press today features an exchange of notes between French Minister d'Hybouvillle and Chilean Foreign Office. Minister's note stated that he was disregarding orders from Vichy to leave Chile with his entire staff, closing Legation. Note stated that while his instructions emphasized that this action did not signify severance of diplomatic relations he was opposed to such action as not being in accordance with actual situation or traditional friendship between the two countries.

According[ly] he had presented his resignation to Government, "directed by Laval"<sup>26</sup> and had "given his adherence to General

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<sup>25</sup> Nelson Rockefeller, Coordinator of Inter-American Affairs.

<sup>26</sup> Pierre Laval, Premier in the Vichy Government.

Giraud, High Commissioner in French Africa and successor to Admiral Darlan, the legitimate representative of the Marshal".<sup>27</sup> He stated further that he was "ready with my collaborators to cooperate in task undertaken by General Giraud in accord with the United States and its Allies in order to insure liberation of French territory and to return France to position in the peaceful Europe of tomorrow to which it is entitled among the nations of good will desirous of regulating their international relations in accordance with principles of our Christian civilization".

Minister of Foreign Affairs replied that "desirous of manifesting the admiration of the Chilean people for France and for its secular contribution to Western civilization and culture, the Government of Chile had resolved to continue" to consider d'Hybouvillle as "the representative of the French nation, its tradition and its future".

In addition to publishing the official note the press carried an inspired statement to the effect that the recognition of d'Hybouvillle "as representative of the French nation[""]—and not of the Government of Vichy nor of General Giraud—did not signify the severance of Chilean-French relations.

Action of Chilean Government in promptly recognizing d'Hybouvillle "representative of the French nation" has caused consternation among the French colony which is 90% Free French. While there is some recognition that d'Hybouvillle is the type of functionary who obeys orders from constituted authority there is much feeling over such incidents as his frequent acceptance of invitations to the German Embassy prior to Chile's break with the Axis.

Reference my 238, February 4, 3 p. m.<sup>28</sup>

BOWERS

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740.0011 European War 1939/27717

*Memorandum by Mr. Archibald E. Gray of the Division of the American Republics*<sup>29</sup>

[WASHINGTON,] February 16, 1943.

COMMUNICATIONS FROM CHILEAN GOVERNMENT REGARDING  
PROTECTIVE MEASURES

The Embassy at Santiago has transmitted to Señor Fernández, Chilean Foreign Minister, the suggestions contained in the Department's telegram no. 68, January 20, 1943, 4 p. m., on exchange of

<sup>27</sup> Marshal Henri Philippe Pétain, Chief of State in the Vichy Government.

<sup>28</sup> Not printed.

<sup>29</sup> Addressed to the Chief of the Division of the American Republics, Philip W. Bonsal, to Paul C. Daniels, James H. Wright, and John R. Toop, also of that Division, and to the Adviser on Political Relations, Laurence Duggan.

officials with the Axis powers, and has offered the assistance of qualified officers for the supervision of postal, cable, radio and telecommunications. Fernández replied to the effect that the Chilean Government is maintaining a close watch over international communications, including messages *en clair* from Axis diplomats (which require the approval of the Under Secretary of Foreign Affairs before action is taken on them), has detained about 200 suspected persons of German and Japanese nationality, has adopted measures to prevent sabotage and subversive activities, and will utilize all legal measures to stop Axis propaganda.

These communications are considered as further evidence of the desire of Fernández to cooperate with the United States.

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800.20225/157

*Memorandum by Mr. Archibald E. Gray of the Division of the American Republics*<sup>30</sup>

[WASHINGTON,] February 19, 1943.

MEASURES TAKEN BY THE CHILEAN GOVERNMENT IN CONNECTION WITH  
THE SEVERANCE OF DIPLOMATIC RELATIONS WITH THE AXIS POWERS

Despatch no. 5654 of February 3,<sup>31</sup> drafted by First Secretary Brooks, gives a complete résumé of measures taken by the Chilean Government in connection with the severance of diplomatic relations with the Axis powers. These include:

(1) Despatch of *Investigaciones* agents to points of entry to and departure from Chile to prevent transit of dangerous persons.

(2) Suspension of transmission of communications with Axis and Axis-controlled territory.

(3) Prohibition of use of codes and ciphers in international communications (except by the diplomatic missions of friendly powers) and establishment of a censorship on international telegraph, radio telegraph, telephone and radio telephone messages. In practice, business firms may send messages in recognized commercial codes, after censorship, to American and British destinations.

(3) [*sic*] Concentrating dangerous Axis nationals at specific places of residence.

(4) Cancellation of permits held by Axis news agencies and nationals to transmit information abroad or in Chile. This measure did not prohibit TO<sup>32</sup> and Stefani from receiving messages from abroad on their own radio receivers.

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<sup>30</sup> Addressed to the Chief of the Division of the American Republics, to Paul C. Daniels and Edward T. Lampson of that Division, and to the Adviser on Political Relations.

<sup>31</sup> Not printed.

<sup>32</sup> Transocean.

(5) Decree requiring news despatches from a news agency of which the local director is non-Chilean, to be countersigned by a Chilean employee.

(6) Cancellation of permits to Axis nationals to carry firearms.

(7) Decree providing that it is an offense against the State to make plans, drawings and surveys, or to take photographs of vital installations in Emergency Zones without prior authorization.

(8) Closing the German Club in Santiago.

(9) Detention of Japanese Minister and staff incommunicado in the Legation residence.

(10) Unofficial censorship of international mail, as a result of confidential instructions from President Ríos. No direct, formal action relative to censorship of international postal communications has been taken by the Chilean authorities. The opinion is expressed that it will be difficult to establish effective censorship because of the relative ease with which communications can be smuggled over Chile's extended frontier.

(11) "El Suplemento del Diario Alemán", pro-Axis propaganda sheet disappeared as a result of the inclusion of its editor in the list of dangerous individuals. Another pro-Axis sheet was discontinued undoubtedly due to lack of funds.

(12) Other protective measures, some of which pre-dated rupture, included establishment of Emergency Zones; surveillance of possible sabotage agents; and strengthening of police and military guards to give additional protection to copper properties, airports and other vital installations.

740.0011 European War 1939/29434 : Telegram

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

SANTIAGO, May 18, 1943—10 p. m.

[Received 11 p. m.]

916. The Foreign Minister has just informed me that the Chilean Government is immediately issuing a decree severing diplomatic relations with Bulgaria, Rumania, Hungary and Vichy France.

BOWERS

625.5131/111 : Telegram

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

SANTIAGO, May 29, 1943—3 p. m.

[Received 5:12 p. m.]

967. As a result of the break in diplomatic and consular relations with Vichy France, the Chilean customs authorities are proposing to levy increased duties on imports from the United States and Great Britain on the theory that the effect of the break is to terminate the trade convention with France<sup>36</sup> and thus to affect the most favored

<sup>36</sup> Signed at Santiago, January 16, 1936, and ratified by Chile, February 9, 1938; see Chile, *Diario Oficial*, February 11, 1938, p. 350.

nation treatment accorded to the United States and Great Britain. We are taking the view that the convention is not terminated by the rupture, but should appreciate instructions from the Department in this connection.

BOWERS

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625.5131/111 : Telegram

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

WASHINGTON, June 7, 1943—7 p. m.

589. Your 967, May 29. Whether the break in diplomatic relations with Vichy France is to be regarded as terminating the trade convention between Chile and France is of course a matter for decision by the Chilean authorities. However, this Government continues to regard our trade agreement with France,<sup>37</sup> including reduced duties, as continuing in force although political relations with Vichy France have been broken off. You may in your discretion discuss the matter informally with the Chilean authorities in the sense of the foregoing and express the hope that they will not consider it necessary on legal or other grounds to take an action which would have the effect of raising rates of duty on products of some interest to countries other than France, including the United States.<sup>38</sup>

HULL

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**EFFORTS TO SECURE COOPERATION BETWEEN THE UNITED STATES  
AND CHILE ON CERTAIN MEASURES FOR HEMISPHERE DEFENSE<sup>39</sup>**

825.796/141 : Airgram

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

SANTIAGO, January 9, 1943.

[Received January 15—3 p. m.]

A-42. The National Air Lines of Chile have the money and are ready to start work on new or improved landing fields in the south of Chile. They now have excellent airport at Concepción and have extended regular service to that point. Expansion program calls for new or improved airports at following points: Cauquenes, Valdivia, Osorno, Puerto Montt, Aysén, and Punta Arenas. From military viewpoint I consider construction of these airports extremely impor-

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<sup>37</sup> Signed at Washington, May 6, 1936; for text, see Department of State Executive Agreement Series No. 146, or 53 Stat. (pt. 3) 2236.

<sup>38</sup> The Ambassador addressed an *aide-mémoire*, June 9, to the Minister for Foreign Affairs in this sense and received assurances that the Chilean Customs would continue to regard the convention as in effect (625.5131/112). Cancellation of the convention did take place early in 1945, however, with resulting increases in the selling prices of certain American goods.

<sup>39</sup> Continued from *Foreign Relations*, 1942, vol. vi, pp. 1-46.

tant. Construction will require from 3 to 4 months if undertaken at once. During 8 months of year construction work practically impossible on account of frequent and heavy rains. Construction of these new fields will begin at once provided United States will release, approximately on time, the four Loadstars [*Lodestars*] purchased by Chile and scheduled for delivery in May, 1943.<sup>40</sup> If Loadstars are not to be released, work on new airports will be postponed by National Airlines until new planes become available. Should it become desirable or necessary for the United States to construct fields in southern Chile it would be most difficult and costly if undertaken during winter months. This appears to be an opportunity to extend airport facilities to southern Chile at no cost to United States Government except release of four airplanes which will be paid for by Chile. The foregoing also represents the views of the Chief of the United States Military Mission to Chile.<sup>41</sup>

Please instruct urgently by cable.

BOWERS

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740.0011 European War 1939/27257 : Airgram

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

SANTIAGO, January 12, 1943.

[Received January 18—5 p. m.]

A-69. The fear of eventual attack by Peru on Chile is seriously entertained by the Chilean General Staff. In part, this belief is due to the fact that the Foreign Minister,<sup>42</sup> in his last exposé of the international situation at the secret session of the Senate, emphasized the growing power and military equipment of Peru as an argument in favor of breaking relations with the Axis and joining destinies with the United States. Other pro-rupture elements have used the same argument and it has been effective.<sup>43</sup>

However, the continuance of this state of fear following Chile's rupture with the Axis would be unfortunate. Fantastic rumors are circulating and are believed. One ranking officer is saying that it is understood in the army that Peru had 200 combat planes and 1,000 tanks. In part, these rumors and this fear are being fanned by pro-Axis elements and those who endeavor to bring about a close alliance with Argentina.

BOWERS

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<sup>40</sup> This refers to a transaction between the Chilean Airlines and the Lockheed Aircraft Corporation which called for delivery of four Lodestars in 1943.

<sup>41</sup> Col. Omer O. Niergarth.

<sup>42</sup> Joaquín Fernández Fernández.

<sup>43</sup> For correspondence on the Chilean rupture of diplomatic relations with the Axis, see pp. 795 ff.

825.86/3a : Telegram

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

WASHINGTON, January 15, 1943—10 p. m.

49. The Department is particularly concerned as to the danger arising from the presence of persons with known strong pro-Axis sympathies as crew members on Chilean vessels. These individuals, especially certain ones acting as radio operators and ships' officers might be in a position to do grave damage to the Chilean merchant fleet in the event of a Chilean rupture of relations with the Axis and are, of course, a potential danger to the Panama Canal whenever they transit it. It is consequently suggested that you may wish to consult on this question with the Chilean Government or at your discretion with Chilean Line officials . . .

You are requested to cable the Department a list of such persons who may be on Chilean vessels in the United States or en route thereto so that appropriate action can be taken at this end.

HULL

810.20 Defense/3461 : Telegram

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

SANTIAGO, January 18, 1943—9 p. m.

[Received January 19—1 :46 a. m.]

104. Admiral Allard<sup>44</sup> of the Chilean Navy today made the "un-official" suggestion to our Naval Attaché<sup>45</sup> here that if the United States would furnish the necessary extra ships the Chilean Navy would, on request, be happy to take over patrol duties in the south-eastern Pacific now being carried out by our units. They urge as an argument that the Chilean naval reserve consists of 30,000 trained men.

It was also intimated that as far as the Chilean Navy was concerned it would not object to the United States undertaking the defense of Easter Island. The Naval Attaché has been properly non-committal to these overtures which may be the prelude of official requests.

BOWERS

862.20210/2197 : Circular telegram

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

WASHINGTON, January 28, 1943—1 p. m.

You are requested to impress upon the chief local representatives of American air and steamship lines and of American concerns han-

<sup>44</sup> Adm. Julio Allard Pinto.<sup>45</sup> Comdr. Dwight H. Day.



dling strategic materials the importance of exercising all possible precautions against sabotage and to bring the possibility of a campaign of sabotage by the enemy to the attention of the appropriate high authorities of the Government to which you are accredited, pointing out specifically the points where sabotage would do the most damage and emphasizing the importance of materials and communications to the war effort.

Please instruct military and legal attachés to take all appropriate measures. Please report your action promptly to the Department and report triple priority any case of sabotage or suspected sabotage which may come to your attention.<sup>46</sup>

You may also discuss this situation with your United Nations colleagues.

HULL

862.20210/2215 : Telegram

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

SANTIAGO, January 29, 1943—noon.

[Received 4:14 p. m.]

196. Your circular telegram January 28, 1 p. m. Repeatedly and are continuously in contact with American air and steamship lines and all American concerns handling strategic materials regarding sabotage, and have repeatedly discussed all this in detail with Chilean Government which is completely in accord and cooperative. Military Attaché<sup>47</sup> has been sent to strategic points to investigate and advise and report several times and Colonel Johnson has just returned from such a mission. No case of sabotage known yet though suspected that the forest fires in the south may be ascribable to Axis agents.

BOWERS

862.20210/2224 : Telegram

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

SANTIAGO, February 1, 1943—7 p. m.

[Received 9 p. m.]

216. Reference Department's confidential circular telegram January 28, 1 p. m., 1943. Captain Lawler, commanding officer of the detachment, Battery E, 50th Coast Artillery, Antofagasta, has reported that

<sup>46</sup> In telegram No. 195, January 25, 6 p. m. (not printed), the Ambassador in Argentina had reported that Panagra planes had made forced landings on January 16, 23, and 24, and he added: "Perhaps it is coincidence that British or American courier on every plane mentioned above."

<sup>47</sup> Col. Wendell Gunner Johnson.

on the night of January 26 all five telephone lines from the central base end station to Antofagasta were cut by saboteurs and that on January 28 it was discovered that the main line from the central switchboard to the north battery was cut. The interruption of the lines was made outside of the city at a point where they are carried on steel poles. This was sabotage against Chilean installations since the 155 MM guns and coast artillery equipment at Antofagasta were turned over to the Chilean coast artillery over 6 months ago.

BOWERS

825.248/324a

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

No. 2733

WASHINGTON, February 18, 1943.

SIR: There is enclosed for your strictly confidential information a schedule of aircraft for delivery to the Chilean armed forces, as approved on February 3, 1943 by the Munitions Assignments Board (Air).<sup>48</sup> The Chilean Embassy in Washington has requested that the twenty-five Stearman PT-17 biplanes listed in the enclosure be replaced by an equal number of Fairchild PT-19 monoplanes, and this request will probably be granted. If the contemplated replacement becomes effective, it will involve delay in the schedule of delivery of primary trainers to August-October, 1943.

For your background information, while the entire request of the representatives of the Chilean Air Force in Washington was not filled, the allocation may be considered very generous in view of our own requirements and entirely equitable in the light of allocations to other American republics.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

811.22725/326 : Telegram

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

SANTIAGO, February 26, 1943—7 p. m.

[Received February 27—12:06 a. m.]

368. General Oscar Escudero, Commander of Chilean Army, plans to leave Santiago by plane March 7 for a stay of a week or so in the States. He will be accompanied by his secretary, Colonel Milciades Contreras.

He informs us confidentially that his trip has three purposes:

1. To obtain "better coordination" among the various services represented in the Chilean military mission in Washington.

<sup>48</sup> Schedule not printed; it listed 3 patrol bombers, 12 light bombers, 12 fighters, 15 advance trainers, 24 basic trainers and 25 primary trainers, a total of 91 planes.

2. To discuss with our command just what form and measure of military cooperation in the defense of the Americas they expect of Chile and what defense problems and dangers are anticipated.

3. To inquire and discuss possible further cooperation of the two armies beyond the prime question of defense of Chile's coastline and strategic production centers.

Escudero said at this time the Chilean Army is not thinking of anything more than defense which is the immediate problem, but added the future developments might offer some new role for the Chilean Armed Forces. He said he wants to avoid official entertainments and the Military Attaché of the Embassy tells us that he thinks the fourth purpose of the trip is to see actually on the ground the military equipment we propose to furnish Chile.

I hope the equipment we are furnishing is first class of its kind, for it would be a mistake to furnish outdated or inferior matériel to this Army which in discipline and organization, if not in equipment, is perhaps the best in South America and knows good equipment when it sees it. Rather than give inferior matériel it would be better to give a lesser amount of superior equipment.

Escudero has fought a successful battle this last year to eliminate, convert or silence anti-American elements in the Chilean Army. He is unquestionably democratic in outlook and our friend.

BOWERS

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825.20/153a : Telegram

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

WASHINGTON, February 26, 1943—9 p. m.

204. The War Department desires to remove from Chile the major part of the personnel sent down about a year ago with the coastal batteries. The plan is to transfer all United States Army personnel as soon as possible after March 1, except one officer and six men whom, it is understood, the Chileans wish to remain for some 6 weeks longer for additional instruction purposes. Colonel Sackville<sup>49</sup> and Colonel Niergarth advise that the Chilean military authorities are in agreement with this proposal. However, it is desired to obtain your judgment before placing it in effect. You may wish to mention the matter to the Foreign Minister or to the President.

BERLE

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[On March 2, 1943, an Agreement between the United States and Chile on the Principles of Mutual Aid Applicable to the Common

<sup>49</sup> Col. William Sackville, Commanding Officer, 58th Coast Artillery Detachment in Chile.

Defense of the American Continent was signed in Washington by the Acting Secretary of State, Sumner Welles, and the Chilean Ambassador, R. Michels; the agreement was accompanied by an exchange of notes of the same date between the two Governments incorporating specific financial arrangements. Under the terms of this agreement (not printed), the United States promised to supply arms and munitions up to a cost of about \$50,000,000 for which Chile was obliged to make payment before January 1, 1949, and to an amount equal to 30% of the cost. Against this debt, which amounted to \$15,000,000, Chile was permitted to claim credits for such defense objects and information as it was able to turn over to the United States and for such other defense materials as remained unused in Chile at the end of the emergency and which could be returned to the United States.

Both countries agreed to refrain from transferring title or possession of defense materials or information to a third party and to protect the patent rights of their citizens in them.]

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825.796/141

*Memorandum by the Chief of the Division of the American Republics  
(Bonsal) to the Acting Secretary of State*

[WASHINGTON,] March 4, 1943.

MR. BERLE: No further action on the four Lockheed Lodestars for the Chilean Air Line <sup>50</sup> is indicated at this time, since the Munitions Assignments Board on March 3, 1943 approved schedule of delivery for April, May, October, and November, 1943.

PHILIP W. BONSAI

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825.20/152 : Telegram

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

WASHINGTON, March 6, 1943—5 p. m.

258. Your 315, February 18, 6 p. m.<sup>51</sup> Navy Department states that during the recent visits to Valparaiso of Rear Admiral Whiting he conferred with the Chief of the General Staff of the Chilean Navy <sup>52</sup> and reached several agreements for cooperative action. These agreements provide for the designation of an American liaison officer with the General Staff and for two Chilean Naval Officers to be received on vessels of the Southeast Pacific Force.

WELLES

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<sup>50</sup> See airgram No. A-42, January 9, from the Ambassador in Chile, p. 811.

<sup>51</sup> Not printed.

<sup>52</sup> Adm. Julio Allard Pinto.

825.20/158

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

No. 6043

SANTIAGO, March 24, 1943.

[Received April 6.]

SIR: With reference to my confidential telegram No. 375 of February 17 [27], 1943,<sup>53</sup> concerning the withdrawal of the personnel which accompanied the three coast defense batteries sent to Chile last year, I have the honor to enclose a copy of Confidential Note No. 31, of March 12, 1943,<sup>54</sup> from the Minister for Foreign Affairs, indicating that the personnel in question may now be withdrawn from Chile. I have replied to the Foreign Minister stating that my Government has been informed in this sense.

Respectfully yours,

For the Ambassador:

DONALD R. HEATH

*Counselor of Embassy*

825.014/89: Telegram

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

SANTIAGO, May 5, 1943—2 p. m.

[Received 2:27 p. m.]

824. For immediate attention of Under Secretary. The Associated Press carries story taken from pro-Nazi Paris radio that American forces have taken possession of Easter Island and *La Opinion* and the Communist paper print the despatch. The Minister of Defense<sup>55</sup> has issued a denial. There is no doubt that should we want and need the Island, Chilean Government would agree but Whiting's inspection showing insufficient drinking water on Island is not favorable.

BOWERS

825.014/90: Telegram

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

SANTIAGO, May 6, 1943—8 p. m.

[Received May 7—2:22 a. m.]

840. Reference my urgent telegram No. 824, May 5, 2 p. m. In interview with Foreign Minister yesterday I offered to make press statement denying our occupation of Easter Island if he desired. We

<sup>53</sup> Not printed; in this telegram the Ambassador agreed with the proposal to withdraw the military personnel (825.20/154).

<sup>54</sup> Not printed.

<sup>55</sup> Alfredo Duhalde.

agreed that this would be unnecessary as Chilean Minister of Defense has already made such a declaration and Fernández also intended making one. . . . Fernández displayed same attitude and said that he could understand that if we heard the Japanese planned to take Easter Island, we might have taken it to beat them to it. However, he naturally would expect prior consultation with Chile.

The Foreign Minister told me that the President is much annoyed with the sensational manner in which *La Opinión* printed the news story and that Mery, the Director, would be prosecuted. Press today confirms this stating that legal proceedings have been initiated by the Government against the responsible directors of *La Opinión* for publishing false information and violating the security law. The press also gives prominence to categorical statements of Ministers of Defense and Foreign Affairs that the news was totally inexact. The press story indicates that the Chilean Naval Commander-in-Chief immediately communicated with the Governor of Easter Island, confirmed that all was quiet there. No editorials have appeared on the subject, the press apparently not considering it worthy of this attention.

BOWERS

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825.20/163

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

No. 6644

SANTIAGO, June 3, 1943.

[Received June 12.]

SIR: I have the honor to enclose a copy of the Military Attaché's report dated May 26, 1943,<sup>56</sup> concerning the campaign that is being carried on by certain officers in the Chilean Army to remove pro-United States and pro-Ally officers from important positions in the Army and to place them in relatively unimportant positions where they can exert no influence on the policies of the Army or on the indoctrination, training or operations of its troops, and cannot contribute toward further cooperation with the United Nations.

In this connection, the Counselor of the Embassy had a talk on May 21 with General Oscar Escudero, strongly pro-United States, Commander-in-Chief of the Chilean Army, who said that he was worried about the movement developing in the Army in opposition to his pro-United Nations policy. The General added that he had not been able as yet to identify the leading spirits in this movement.

Respectfully yours,

CLAUDE G. BOWERS

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<sup>56</sup> Not printed.

825.20/164

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

No. 6651

SANTIAGO, June 3, 1943.

[Received June 12.]

SIR: I have the honor to transmit a copy of the Military Attaché's report dated May 21, 1943 <sup>57</sup> . . .

Especial attention is invited to the Military Attaché's comment to the effect that many Chilean Army officers have changed their international political opinions recently for convenience, for fear of being classed with the steadily diminishing pro-German group and for other reasons, among them growing admiration for the troops of the United Nations. I agree with Colonel Johnson's analysis. Those Army officers who now refrain from making open pro-Axis declarations or who profess a change in sympathies undoubtedly feel that the Axis nations are going to be defeated and that, consequently, it would be inexpedient for them not to follow along, on the surface at least, with the Chilean Army's policy of cooperation with the United States and the United Nations. Such officers, of whom there are many in the Chilean Army, are believed to be still pro-Nazi at heart. In any case, they are lukewarm and lackadaisical in attitude and action with regard to cooperation between Chile and the United States.

Respectfully yours,

CLAUDE G. BOWERS

825.20/167

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

No. 6713

SANTIAGO, June 9, 1943.

[Received June 22.]

SIR: With reference to my strictly confidential despatch No. 6644 of June 3, 1943, I have the honor to enclose a copy of a further report, dated May 26, 1943, of the Military Attaché <sup>57</sup> on the subject of discrimination against pro-United States and pro-Ally officers in the Chilean Army.

The Military Attaché states that during recent months transfers of officers have placed men who are considered to be anti-United States and pro-German in command of most of the regiments constituting the Santiago garrison.

Respectfully yours,

CLAUDE G. BOWERS

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<sup>57</sup> Not printed.

740.00115 European War 1939/7347 : Telegram

*The Chargé in Chile (Heath) to the Secretary of State*

SANTIAGO, September 17, 1943—8 p. m.

[Received September 18—3:02 a. m.]

1643. Reference my 1631, September 15, 7 p. m.<sup>58</sup> The Embassy believes that the visit of Fernández to Washington affords a good opportunity to take up the question of going forward with a program of expulsion from Chile and internment in the United States of the dangerous Axis nationals here in order to implement Chile's rupture of relations with the Axis. As the Department is aware, no Axis nationals have been interned and the measures taken against the dangerous Axis nationals in Chile have been most ineffective.

Please bring this telegram to the Ambassador's attention.

HEATH

740.00115 European War 1939/7387

*The Chargé in Chile (Heath) to the Secretary of State*

No. 7592

SANTIAGO, September 20, 1943.

[Received September 27.]

SIR: With reference to the Department's strictly confidential telegram No. 988 of September 14, 1943, 7 p. m., and to my telegram in reply, No. 1631 of September 15, 1943, 7 p. m.,<sup>59</sup> I have the honor to enclose a copy of the memorandum to the Ambassador of July 26, 1943,<sup>58</sup> prepared by Mr. Raymond W. Ickes and Mr. James D. Bell, Alien Enemy Control Unit, Department of Justice, covering the recommendations of those officials with respect to alien enemy control problems in Chile. There is also transmitted a copy<sup>58</sup> of the "List of Alien Enemies Whose Internment is Considered Warranted on the Basis of Information Presently Available in the Intelligence Offices of the Embassy and Whom the United States Government will Accept for Internment Provided the Chilean Government will Agree to their Expulsion from Chile and Internment in the United States."

As reported in my telegram above referred to, the Embassy is in thorough agreement with the basic recommendation made by Ickes and Bell, namely, that as many of the dangerous Axis nationals in Chile as possible be sent to the United States for internment for the duration of the war.

<sup>58</sup> Not printed.

<sup>59</sup> Neither printed.



Accordingly, I recommend that the Embassy be authorized to approach the Foreign Office in the following manner:

1. The Embassy will urge upon the Foreign Office the desirability of agreeing to a program of expulsion from Chile and internment in the United States of the 283 Axis nationals certified by Ickes and Bell as security subjects whose internment in the United States would be advisable. We will argue that, from the point of view of Chile's security, hemisphere defense and the war effort of the United Nations, the Chilean Government should implement its rupture of relations with the Axis in a concrete form by eliminating the continuing menace of the presence in Chile of a considerable number of dangerous Axis agents and nationals, whose activities are illustrated by the PYL clandestine radio case; that the Chilean delegate approved without reservation the resolution regarding the detention and expulsion of dangerous Axis nationals from the American Republics which was adopted by the Emergency Advisory Committee at Montevideo on May 21, 1943;<sup>63</sup> and that the methods thus far adopted by the Chilean Government for the restriction of such dangerous Axis nationals have not been effective.

2. Should the Chilean Government decline to accept this program, we might suggest that the dangerous Axis nationals in question be sent to one of the other American Republics for internment, provided the Department considers this idea feasible.

3. If the Chilean Government is not acquiescent to either proposal, we might urge the Chilean Government to adopt an effective local internment program with United States financial assistance. In this connection, reference is made to the penultimate paragraph of the Ickes-Bell memorandum, in which the opinion is expressed that United States financial assistance "would be forthcoming if the request for it were made, which would enable us to exercise some control over who was to be interned and what the conditions of internment would be."

In the Embassy's opinion it would be advisable for the Department to attempt to persuade Señor Fernández, the Chilean Minister for Foreign Affairs, who is now visiting the United States, to agree definitely to the primary recommendation made by the Enemy Alien Control Unit officials of our Department of Justice and concurred in by the Embassy respecting the desirability of expelling from this country and interning in our country the dangerous Axis nationals who will remain here after the departure of the German officials and diplomats. There has been frequently used by Chilean officials the argument that nothing can be done to restrain the activities of Axis nonofficials until the official group is gotten rid of. It is hoped that by the 23rd of this month this argument will have no bearing on the situation.

Respectfully yours,

DONALD R. HEATH

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<sup>63</sup> Resolution XX; for text, see Emergency Advisory Committee for Political Defense, *Annual Report*, July 1943 (Montevideo, 1943), p. 73.

862.20225/983

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

No. 7932

SANTIAGO, October 26, 1943.

[Received November 9.]

SIR: With reference to my strictly confidential despatch No. 6911 of July 2, 1943,<sup>64</sup> entitled, "The Condition of Nazi Organizations and the Morale of the Germans in Chile", I have the honor to enclose a copy of the Naval Attaché's report of October 7, 1943,<sup>64</sup> "Axis Activities in Chile Since the Breaking of Diplomatic Relations".

This report is concerned principally with the steps that have not so far been taken by the Chilean Government to implement its rupture of relations with the Axis powers. As remarked by the Naval Attaché, the report does not imply that Chile is an exception in this respect amongst the South American countries.

I wish to make several comments on the report. It is quite probable that shipping intelligence reports and other information in the interest of the enemy are reaching Axis intelligence but, as already reported to the Department, it would be practically impossible to stop the sending of such messages to Argentina owing to the long frontier between Chile and that country, to the scarcity of Chilean frontier guards and police, and to the various and devious methods at the command of a clever enemy in sending such reports across the mountains. It is not correct that all the "German social clubs are still open and functioning", the German Club in Santiago having been officially closed by the Chilean Government and the German Club in Valdivia being in a partial state of dissolution at the present time.

It is a fact that the German schools are still open and functioning normally, but in my opinion it would not be desirable for the Chilean Government to take action against these schools for the reason that this would give the Government an excuse to take similar action, on the grounds of nationalism, against the American and British schools in Chile, which are doing good work in building up a feeling of friendship for the United States and Great Britain, since most of the students enrolled are Chileans and since the heads of these schools are patriotic and conscientious persons. Particularly noteworthy in this respect are the Grange School for boys (English) and the Santiago College for girls (American).

With reference to the last paragraph of the report, this Embassy was informed by the British Embassy several days ago that the Chilean Government had at the last moment decided not to sell the drydock at Valparaíso to the British Government.

Respectfully yours,

CLAUDE G. BOWERS

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<sup>64</sup> Not printed.

862.20225/1004

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

No. 8418

SANTIAGO, December 20, 1943.

[Received January 5, 1944.]

SIR: I have the honor to refer to my strictly confidential despatch No. 6911 of July 2, 1943,<sup>66</sup> in which it was reported that Nazi organizations in Chile had not been appreciably undermined within the six previous months and that the morale of the Germans in this country did not appear to have deteriorated to any significant degree.

Further support of this opinion is provided by the Legal Attaché's report of December 8, 1943, on the National Sozialistische Deutsche Arbeiter Partei, a copy of which is enclosed.<sup>66</sup> The information in question was given the Legal Attaché by a very reliable source who had succeeded in gaining the confidence of various Nazi Germans in Temuco and had actually attended a meeting of eight or ten Nazis at the Fundo "Chunimpa" on the Río Cruces near Valdivia on September 25 last. At this meeting Fritz Awe read a circular message in German which it is assumed was written by Walter Boettger, *Landesgruppenleiter* of the N.S.D.A.P.<sup>67</sup> in Chile and former Commercial Attaché to the German Embassy, since the initials "W. B." appear at the end of the circular. The Legal Attaché's source of information obtained possession of this document for several days and it is understood that he showed it to the Legal Attaché's representative in Temuco.

The Department's attention is invited to the following significant excerpts from the circular, as translated into English: (different from the translation contained in the Legal Attaché's report):

"Our party, as well as all of its related organizations, has been officially dissolved. Every party member will understand the meaning of the word 'officially.'["]

"We are leaving now, but enough men, German men, will remain, who know where their duty lies, when the occasion arises. National Socialism originated in Germany but it has now penetrated into every corner of the world and it will not disappear even though we are vanquished in battle; National Socialism will continue to live! We know that we will rise again, possibly very soon, and then we will destroy and purify what we deem necessary."

"We have the satisfaction of knowing that there will never be any measures taken in Chile as has been the case in Perú and Brazil from which our German brothers have suffered so tremendously. There will never be concentration camps in Chile, of that we are certain, and this assurance makes it easier for us to leave. As has been stated previously, postal communication will be maintained at certain intervals via Buenos Aires."

<sup>66</sup> Not printed.

<sup>67</sup> National Sozialistische Deutsche Arbeiter Partei.

These statements are noteworthy because they indicate that Nazi organizations in Chile continue to operate clandestinely; that the Germans connected with these organizations have little or no fear of action against them on the part of the Chilean Government, but on the contrary appear to be confident of their position in this country; and that the Nazis in Chile plan to carry on the campaign of National Socialism even though Germany is defeated.

Respectfully yours,

CLAUDE G. BOWERS

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825.00/2037 : Telegram

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

SANTIAGO, December 30, 1943—2 p. m.

[Received 7:15 p. m.]

2196. For the President, Secretary, Under Secretary, Duggan<sup>68</sup> and Bonsal. President Ríos asked me to see him at 11:00 this morning. Fernández was present. He said that Chile is surrounded "by volcanoes in a state of eruption", mentioning Bolivia, Argentina, Paraguay, Uruguay and possibly Peru. No way of knowing precisely what may happen in reference to Chile from them. He says the Army here is most superior, as it undoubtedly is, and that Government has complete confidence in the Army supported as it is overwhelmingly by public opinion. In this connection he called attention to the strong democratic speech in support of Government by a leader of the opposition Senator Horacio Walker solicited by Fernández who wished in this way to make the policy national rather than partisan; and to the endorsement of speech by leaders of all the other parties. He thinks, however, that the democratic institutions of Chile are embarrassing to other nations and does not know the reactions of the irresponsible pro-Nazi elements in Argentine Government to Chile's open adherence to the policy of United States. He says that to meet any possible emergency all Chile needs is a very few planes. At present have only training planes the others having been cancelled before the developments growing out of the Argentine-Bolivian conspiracy.

1. Cancellations made result Spears'<sup>69</sup> recommendation on ground that emergency here was over in that danger of Japanese invasion was over. This, of course, before it had become so clear that the plan is to create a second Nazi front in South America. Additional Catalinas are badly needed.

2. We understand that an additional Catalina was due in December and two more in February, this being information from Base Com-

<sup>68</sup> Laurence Duggan, Adviser on Political Relations.

<sup>69</sup> Rear Adm. W. O. Spears, Joint Brazil-United States Defense Commission.

mander at Quintero, who was seeking information as to probable dates of arrival. President says this necessary for proper patrol of the coast and Straits. No doubt, I think, that should pro-Nazi bloc strike at Chile under Argentine leadership, would strike in Magallanes. I personally feel strongly that this is not an unreasonable request, and that it is one to our own interest and the interest of the cause we fight for, and that Chile's coup [*sic*] intent and vigorous support of our position in the present crisis has richly earned our confidence.

3. The President repeated what Fernández had told me that all the economic and financial steps regarding Axis and in accordance with Rio agreements<sup>70</sup> will be carried out to letter and immediate steps being taken.

4. In reply to query submitted your 1344, December 29, 7 p. m.,<sup>71</sup> thought appearance of United States war vessel at Valparaiso as though on coast patrol would have great moral effect here at critical time; that should it come, Government will make the most of it by way of entertainment, attention and publicity in a properly discreet way. I personally heartily agree. I think it important.

I address this also to President Roosevelt on request of President Ríos.

BOWERS

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**AGREEMENT BETWEEN THE UNITED STATES AND CHILE RENEWING THE AGREEMENT OF APRIL 23, 1940, PROVIDING FOR A MILITARY AVIATION MISSION FROM THE UNITED STATES TO CHILE**

[For text of the agreement effected by exchanges of notes signed at Washington November 27 and December 23, 1942, and April 14, 1943, see Department of State Executive Agreement Series No. 315, or 57 Stat. (pt. 2) 925.]

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**NEGOTIATIONS TO PROCURE FOR THE UNITED STATES STRATEGIC MATERIALS FROM CHILE AND EFFORTS TO LIMIT EXPORTS OF SUCH MATERIALS TO OTHER COUNTRIES<sup>72</sup>**

811.20 (D) E.D.B./2261 : Telegram

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

WASHINGTON, January 25, 1943—midnight.

91. Since the receipt of your telegram no. 18, January 5, 6 p. m.,<sup>73</sup> the Department and other agencies of this Government have been

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<sup>70</sup> For correspondence on the Third Meeting of the Foreign Ministers of the American Republics held at Rio de Janeiro, January 15-28, 1942, see *Foreign Relations*, 1942, vol. v. pp. 6 ff. For text of resolutions, see Department of State *Bulletin*, February 7, 1942, pp. 117-141.

<sup>71</sup> Not printed.

<sup>72</sup> Continued from *Foreign Relations*, 1942, vol. vi, pp. 47-79.

<sup>73</sup> Not printed; it indicated that Chile was about to issue a decree controlling the domestic consumption of copper.

awaiting anxiously word from you that the negotiations looking to the limitation of Chilean consumption of copper for manufacture and export had been satisfactorily concluded. The Reconstruction Finance Corporation has pointed out that exports of copper and copper manufactures are now exceeding the 20,000-ton annual goal by approximately 1,000 tons per month. This is a serious loss to United Nations military requirements and further delay in arriving at an agreement can bring only detriment in the prosecution of the war. Please immediately present this case forcefully to the appropriate authorities and spare no effort to follow the negotiation through to a prompt and satisfactory conclusion within the framework we have already set up.

The Department again repeats the seriousness of this situation. Please reply by telegraph.

HULL

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811.20 Defense (M) Chile/333 : Telegram

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

WASHINGTON, January 28, 1943—8 p. m.

105. For Graham from Metals Reserve.<sup>74</sup> Refer your 62, January 12.<sup>75</sup> Shall probably favor extension Chagres and Naltagua 6 months present conditions.

As we are already paying such unusually high prices for Chilean copper concentrates and copper ores, we had hoped that no further increase would be necessary. However, our minds are not closed on this subject, and we would appreciate further hearing from you on the following:

1. What are possibilities of increasing production through increase in price?
2. Considering all the factors, what price increase do you recommend?
3. If no price increase at all were granted, to what extent might production be adversely affected?

Please answer above questions for ores and concentrates separately. We realize that there are other considerations aside from production tonnages, but feel above information necessary as basis for action here.

Cobalt concentrates 14 to 20 percent value here around \$1.00 per pound metallic cobalt content depending on other constituents, for example iron alumina contents undesirable whereas nickel and arsenic

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<sup>74</sup> Horace R. Graham, Executive Vice President of the Anglo-Chilean Nitrate Corporation, serving as a representative of the Metals Reserve Company, a purchasing agency of the Department of Commerce.

<sup>75</sup> Not printed; it recommended extension of contracts with firms at Chagres and Naltagua and increases in copper prices.

contents desirable. Please advise approximately full analysis and quantities available. [Metals Reserve.]

HULL

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811.20 Defense (M) Chile/350 : Telegram

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

SANTIAGO, February 6, 1943—11 a. m.

[Received 6:18 p. m.]

252. [From Graham.] Metals Reserve for Bridgman.<sup>76</sup> Department also please note. Had first meeting Minister of Commerce<sup>77</sup> and committee appointed study revision Metals Reserve contract. Most important point is question as to whether Metals Reserve intends extend contract and for what period. Chilean representatives request extension 3-year period. They also request following: (1) 10% increase copper concentrates, (2) 25% increase copper ores, (3) increase price silver equal price now being paid Bolivia, Peru, (4) definite price cobalt, tungsten, antimony, lead and zinc placed Chilean ports with details penalties impurities, (5) payment in gold by Federal Reserve Bank to Banco Central of Chile for all gold exported from Chile in copper bars, concentrates and ores, (6) price Chilean ports for copper matte contained in gold which they plan produce small smelter in north, (7) increased quota in quantity manganese to be purchased, (8) increase price 15% current price manganese and increase in [apparent omission] iron from 5 to 7%, (9) additional considerations on priorities on materials necessary for operation these mines and some small coal mines to be opened up in south, (10) declaration of Metals Reserve of policy that will be followed in future to give possible financial aid new and existing properties. We were also informed that at meeting to be held next week with Minister of Commerce and Minister of Finance<sup>78</sup> that Chilean Government will make us formal declaration of desire of the Chilean Government to obtain increased price for copper not only for small mining industry but for three large copper mines. Costs in Chilean mines have increased as cost of living in Chile has gone up 30% last 6 months. Our definite recommendations are that we give small mining industry Chile 10% increase price ores and 5% increase price concentrates just as we did on last revision and that remainder of contract be left as is with exception such minor changes as possible increase silver definite price Chilean ports materials requested. We also recommend immediate approval continuance our

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<sup>76</sup> G. Temple Bridgman, Executive Vice President of the Metals Reserve Company.

<sup>77</sup> Gen. Froilán Arriagada.

<sup>78</sup> Guillermo del Pedregal.

contract with Chagres and Naltagua on present basis. View existing conditions we feel our recommendations are fully justified. Please advise earliest convenience. Horace Graham.

BOWERS

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811.20 (D) E.D.B./2391 : Telegram

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

WASHINGTON, February 11, 1943—11 p. m.

153. Embassy's telegram 246, February 5,<sup>79</sup> and despatch 5591, January 30.<sup>80</sup> The copper decree as presented is acceptable, but an agreement on the following is also desired at the earliest possible date:

1. We are in a position to control the sales of refined unmanufactured copper for shipment from Chile to other American Republics made by Copper Exporters and Kennecott Sales Company. The consent of the Chilean Government is desired to the exercise this control by us, having in mind that we will only permit a tonnage to be sold to equal the essential requirements of each country after deducting the amount sold by Chile in manufactured form.

2. In order to make possible the effective control of sales as outlined in No. 1 it would be helpful (a) if Chile could find it possible to limit to 4500 metric tons in each quarter the maximum allotment of base copper for Chilean consumption and exportation in manufactured form to the other American Republics and (b) in order that proper control may be maintained here it is hoped to include in the agreement which you will shortly sign (to be formalized by an exchange of notes) a stipulation that in addition to informing the Embassy in advance of all sales and exports of copper, brass and bronze, the full name and address of the buyer or ultimate consignee will be given as well as the name and address of the nominal consignee, and the amount and description of each shipment.

It is our understanding that the total annual amount which will be agreed upon is 18,000 metric tons. It would be helpful in making our plans here if the exchange of notes would provide for the submission of information to the Embassy showing the total quarterly amounts which Chile expects to ship to each of the other American Republics.

In this connection reference is made to the last paragraph on page 2 of the Embassy's despatch no. 5591 concerning the statement by the Acting Under Secretary of the Ministry of Economy and Commerce<sup>81</sup>

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<sup>79</sup> Not printed.

<sup>80</sup> Not printed; transmitted with this despatch was a draft of the proposed copper decree.

<sup>81</sup> Ricardo Heatley.



that exports would be for essential uses and that preference would be accorded to uses contributing directly to the war effort.

HULL

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811.20 Defense (M) Chile/348 : Telegram

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

WASHINGTON, February 12, 1943—midnight.

159. Your 231, February 3, 4 p. m.<sup>82</sup> The United States desires first option to buy the following from Chile before exportation to any other country is permitted by Chile: refined copper, copper concentrates, and ores; metallic mercury; molybdenum concentrates; tungsten concentrates; zinc, and also if available in quantities, zinc concentrates.

You may inform the Chilean Government.

HULL

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811.20 Defense (M) Chile/350 : Telegram

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

WASHINGTON, February 18, 1943—9 p. m.

178. For Graham from MRC. As we interpret your cablegram No. 252,<sup>83</sup> you have reported points Numbers 1 to 10 for our information and to show what the Chileans have in mind for some future general revision, but that, in so far as the remaining months of the present agreement are concerned, you feel that the revision can be limited to those particular points covered by your "definite recommendations". If this interpretation be correct, you are authorized to alter contract for its remaining period as follows:

1. Increase price copper ores and concentrates by same amounts as in last previous revision; namely, 10 percent and 5 percent of original base prices.

2. Pay market price for recoverable silver. Think you are under misconception on this question. We are not paying other countries any fixed price but only actual market price. Price ceiling was recently raised to 45 cents, and market has remained at this figure, but price is not pegged and we cannot guarantee it.

3. Agree to definite prices for cobalt, tungsten, antimony, lead and zinc placed Chilean ports. Details these schedules too lengthy for cablegram, therefore, sending air mail. Prices will be in line with prices we are paying same materials Bolivia, Argentina and Peru but please particularly note that their terms of payment for tungsten ores and concentrates are somewhat different than those provided in

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<sup>82</sup> Not printed.

<sup>83</sup> Dated February 6, 11 a.m., p. 828.

Exhibit A <sup>84</sup> and we must insist on applying to Chilean tungsten same terms payment as Bolivia, Argentina and Peru; otherwise all of the foregoing prices are based on terms of delivery and payment provided in Exhibit A. Our supplies of antimony and lead may exceed our requirements and we will therefore wish to reserve right to limit tonnage these materials. For your information, no shipping space being allotted at present for lead ores and concentrates. Please cable us estimated production and grade, antimony and lead for period involved if this output likely to be substantial.

We approve continuance of contracts with Chagres and Naltagua on present basis for additional period of 6 months. [Metals Reserve Co.]

HULL

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811.20 Defense (M) Chile/350 : Telegram

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

WASHINGTON, February 23, 1943—10 p. m.

194. The Department's 178 February 17 [18] replied only to that part of your 252, February 6, 11 a. m. which required immediate attention such as copper, ore and concentrate prices and Chagres and Naltagua contracts. The Department believes it important that you be fully posted on the problems which would result in any consideration being given to higher prices for copper for the three large copper mines.

1. The present price being paid to these mines is practically the equivalent of that being paid for the bulk of copper mined in the U.S.

2. If a higher price were paid to the major Chilean producers American mining interests would doubtless expect, at least, the same increase in price.

3. Fluctuations in the price of copper have, for many years, been taken as indicative of the general industrial commodity price trend, hence, an advance in domestic price of copper could well be a signal for pressure for price advances all along the line. The inflationary implications are obvious.

The resistance by numerous agencies of the government to a copper price rise is likely to be very great. The Department urges that you keep the aforescribed broad picture constantly in mind in your conversations with the Chilean Government.

HULL

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<sup>84</sup> This appears to refer to the detailed schedule of quantities, grades, prices, etc., of the purchases of the Metals Reserve Company known as Exhibit A and attached to the exchange of notes of January 26, 1942. See despatch No. 2536, February 4, 1942, from the Ambassador in Chile, and footnote 69, *Foreign Relations*, 1942, vol. VI, pp. 48, 49.

811.20 (D) E.D.B./2440 : Airgram

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

WASHINGTON, March 2, 1943—5:30 p. m.

A-582. Embassy's airgram A-203 February 9.<sup>85</sup> As indicated in the Department's telegram 153 of February 11, the sales made by Copper Exporters and Kennecott Sales Company of refined unmanufactured copper for shipment from Chile to other American Republics can be controlled here by appropriate government agency. The Board of Economic Warfare advises that arrangements have just been completed whereby the seller must obtain authorization from the Office of Exports before such sales can be negotiated. The Department will advise the Embassy of any authorizations issued.

The Embassy is requested to telegraph the Department whether the proposed copper decree has been promulgated and also the status of negotiations concerning desired agreement outlined in Department's telegram 153.

WEILLES

825.24/896

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

No. 5944

SANTIAGO, March 10, 1943.

[Received March 22.]

SIR: I have the honor to refer to my despatch No. 5591 of January 30, 1943, my confidential telegram No. 436 of March 6, 1943, and the Embassy's report No. 81 of March 6, 1943.<sup>86</sup>

There are attached hereto the *Diario Oficial* of March 6, 1943, containing the text of decree 64 bis, February 3, 1943, regulating the internal consumption of copper and its export in elaborated form, and a copy of confidential note No. 13, March 6, 1943,<sup>87</sup> addressed by the Under-Secretary of Economy and Commerce to the Counselor for Economic Affairs of the Embassy,<sup>88</sup> stipulating the limitation of copper consumption in Chile during 1943 to 18,000 metric tons. These documents, together with the three enclosures to report No. 81 (*supra*) contain all the regulations thus far issued in regard to the control of copper in Chile. It is expected that detailed regulations will be issued by the Ministry of Economy and Commerce to implement the stipulations of confidential note No. 13 mentioned above.

<sup>85</sup> Not printed.<sup>86</sup> None printed.<sup>87</sup> Neither printed.<sup>88</sup> Richard P. Butrick.

As the matter stands now it is believed the major objectives desired by the United States have been attained, namely, the limitation of the internal consumption of Chile to 18,000 metric tons in 1943, the restriction of Chilean exportation to manufactured copper within the 18,000 ton limit, adequate consignee information, and requirements that exports be for the essential needs of the American republics with preference being given to uses contributing directly to the war effort. The decree constitutes the basic authority for such controlling regulations as the Chilean authorities may wish to institute. The decree also limits the acquisition of copper to firms which are capable of processing it. Other stipulations included in the decree are doubtless designed to prevent speculation in copper as well as to encourage domestic industry but neither of these ends can be thoroughly fostered so long as the copper can be purchased at the official rate of 19.37 pesos to the U. S. dollar and sold in processed form at the open market rate of about 33 pesos to the U. S. dollar. Profits on a metric ton of copper may reach nearly a half million pesos. The decree permits the President to change the price basis or to acquire copper through a governmental or semi-fiscal agency for resale to the manufacturers, thus opening the way for obtaining the "exchange profits" on copper for the benefit of the government. It may also lead to stockpiling by the Chilean government or to increased governmental participation in the copper industry, although it is the opinion of the writer that neither of these possibilities is of immediate concern as high Chilean officials now seem to be in a frame of mind to cooperate with the American war effort.

The conversations of Embassy officials with the Chilean authorities preceding the issuance of the decree and note No. 13 of the Ministry of Economy and Commerce were long and arduous. There were numerous delays caused by change of ministers, illnesses of the ministry's staff and doubtless many counter currents within the government itself, which is not without its Nazi sympathizers. Senator Hernán Videla Lira, who is President of the National Mining Society (Sociedad Nacional de Minería) and pro-United Nations, in the last conferences requested that all sales of bar copper to South America be made through a Chilean organization rather than through the American copper companies' agencies abroad. He was persuaded to withhold his request so as not to delay the conclusion of the negotiations but that phase may come up again at any time. The American copper companies are opposed to it.

Respectfully yours,

For the Ambassador :  
DONALD R. HEATH  
*Counsellor of Embassy*

811.20 Defense (M) Chile/383 : Telegram

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

WASHINGTON, March 18, 1943—5 p. m.

311. For Low<sup>89</sup> from Rosenthal,<sup>90</sup> BEW. Your 468, March 10, 9 p. m.<sup>91</sup> You are authorized to negotiate extension of overall agreement for period of 12 months from August 1, 1943, with semiannual review of Schedule A as now provided, subject to following changes:

1. Include changes already authorized for present overall agreement.
2. Reserve right on our part as of August 1, 1943, or at any time thereafter to eliminate from overall gold ores and concentrates and/or manganese, or to revise provisions relating thereto provided at least 3 months notice has been given.

Please submit text before signing. Metals Reserve Company concurs and, subject to our approval of final text, will instruct Graham to sign an agreement on these terms as its authorized representative.

Section 2 above is deemed necessary in case of gold because we are unable to ship these ores. Even if shipping were available the gold would reach this country and be smelted at a loss. Therefore, our present purchasing represents a subsidy of Chilean gold mining. Since signing of original overall the United States has ordered its own gold mines closed and is not buying gold ores anywhere else. To renew the arrangement in Chile would be unjustifiable.

Right to eliminate manganese is less important but we want this privilege in case stockpile in Chile becomes larger than is justified by later shipping developments. [Rosenthal.]

HULL

825.24/942

*The American Counselor of Embassy for Economic Affairs (Butrick) to the Chilean Assistant Secretary of Economy and Commerce (Heatley)*<sup>92</sup>

[Translation]

SANTIAGO, March 20, 1943.

DEAR MR. HEATLEY: I am pleased to acknowledge the receipt of your courteous confidential note no. 13<sup>93</sup> of the Department General of Economic Policy of the sixth instant, confirming our conversations

<sup>89</sup> Sam D. W. Low, Special Representative in Chile of the Board of Economic Warfare.

<sup>90</sup> Morris S. Rosenthal, Assistant Director, Board of Economic Warfare.

<sup>91</sup> Not printed.

<sup>92</sup> Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 6026, March 22; received April 6.

<sup>93</sup> Not printed.

regarding the supplying of copper, and communicating to me that for the duration of the present world conflict the Ministry of Economy and Commerce will subject the copper export negotiations to certain conditions indicated in your note under reference without prejudice to the provisions established in Decree No. 64 Bis of February 3, of the current year.<sup>94</sup>

In accordance with the agreement, I am today sending to the Ministry of Foreign Relations of Chile and to the Department of State at Washington, a copy of your courteous note and of this one.

Very sincerely [etc.]

RICHARD P. BUTRICK

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825.24/926a : Telegram

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

WASHINGTON, April 1, 1943—10 p. m.

383. Your telegram no. 436, March 6, 2 p. m. and your report no. 81 of March 6<sup>95</sup> concerning copper sales apparently do not answer question raised in paragraph 1 of Department's 153, February 11, 11 p. m. The Department is under pressure to institute the control mentioned in this paragraph. Please telegraph as soon as possible whether Chilean Government agrees.

HULL

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825.24/965a : Airgram

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

WASHINGTON, April 8, 1943—7 p. m.

A-696. Your telegram no. 602 of March 30, noon;<sup>96</sup> the Department's telegram no. 383 of April 1, 10 p. m.; and previous correspondence concerning an agreement with Chile on the control of Chilean consumption and export of copper.

The Department and the interested Government agencies in Washington are appreciative of the cooperative spirit Chile has shown in endeavoring to adjust this matter. It is sincerely hoped that you will be able to obtain the concurrence of the Chilean Government to our common desire to control from Washington the sales of refinery shapes of copper for shipment from Chile to the other American republics by Copper Export Association, Inc. and Kennecott Sales Corporation. We would then be in a position adequately to control the export of refined, unmanufactured copper.

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<sup>94</sup> See despatch No. 5944, March 10, from the Ambassador in Chile, p. 832.

<sup>95</sup> Neither printed.

<sup>96</sup> Not printed.

In respect of fabricated copper, it is felt that although marked progress has already been made, a somewhat more closely knit control should be obtained to assure that copper, which is sorely needed for the prosecution of the war and for the maintenance of the health and public safety of the American republics and the United Nations, not be diverted to speculative operations or into uses which are patently unessential. You will recall that in the earlier stages of the negotiations (see Dept. 1296 October 28 <sup>97</sup>) there was discussed a country by country quota system allocating fixed percentages or amounts of *all* copper which could be shipped from Chile to the other American republics. For one reason or another this quota arrangement was not included in the recent decree. Careful consideration here has convinced us that the orderly functioning of the control, both in the interest of the conservation of copper stocks and to give Chile something to fall back on when political pressure might be brought by one Government or another to obtain copper above and beyond its real needs, renders essential the establishment of some such quota system. Statisticians and other experts in the copper trade have made a thorough study of the copper requirements of the American republics. They have arrived at the totals given in the following table as the most accurate available quarterly essential requirements of the other American republics (including Chile), for all copper (including copper, brass and bronze in both manufactured form and refinery shapes, and copper sulphate) during the calendar year 1943:

<i>Countries</i>	<i>Metric Tons</i>
Argentina	17
Bolivia	46
Brazil	230
Chile	624
Colombia	271
Costa Rica	142
Cuba	264
Dominican Republic	8
Ecuador	25
Guatemala	15
Haiti	31
Honduras	338
Mexico	1,927
Nicaragua	12
Panama	76
Paraguay	3
Peru	230
Salvador	9
Uruguay	14
Venezuela	218
Total	4,500

<sup>97</sup> *Foreign Relations*, 1942, vol. VI, p. 72.

It is desired that this be taken up with the appropriate Chilean authorities urging that for the reasons stated action be taken as expeditiously as possible to have a quota system such as the one described above established. The Department appreciates that the Embassy can not be insistent that Chile accept without question the figures given, but you may state with assurance that these are the figures which have been arrived at after the most careful consideration of all the facts available from the extensive sources of information available in this country and obtained from our foreign service abroad. While in the last analysis it is up to Chile to say what, if any, quotas could be established, it is hoped that the ones indicated can be agreed upon. It is anticipated that the Chilean authorities may at least inquire why the Argentina quota has been suggested at such a low figure. You may state that our investigations clearly demonstrate that far from there being a copper shortage in Argentina, there exists in that country at least 6000 metric tons of copper, (while their estimated 1943 essential requirements are 7000 tons) which are now being speculated in, to the detriment of the war effort. The Department recalls the cooperative statement of the Under-Secretary of the Ministry of Economy and Commerce to Mr. Butrick (when discussing the Argentine situation) to the effect that a way could be found to limit exports to essential uses.

In the event of requests to the Chilean Government agency which exercises the control of copper exports for shipments in excess of the aforelisted quota amounts, this Government would have no objection to increasing these amounts, provided the additional metal is for an essential requirement of which the Chilean agency approves, and we would hope that the Chilean agency would consult the Embassy prior to making any commitment to increase a quota so that we might have an opportunity to make suggestions and give such information as we may be able to furnish. Here again the Department clearly recognizes that the ultimate decision rests with the Chilean Government. The measure of essentiality in the United States is requirements for the maintenance and repair of public utilities and copper for governmental uses during the war. No copper is made available here for purely civilian commercial consumption. It is hoped to have Chile agree to the same definition of essentiality.

In addition to the aforescribed quota system, the Department hopes to be able to convince the authorities that the following additional points should be agreed upon :

(A) That, to remove the element of speculation which is dependent upon the spot consummation of export transactions, Chile agree that licenses for export shall not be issued until 60 days after the application shall have been filed, except where the exigencies of unusual circumstances warrant more prompt action.



(B) That Article 21 of Decree 64 Bis, of February 3, 1943, which reads as follows, "the exportation of copper is reserved for the companies who have proceeded in their manufacture on the conditions stipulated in this present decree and to requirements thereof", be revised. It is thought that the provision was erroneously included, since it appears to be in conflict with Ambassador Bowers' letter of January 19, 1942,<sup>98</sup> which is an over-all agreement for the export of copper.<sup>99</sup> The present situation appears to require the promulgation of an amendment or regulation in order to include the mining companies.

(C) Article 26 of Decree 64 Bis provided that at least 50 percent of the capacity of all plants shall be reserved as an inventory. This is so vague that it is considered most desirable to define what is meant by inventory. It appears that some definition of plant capacity should be made by regulation, so as to show what size inventory shall be maintained, for as it stands now there is no telling whether plant capacity for a day, a week, a month, or a year, is meant. An inventory of more than one month's needs would constitute stock piling and we would be loath to see a larger one provided for.

To make this plan effective, the Embassy at the time it is screening orders for sales and applications for export, should conduct its own investigation and convince itself of the essentiality of the end-use, and that the buyers' inventory position warrants the purchase of additional copper or products. In cases where the Embassy believes the purchase of copper or products is unwarranted or its approval may lead to illegitimate business, these matters should be called to the attention of the proper Chilean officials and the Chilean authorities should be requested to deny the certificate for export or cancel the purchase order after reconsidering the case in the light of the new facts presented by the Embassy. Of course, if Chile does not concur we can only look to moral suasion to prevent shipment. In the event additional information is required to screen the certificates for export, the Embassy should then inquire from the Embassy located in the country to which the export is to be made for the necessary additional information.

HULL

825.24/984 : Airgram

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

SANTIAGO, April 17, 1943.

[Received April 26—4 p. m.]

A-530. Reference is made to the Embassy's telegram No. 634, April 3, 12 noon,<sup>1</sup> in regard to the Department's 383, April 1, 10 p. m. The

<sup>98</sup> Not found in Department files.

<sup>99</sup> The Ambassador telegraphed the text of the proposed agreement in telegram No. 94, January 17, 1942 (not printed). For text of the note (No. 861) embodying the agreement, see *Foreign Relations*, 1942, vol. vi, p. 48.

<sup>1</sup> Not printed.

matter of bringing the exports of copper, bronze and brass from Chile to the other American Republics within the schedules of requirements of those Republics as determined by the American Embassy located therein was taken up with the Ministry of Economy and Commerce. The Ministry has now put forth the suggestions given below, which the Embassy transmits for the Department's early consideration and comment thereon:

1. The Government of Chile agrees that the exportation of refined and elaborated copper as well as that of bronze and brass to South American countries shall not exceed the quotas for copper which have been fixed for the essential necessities of those countries.

2. Within the quotas which the Government of the United States may assign to South American countries shall be included the exportable excess of elaborated copper which Chilean industries may be in condition to export to those countries.

3. It is considered that actually it is possible to count on an excess of at least 12,000 tons annually of elaborated copper in the form of plates, wire, tubes, bars, etc. of different thicknesses and diameters.

4. There exists an agreement with the Anaconda Sales Company, to which the Chile Exploration Company is subsidiary producer of electrolytic copper, the only type in demand in South American countries, which establishes that all the exportations of this Company to said countries shall be effected conditionally, pending authorization by the Ministry of Economy and Commerce.

5. Consequently it would be easy, when once the Government of the United States shall have fixed the contingent for a given country, for the Government of Chile to determine the quota of elaborated copper which it would be in condition to export, according to the necessities of that country as to dimensions, grade of elaboration, etc. and to authorize the exportation of the refined metal up to the concurrence with the contingent which shall have been fixed by the Government of the United States for the country in question.

6. It is important to point out that in the arrangement of this system of provisioning of copper for the South American countries, the Government of Chile would undertake, on its part, the negotiations for obtaining the acceptance of the new conditions on the part of the receiving countries.

If there are any other phases of the copper situation which the various agencies of the United States do not like, it is suggested that they be brought together in one document and forwarded to the Embassy as soon as possible so that they can be discussed at one time with the Chilean authorities in an endeavor to iron out the entire copper situation to the satisfaction and best interests of all concerned.

BOWERS

825.24/985 : Telegram

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

SANTIAGO, April 26, 1943—10 a. m.

[Received 1:33 p. m.]

754. 1. Reference Department's 443, April 23, 7 p. m.<sup>3</sup> At a conference 24th between the Undersecretary of Economy and Commerce and the Economic Counselor, with Randall<sup>4</sup> from Buenos Aires in attendance, the Undersecretary said Chile desires to cooperate fully with the United States in regard to copper exports but expects the United States to sympathize with Chile's desire to export elaborated copper and encourage the industry. He said he felt proposals in Embassy's airgram 530 of April 17 could form basis.

2. Undersecretary said he did not think there would be any objection to control by the United States of exports from Chile of refinery shapes so long as United States continued to buy all of Chile's copper not specifically reserved by Chile for her own industry.

3. The Embassy obtained the impression from the Department's 153 of February 11, 11 p. m., that the control by the United States of refinery shapes exports to other American Republics would be put into practice. Could not importers in other American Republics be supplied refinery shapes within requirements schedules set up by our Embassies as reduced by imports of Chilean manufactured copper? Randall states that 2165 metric tons of refinery shapes have been received in the Argentine during the first quarter of this year.

4. Undersecretary remarked that high prices paid for Chilean copper manufactures were due to buyers' avidity to purchase.

5. Undersecretary agreed in principle to quotas for American Republics set up by United States and to United States definition of essentiality.

6. Above opinions must be discussed and agreement reached with Minister who is away during Easter holidays.

7. Consignee control in accordance with paragraphs 5 and 6 of enclosure number 2<sup>5</sup> to Embassy's despatch 5944 of March 10 is being put into effect as rapidly as possible.

8. Shipments of 287 tons of copper wire and sheets from Chile to Argentine were approved 24th with concurrence of Randall.

9. Further report after conference with Minister.

BOWERS

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<sup>3</sup> Not printed; it made inquiry as to whether Chile would object to United States control of "sales of refinery shapes (refined, unmanufactured copper) for shipment from Chile to the other American republics" through the Copper Export Association, Inc., and the Kennecott Sales Company (825.24/984a).

<sup>4</sup> Harold M. Randall, Assistant Commercial Attaché in Argentina.

<sup>5</sup> Not printed.

825.24/985

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

No. 3076

WASHINGTON, May 25, 1943.

SIR: I refer to the Embassy's airgram no. 530 dated April 17, 1943, despatch no. 6287 dated April 21, 1943<sup>a</sup> and telegram no. 754, April 26, 1943, 10 a. m., all concerning the pending Chilean copper agreement.

The Embassy in its airgram no. 530 under reference, stated that the Ministry of Economy and Commerce has put forth the suggestions contained therein to form the basis of an agreement between the Chilean government and the government of the United States for the purpose of supplying to the other American republics their essential requirements, and to control the traffic in copper, i.e. refinery shapes and manufactured forms, brass, bronze and copper sulphate.

Of the suggestions set forth in the paragraph, numbered 1., reference is made only to "refined and elaborated copper as well as that of bronze and brass." The Department wishes to make it clear that the suggested tonnage quotas in its airgram no. 696 dated April 8, 1943, 7 p. m. include all forms of copper and brass, (refinery shapes, manufactures and copper sulphate), and makes the recommendation that it would be more consistent to have this proposed agreement cover all these products similarly to the Chilean copper decree designated as no. 64 bis, Santiago, dated February 3, 1943. It is the Department's suggestion that the quotas to be agreed upon shall be separately designated as to type, shapes and descriptions.

With reference to paragraph numbered 2., the Department wishes to point out that allotments established for the other American republics are controlled as to amounts by each country's essential requirements. It would appear that the type of manufactured copper, brass and bronze which the Chilean industries produce would be the determining factor as to whether or not the South American markets can be supplied from Chile.

With reference to paragraph numbered 3., it may be stated confidentially for the Embassy's background that exports from the United States to the other American republics in 1942 of copper, brass and bronze, but not including copper sulphate, were a little less than 12,000 short tons.

With reference to paragraph numbered 4., the existing agreement between Chile and the Chile Exploration Company which requires a permit for the exportation of refinery shapes to the other South American countries, does not appear to conflict with the proposed plan.

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<sup>a</sup> Despatch not printed.

Because the Undersecretary of Economy and Commerce did not think there would be any objection to control by the United States of exports from Chile of refinery shapes made by companies organized in the United States, the Department so informed the Board of Economic Warfare and it is now in the process of establishing controls over such sales.

With reference to paragraphs numbered 5. and 6., the agencies of the United States Government establishing the controls for exports have had considerable experience in the implementation of such plans. It is believed that the details can be worked out for carrying this agreement into effect under the present decentralized plan "A"<sup>7</sup> which would simplify both the work of the Chilean government and the United States government. Of course, the final approval of any such plan will rest with Chile.

Mr. Allyn C. Donaldson<sup>8</sup> of the Department will leave shortly from Washington to consult with the Embassy in this matter and to make readily available to the Embassy the developments and plans which the interested agencies in Washington have in mind.

The question raised by the Embassy in its despatch no. 6287 under reference, of finding a market for Chile's exportable surplus of copper, brass and bronze manufactures, will to a major extent depend upon the ability of the Chilean copper trade to adapt itself to the requirements of the present markets and prices, and to its ability to make deliveries.

Very truly yours,

For the Secretary of State:  
DEAN ACHESON

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811.20 Defense (M) Chile/471b: Airgram

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

WASHINGTON, June 1, 1943—7:15 p. m.

A-862. With respect to the control of exports of refined and semi-manufactured copper from Chile, the Department desires to bring to the Embassy's attention a paragraph in despatch no. 327 of May 17, 1943, from Buenos Aires,<sup>9</sup> reading as follows:

*"Copper and Copper products*—Heavy imports of copper and copper products from Chile continue despite the fact that stocks in the Argentine are believed to approach minimum requirements for the rest of 1943. An appreciable portion of these stocks are held by the black-listed firm Sema,<sup>10</sup> which firm has succeeded in augmenting its stocks during recent months. Copper is rapidly becoming an all-service metal in the Argentine economy, replacing for many uses other

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<sup>7</sup> For correspondence on this plan, see pp. 106 ff.

<sup>8</sup> Member of the American Hemisphere Exports Office of the Department.

<sup>9</sup> Despatch not printed.

<sup>10</sup> Sociedad Electro Metalurgico Argentina.

metals. So abundant are supplies that manufacturers who formerly only worked with used bronze or copper now purchase the new product.["]

HULL

825.24/1159 : Telegram

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

SANTIAGO, July 3, 1943—6 p. m.

[Received July 3—5:14 p. m.]

1200. Department's 677, June 29, 9 p. m.<sup>11</sup> Following changes agreed to: Paragraph 2 now reads "The definition of essentiality shall be in accordance with the regulations of the War Production Board of the United States. Exhibit A which forms an integral part of this agreement, lists the articles which, in accordance with the present rules of the War Production Board, shall not be made of copper or its alloys. Any changes made by the War Production Board in making [*having?*] further restrictions put on the list shall not affect this agreement except by the consent of the Chilean Government." In paragraph G add "This consumption will not be included in the quota set for the internal consumption of Chile". Paragraph H deleted. Paragraph I deleted. A new paragraph is added: "Copper inventories of industrialists will be limited to the requirements for essential uses for 30 days".

At a meeting held today Pedregal agreed to above and will confer with President Ríos Monday with a view to signing the agreement July 5. Unless instructed to the contrary I will exchange notes confirming agreement on July 5.

After notes have been exchanged we have agreed that export licenses for Fomento rolling mill and wire drawing machine will be approved. A second note from Chilean Government will state that it is not the intention of the negotiators to create any unemployment because of the copper agreement and a Chilean Committee will be appointed to supervise period necessary to institute restrictions.

BOWERS

825.24/1159 : Telegram

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

WASHINGTON, July 5, 1943—4 p. m.

696. Your 1200, July 3, 6 p. m. You are authorized to exchange notes confirming the Agreement.<sup>12</sup>

<sup>11</sup> This telegram (not printed) gave detailed modifications of the copper agreement (825.24/1129).

<sup>12</sup> For text of the Agreement, see note No. 2210, August 11, from the American Ambassador in Chile to the Chilean Acting Minister for Foreign Affairs, p. 851.

You may assure the Chileans that the Department will, upon satisfactory completion of Agreement, exert its best efforts to obtain approval of rolling mill and wire drawing machinery. However, no commitment may be given in this connection.

HULL

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825.6374/1518

*The Chilean Embassy to the Department of State*

AIDE-MÉMOIRE TO MR. DUGGAN

WASHINGTON, July 10, 1943.

The restrictions occasioned by the war have reduced world nitrate sales to 1,400,000 tons. As production could not be regulated accordingly, the world stock at the moment is 100,000 tons greater than normal stocks in the pre-war period. The pre-war normal stock was of 500,000 short tons, at a time when it was convenient to maintain adequate nitrate stocks in all world markets. The war has made it impossible to continue the maintenance of such stocks, and today the sales are generally effected on the Chilean coast. A stock of 500,000 tons is, therefore, exaggerated, and even more so the present stock of 600,000 tons.

In order to keep in operation the plants which are actually producing, it is therefore absolutely indispensable that the sales of the new nitrate year and of the coming years reach the minimum production level of 1,400,000 tons. As there is no hope of increasing the sales in world markets outside of the United States, but that rather, on the contrary, deliveries to other markets will most probably be reduced to less than 400,000 tons, it is obvious that if the United States does not purchase and transport 1,000,000 tons of nitrate during the present year, the paralyzation of Chilean plants with consequent unemployment and social and economic difficulties will be inevitable.

General information which has been imparted to us, which indicates that the situation has recently improved greatly, but that a purchase of 1,000,000 tons yearly by the United States can still not be assured, is less unfavorable, but does not assure Chile of being able to keep up present production levels. Any reduction whatsoever in the purchases below 1,000,000 tons, will result in unemployment in Chile that could even reach one of the great plants of Tocopilla.

If the purchase of 1,000,000 tons is effected this year, but there is no possibility of making a similar purchase for the coming year, 1944-1945, the same situation will again arise in Chile, repeating itself in a year.

Without any argumentative spirit, but due only to the gravity of the situation during the war, our Government has charged us with making known the antecedents which could be brought to bear so that the United States would consider the case of natural nitrate with equity and good will.

The Good Neighbor policy, and that of mutual cooperation established among the American Republics envelop the practical idea of considering the important problems of the countries with a serene spirit of justice, equity and comprehension.

In the concrete case of natural nitrate, there has been a very special contact with the representatives of the United States inasmuch as on the one hand it deals with the most genuine basic Chilean product, and on the other hand, the defense of the United States has made necessary the construction of synthetic nitrogen plants. Such plants could in the future be transformed into competitors of the Chilean nitrate if at this moment or in the future they enter their production into the ordinary market and especially if it were to be used for agricultural purposes.

When the construction of these plants was first being considered, Chile offered to deliver a stock of nitrate sufficient to satisfy the eventual necessities under any circumstances, asking that no such plants be constructed as there was already sufficient nitrate production to take care of the world's needs.

Because of considerations of defense, the construction of the plants was begun on a moderate scale, and Chile remained calm because it was declared that such construction would not endanger the natural nitrate sales for agricultural purposes, nor consequently the economy of Chile.

In the Conference of Rio de Janeiro,<sup>13</sup> the Ninth Resolution<sup>14</sup> established the form in which this problem should be faced, giving certain guarantees which, if harmoniously handled, would satisfy the aspirations of the Government of Chile.

Last year, in March and April, in new conversations, general assurances were given in the sense that the Government would maintain the ownership of the plants until after the war, and that their fate would not be definitely decided without first considering the effect of such decision upon the Chilean economy. Moreover, the discussion at that time included conversations to the effect that before taking any definite action on the question, it would be discussed at a round table with representatives of the Chilean Government.

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<sup>13</sup> Third meeting of the Foreign Ministers of the American Republics, Rio de Janeiro, January 15-28, 1942; for correspondence concerning this conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

<sup>14</sup> For text of the Ninth Resolution, see Department of State *Bulletin*, February 7, 1942, p. 126.



With these antecedents, it is brought out in summary, that the Government of the United States understands the delicate situation of Chile in the nitrate problem, now as well as after the war, and it only remains to seek the practical means by which it can be assured that this situation, created by the present war emergency, does not contribute to the destruction of one of the basic natural resources of a friendly country.

It is well to remember that Chile is developing to the limit of its capacity the help that it is able to proffer to the defense of the United States, even unto making sacrifices in its internal necessities of copper, in order to be able to serve in good cause the agriculture of this country for over 100 years by providing the necessary fertilizers, and in the past two years it has contributed to the successful development of the food program by furnishing nitrate in a period of such vast importance.

During the present year, a considerable part of the production of the new plants raised for defense and of Canadian plants also built because of the emergency, will be destined for agricultural purposes in the United States. This fact, besides confirming our fears that the construction program was too large for just supplying war necessities, will affect our economy in a large measure, and can produce in Chile, in the future, disastrous economic and social effects.

It is our understanding that, for reasons of uncertainty with respect to the time in which the nitrogen of new production will be available; because of the mechanical conditions of some products to be delivered for consumption for the first time; and finally, in order to assure the convenient availability of the nitrogen necessary for the fulfillment of the food plan; the Food Administration, without any consideration of the situation of Chile, but rather exclusively in consideration of the internal necessity in reference, has recently requested, according to advices which have reached us, that the War Production Board authorize the purchase and make transportation arrangements for 1,000,000 tons of nitrate for the year ending next June 30.

If such is the case, Chile's problem as far as the year 1943-1944 is concerned would unquestionably be solved, but if only internal necessities are to be considered, and the Good Neighbor policy and that of mutual cooperation are to be disregarded, it is quite clear that for the next year the excessive national production could well cause drastic reductions in the purchase of Chilean nitrate with the above-mentioned serious consequences.

Further still, this excessive production could make inroads in exportation to other world markets, thus reducing, in a way disastrous

to Chile, the few markets that are now helping to keep up a minimum production level necessary to avoid unemployment in the nitrate fields.

In such serious conditions, the Government of Chile is confident of being able to count upon the collaboration of the United States which is justified if the antecedents and the purposes of mutual protection of basic industries are taken into consideration. Our Government believes that with good will the means of avoiding these serious dangers can be found, even when it is understood that this can only be discussed in the light of the reciprocity of the American Republics.

In effect, as long as the United States needs the products of Chile, and especially nitrate and copper, Chile has exerted all effort to deliver these products in the most reasonable conditions and in due time, and it maintains the hope that when the United States needs only copper, it will also put forth its best efforts to continue the purchase of nitrate during the war, to the end that Chile be able to maintain social and economic harmony for the duration of this emergency.

With respect to the future, Chile understands that it is essential to continue the modernization of its industry, and is doing its best toward accomplishing this. It believes that after the war the nitrate industry could go on living and effecting delivery in the world market of the quantity of nitrate necessary to keep up production, social peace, and the economy of the country, provided, always, that the Government plants receive no artificial support, and it is sure that to that end it may count upon the friendly collaboration of the Government of the United States.

Even in consideration of the fact that the moment is undoubtedly not opportune to attempt to solve the problems of the future, the Government of Chile believes that the Government of the United States could manifest its conformity to some general principles that, in the judgment of Chile, could be determined, and that would give sufficient security to the future of the nitrate industry.

These points are:

1. Following the policy of American cooperation to maintain the basic production of other nations of the continent, and in consideration of the fact that there exists an excess of productive capacity, the Government of the United States will not grant, directly or indirectly, financial facilities for the construction of new synthetic nitrogen plants in the world.

2. The Government of the United States will retain, for the duration of the war emergency, the ownership of all plants constructed, or that may be constructed, for defense purposes, and will make no decision regarding their fate until the end of the war, nor without

first taking into consideration the effects that such decision would have upon the economy of Chile. The Government of the United States will invite representatives of the Government of Chile to confer upon this matter when the war is over, and before taking any definite action on the matter.

3. If the new plants are to be destined to the nitrogen trade, the Government of the United States, owner of these plants, will not grant subsidies, either directly or indirectly, that would improve the economic basis of emergency industries that would constitute a direct menace to the natural nitrate industry.

When the moment arrives for the transfer of these plants, it is understood, consequently, that the capital invested will not be undervalued nor the cost written off, and that no other methods will be employed to produce similar effects and that would place the new industry of nitrogen in a position of artificial advantage which would undoubtedly be contrary to the principles of cooperation.

Finally, Chile would like to be able to count upon the following permanent measures destined to protect natural nitrogen:

4. To keep natural nitrate on the "free list", without submitting it to importation intricacies nor to a system of quotas or licenses, nor other restrictions that would tend to limit the free use of this product by American farmers.

5. The suppression of regulations established to give preference to the national products so that Chilean nitrate could be employed in the industrial works of the Government.

The above-listed points regarding nitrate are those which the Government of Chile would like to determine with the Government of the United States, and we have deemed it advisable to present them in verbal form to Mr. Duggan, begging him to be so kind as to give us his advice as to the persons whom we should interview in order to discuss the case in question. We should appreciate suggestions on the following points:

1. The manner in which the nitrate purchase for the present year can best be settled, and also for the coming years for the duration of the war.

2. The manner in which it can be assured that the Government will retain the ownership of the nitrogen plants until the termination of the war, and that their destiny will not be determined without due consideration of the effect such action would have upon the economy of Chile.

3. That point No. 2 will not be determined without first conferring with representatives of the Government of Chile.

4. In the event it is decided to allow such nitrogen plants to enter into general trade, to assure that the cost will not be written off, nor will subsidies be granted, nor any other measures producing similar effects.

5. That no financial aid will be granted either directly or indirectly for the construction of new nitrogen plants in the world.

825.24/1268

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

No. 7128

SANTIAGO, July 29, 1943.

[Received August 11.]

SIR: I have the honor to enclose for the Department's information and consideration schedules<sup>15</sup> indicating (1) copper manufactures exportations from Chile to Argentina which were approved by the National Foreign Trade Council (Consejo Nacional de Comercio Exterior) during the period January 1, 1943 to April 6, 1943; (2) copper manufactures exportations from Chile to Argentina which were approved by the National Foreign Trade Council and the Embassy during the period April 6, 1943 to July 28, 1943, and (3) proposed copper manufactures exportations from Chile to Argentina which were rejected by the Embassy during the period April 6, 1943 to July 28, 1943.

It will be noted from the attached schedules that copper manufactures totaling 1,882.7 metric tons have been approved to date in 1943 by the Chilean Government for exportation to Argentina. Of this quantity, 1,174.8 metric tons were authorized by the Chilean authorities prior to April 6, 1943, the effective date of the agreement reached by the Embassy with the Chilean Government<sup>16</sup> under the terms of which all applications for license to export copper manufactures from Chile to American Republics other than the United States must be submitted to the Embassy for its review and consideration before being approved or rejected by the appropriate Chilean authorities. From April 6, 1943 to date, a slightly longer period, the National Foreign Trade Council has authorized, with the prior approval of the Embassy, but 707.9 metric tons of copper manufactures for exportation. It will be noted that included within this latter datum of 707.9 metric tons are 200.0 metric tons representing shipments authorized under the current contract between the Chilean Army Workshops (Fabrica de Material de Guerra del Ejercito) and the Argentine Army Workshops (Dirección General de Fabricaciones Militares del Ejercito Argentino). Applications covering these 200.0 metric tons were returned by the Embassy to the National Foreign Trade Council with the observation that, while it appears that this copper is for building up the stocks of the Dirección General de Fabricaciones Militares del Ejercito Argentino for future needs and

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<sup>15</sup> Not printed.

<sup>16</sup> Agreement (not printed) outlined in note No. 13, March 6, 1943, addressed by the Chilean Under Secretary of Economy and Commerce to the American Counselor for Economic Affairs and attached to despatch No. 5944, March 10, from the Ambassador in Chile, p. 832.

that it is not of immediate necessity, in view of the nature of the consignor and consignee, the Embassy does not feel it is in a position to comment officially on these applications which apparently cover future military needs of Argentina. The Embassy has now arranged orally with the Chilean Army Workshops that future shipments will be made at the rate of 150 tons a month, which is the minimum figure of the contract.

Thus, the Embassy believes that the control measures which were inaugurated as of April 6, 1943, are proving effective in that, excluding that which has been noted as having been authorized by the National Foreign Trade Council for shipment by the Chilean Army Workshops to the Argentine Army Workshops, only 507.9 metric tons of copper manufactures were approved by the Embassy during the second four months of 1943 for shipment to Argentina as compared with 1,174.8 metric tons authorized by the National Foreign Trade Council, without review by the Embassy, during the first three months of 1943.

However, it is still to be regretted that such large quantities of copper manufactures have been licensed to date during 1943 for exportation to Argentina. In this connection, the Embassy is in accord with the information set forth in the confidential memorandum enclosed with the Department's confidential instruction No. 3199 of July 2, 1943.<sup>17</sup> In addition, while in Santiago, Mr. Allyn C. Donaldson (ER) informed the Embassy that it was his understanding that the United States is short 400,000 metric tons of copper urgently required for the war effort. In this connection, it is disturbing that Argentina continues to press for still further shipments of copper, apparently quite beyond the requirements estimated by the American Embassy there. While it is recognized that a practical point of view must be adopted by this Embassy and that certain proposed shipments of copper manufactures to Argentina will appear to be justified on the surface and on the basis of the *individual* hardships which would be involved were the shipments to be denied, it is this Embassy's belief that copper shipments to Argentina should be withheld, for the moment, in every possible instance. This would appear to be justified by the Buenos Aires Embassy's statement that "The result . . .<sup>18</sup> is that Argentina has already received more copper than this Embassy recommended for the entire year of 1943." (See aforementioned confidential memorandum enclosed with the Department's confidential instruction No. 3199 of July 2, 1943, page 1.) Hoarded stocks of copper should be forced into the open market in Argentina

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<sup>17</sup> Neither printed.

<sup>18</sup> Omission indicated in the original despatch.

in order that more copper may be made available for the United Nations' war efforts. Such an opinion was voiced by Mr. Allyn C. Donaldson at the time he was in Santiago and the Embassy therefore has reason to believe that it reflects the opinion of the Department.

In addition, the Embassy has reason to believe that considerable quantities of copper, both manufactures and refinery shapes, continue to leak into Argentina as contraband and without prior authorization of either this Embassy or the National Foreign Trade Council. This, coupled with the fact that local representatives of the Office of Economic Warfare report that the Chilean "small" copper mining industry's output of raw copper is steadily declining, only serve to accentuate the seriousness of the problem at hand.

It is realized that in some cases, the Embassy in Buenos Aires may have sufficient reason to recommend additional shipments of copper but it is the intention of this Embassy to be guided by the quarterly estimates in the future, except for actual military needs. This is in accord with the spirit of the agreement about to be reached with the Chilean Government.

Respectfully yours,

CLAUDE G. BOWERS

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825.24/1833

*The American Ambassador in Chile (Bowers) to the Chilean Acting Minister for Foreign Affairs (Allard)* <sup>19</sup>

No. 2210

SANTIAGO, August 11, 1943.

EXCELLENCY: I have the honor to acknowledge the receipt of His Excellency, the Minister of Foreign Affairs' confidential note No. 69 of August 4, 1943 <sup>20</sup> (Department of Commercial Policy), confirming that the Government of Chile, desirous of cooperating to the utmost of its resources in the efforts of the United States of America to increase its supplies of strategic materials, expresses its accord to entering into an agreement with the Government of the United States by which there shall be established standards for limiting the consumption of copper to essential uses not only within the country but also for exportation to the other Latin American Republics, while at the same time attending to the possibilities of Chilean industry for the manufacture of that metal.

The following named documents serve as a basis for this agreement: Second Resolution of the Third Meeting of the Ministers of Foreign Relations of the American Republics, held in Rio de Janeiro from the

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<sup>19</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 7314, August 18; received August 25.

<sup>20</sup> Not printed.

15th to the 18th [28th] of February [January] 1942; <sup>21</sup> note No. 861, dated January 26, 1942, <sup>22</sup> from Ambassador Claude G. Bowers to His Excellency don Guillermo del Pedregal, Acting Minister of Foreign Affairs of Chile; note No. 1906 dated March 22, 1943, <sup>23</sup> addressed by the Ambassador of the United States to the Minister of Foreign Affairs; reply of the Minister of Foreign Affairs by note No. 01922, dated April 15, 1943, <sup>23</sup> and the Minister of Foreign Affairs' note No. 03125 of June 18, 1943, <sup>23</sup> addressed to the Ambassador of the United States; it being understood that the documents and agreements mentioned above will remain in force except where they may be contradictory to the present document.

According to the terms established in these documents regarding mutual aid, it is agreed that the Government of the United States and the Government of Chile will limit, for the duration of the present war, internal consumption as well as exportations of copper, brass, bronze and copper sulphate, in the following manner:

- 1) The use and exportation of Chilean copper, brass and bronze, either manufactured or in ingots in their various forms and copper sulphate will be limited to the essential requirements of each one of the American Republics.

- 2) Essential requirements shall be those products necessary for military needs, for the maintenance, repair and operation of public utilities and industries directly engaged in production for the prosecution of the war.

Exhibit A, <sup>24</sup> which forms an integral part of the present agreement, lists the articles which, in accordance with the foregoing paragraph, shall not be made of copper or its alloys.

If the Government of the United States introduces changes in the regulations in effect in that country in respect to the articles whose manufacture of copper or its alloys is prohibited, such changes shall not apply to this agreement unless approved by the Chilean Government.

- 3) In the quarterly estimates of requirements for copper, brass, bronze and copper sulphate, which are fixed for each one of the American Republics, preference will be given to the exports relating to the military needs of the United Nations indispensable for the prosecution of the war.

- 4) The total essential requirements of all the American Republics, except the United States, will not exceed 18,000 metric tons per year and will be divided into quarterly amounts of 4,500 metric tons. Any quarterly amount which is not used will lapse, and will not be cumulative.

- 5) The export of ingot in all its forms from Chile, made by the companies organized or controlled in the United States will be subject

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<sup>21</sup> Department of State *Bulletin*, February 7, 1942, p. 119.

<sup>22</sup> *Foreign Relations*, 1942, vol. VI, p. 48.

<sup>23</sup> Not printed.

<sup>24</sup> Not printed; see footnote 84, p. 831.

to the joint authorizations of the agencies of the United States Government and the Ministry of Economy and Commerce of Chile.

In order to implement the provisions above indicated and to aid Chile in the development of her copper manufacturing industry, it is mutually agreed:

*a)* That the Agencies duly designated by the United States Government will aid the Agencies of the Government of Chile by putting at their disposal, as soon as determined, the essential requirements of the other American Republics for each future quarter, with specifications regarding the type of manufactured products and the amount thereof needed by each Republic.

*b)* The Agencies of the United States Government will send the above information directly to the Embassy of the United States in Santiago, together with all details regarding the applications for products, in order that it may be transmitted to the Ministry of Economy and Commerce which will authorize the fulfillment of such orders and their delivery to the importing countries in accordance with normal commercial procedures. The details of the transaction between the seller and buyer will be agreed upon exclusively by them.

*c)* On its part, the Ministry of Economy and Commerce will return within 30 days to the Embassy of the United States the orders which are not agreed to by the manufacturers or producing enterprises of the country and the prospective buyers of the other countries.

*d)* The Ministry of Economy and Commerce, or Agency duly designated by the Government of Chile, will consult with the Embassy of the United States about matters relating to export applications of copper in any of its forms. The Embassy of the United States will pass upon export applications within thirty days of the date of receipt of such applications from the National Foreign Trade Council, except in cases where, by mutual agreement of the parties, another procedure is decided upon. In passing on export applications, the Embassy of the United States will be guided by the regulations of the War Production Board as the means of providing equal treatment in the determination of essentiality.

*e)* Any shipments made from Chile to any other American Republic will be deducted from the requirements schedule of the country of destination.

*f)* The Government of the United States and the Government of Chile agree to supply the other American Republics, insofar as possible, with their indispensable essential requirements of copper, brass and bronze in all their forms and in the form of copper sulphate.

*g)* The control of the amounts of copper and its alloys necessary for the use of the arsenals for the Air Force, Army and Navy of Chile will be exercised by the Ministry of Economy and Commerce. This consumption will not be included in the quota set for the internal consumption of Chile.

*h)* Chilean industrialists, in order to satisfy the essential requirements of the American Republics, other than the United States, will have the necessary amount of copper, up to the limit of 18,000 metric tons annually, of which up to 3,300 tons are available for the essential



requirements and the maintenance of the indispensable vital activities of Chile itself.

i) It is understood that the quarterly quotas of copper will be considered as having been used, for the purposes of the paragraph 4 as soon as the Ministry of Economy and Commerce shall have issued to the producing companies the order to deliver the copper, according to the orders of the manufacturers and/or exporters.

j) Copper inventories of industrialists will be limited to the requirements for essential uses for 30 days.

This note, which I have been duly authorized by my Government to sign and forward, and that of His Excellency the Minister of Foreign Affairs, dated August 4, 1943,<sup>26</sup> and in similar language constitute an agreement between the two Governments.

Accept [etc.]

CLAUDE G. BOWERS

825.24/1102

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

No. 3330

WASHINGTON, August 16, 1943.

SIR: Further reference is made to your despatch no. 6626 of June 1, 1943, which was answered by instruction no. 3224 of July 10.<sup>27</sup>

On the specific question which you raise of whether it is desirable to permit strategic materials to move from Chile into Argentina, the only safe basis for requesting the Chilean Government to limit exports of such materials to Argentina or other South American countries is the need for them in the United States in connection with the war effort. This was the basis for our negotiations on copper. It would be dangerous and detrimental to our interests if the Chilean Government should get the idea that the Department was attempting to enlist its aid in a program of economic pressure against Argentina. Before giving a definitive opinion on this matter, however, it would be appreciated if the Embassy will report on the volume of strategic materials flowing from Chile to Argentina, in order to determine whether the problem is of sufficient importance to justify further attention.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

825.6374/1514

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

[WASHINGTON,] August 31, 1943.

The Ambassador<sup>28</sup> took up the conversation on the nitrate negotiations where it had been left off on August 30. He said that the de-

<sup>26</sup> No. 69, not printed.

<sup>27</sup> Neither printed.

<sup>28</sup> Rodolfo Michels, Chilean Ambassador.

cision to purchase only 700,000 tons would come as a heavy blow to the Chilean Government and Chilean people. It would mean the shutting down of one of the large *oficinas* on the nitrate *pampa*, with consequent social and political distress. This would be a shock to the Chilean people, who had cooperated so well with the United States in the war. They would conclude that the United States was really only interested in buying those goods that it needed from Chile and not in helping Chile to adjust the internal dislocations caused by the war. The Government would have to take measures to help the nitrate and other workers thrown out of employment. It had no funds for this purpose in its present budget. Additional funds would have to be secured, and the only place that these could be obtained was through new taxation on the copper industry.<sup>29</sup>

At this point I interrupted to ask the Ambassador to be kind enough to let me explain once again what the position of the Department was. From the outset the Department's desire had been to work in cooperation with the Chilean Government with respect to the status of the nitrate industry in the present fiscal year. It was not easy for the various agencies of this Government involved to decide the final attitude to be taken with respect to that industry. There was an undoubted need for nitrate to expand agricultural production in the United States. The synthetic producers were maintaining that that need could be filled with the synthetic product. The Food Administration did not support this contention; in fact, the Food Administration was urging a very substantial purchase of Chilean nitrate. On the other hand, other agencies of the Government were arguing that shipping was not available to carry this large amount but only a fraction of it. In this flux of contending interests there was one element of stability, namely, the directive issued by WPB <sup>30</sup> to OEWS <sup>31</sup> to purchase 700,000 tons of nitrate. This element of stability nevertheless was under constant review and attack. The only way to make it fixed and certain was by the signature of a contract between this Government and the Chilean industry.

Our recommendation was that the industry proceed as rapidly as possible to negotiate the contract and thereby nail down the 700,000-ton purchase and remove it from the field of discussion. The two Governments could then continue their study to determine whether in fact the maintenance of the nitrate industry required a greater purchase by the United States than 700,000 tons. The objective of this Government was identical with that of the Chilean Government, namely,

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<sup>29</sup> The Second Secretary of Embassy, Sheldon T. Mills, made a study of the possible effects of this reduction in the purchase of nitrate and concluded that the nitrate industry with help from the Chilean Government could adjust itself to the cut.

<sup>30</sup> War Production Board.

<sup>31</sup> Office of Economic Warfare.

to maintain the economic, social, and political stability of the so-called nitrate provinces through the continued operation of that industry at whatever level was necessary to attain the objective. It was my belief that within sixty days there would be a final outcome of the consideration now being given by the various agencies in Washington to the amount of Chilean nitrate that should be purchased and transported to the United States. There were reasons to be both optimistic and pessimistic. On the optimistic side was the real need of agriculture for Chilean nitrate. On the pessimistic side was the possibility of contraction in shipping facilities owing to military operations. I was inclined to believe that more than 700,000 tons would be purchased, because of the decision of agencies of Government here that this was the wise thing to do, all factors considered. If the decision was in the negative, however, I could assure the Ambassador that it was this Government's intention to purchase whatever additional amount was necessary as an aid to Chile in the extension of employment, et cetera, in the nitrate provinces.

The Ambassador asked whether this would mean that the Department would request, for political reasons, the purchase of an additional 300,000 tons. I replied that it might or might not, depending upon the outcome of studies now in process. He then asked whether it would mean that we would buy whatever amount was necessary to keep up production at existing levels. To this I replied that I thought we must be flexible about these matters. I referred to the contraction in sugar production in Cuba, which was accomplished without producing internal disequilibrium. The Ambassador then reiterated several times that it was his understanding that if the various Government agencies here decided not to purchase any nitrate over and above 700,000 tons the Department would then determine what amount should be purchased purely as an assistance to Chile to permit it to maintain stability in Chile. I each time replied that this understanding was correct but that he should not take this to mean that the Department had any figure in mind at this time.

The Ambassador then said that he thought that this approach to the problem was a satisfactory one. He would see García<sup>32</sup> and Álvarez<sup>33</sup> this evening and urge their procedure on this basis. He would cable his Government tomorrow and ask for his Government's approval. To both his Government and García and Álvarez he would recommend that no publicity be given to the purchase of the 700,000 tons but that this operation be kept confidential between the parties concerned.

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<sup>32</sup> Desiderio García, official of the governmental Corporación de Fomento de la Producción.

<sup>33</sup> Pedro Álvarez, Executive Vice President of the Chilean Nitrate Sales Corporation.

I thanked the Ambassador for his understanding attitude, adding that with confidence and good faith on all sides even the most difficult problem could be surmounted.

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811.20 Defense (M) Chile/596 : Telegram

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

SANTIAGO, November 24, 1943—7 p. m.

[Received November 25—1:35 a. m.]

1986. For FEA,<sup>34</sup> Food Purchase Program. The Minister of Economy and Commerce today informally approved the following overall agreement. Please note that the principal changes in the draft desired by Washington are the following: That the Chilean Government is permitted to supply all other American countries without limitation of price, and that the American Government agrees to try to get additional agricultural machinery and repairs for Chile. It is suggested that this overall agreement receive early consideration and that Santiago be notified promptly whether it is acceptable and what changes if any are desired. As has been indicated from the outset, prices to be paid constitute the primary factor and they should be resolved promptly. The approved draft agreement is as follows:

"I have the honor to set forth below the understanding of my Government as to the principles and procedures which constitute the program heretofore under discussion between our Governments for the acquisition by an agency of the United States of certain agricultural commodities in Chile.

["]1. The Government of the United States of America and the Government of the Republic of Chile recognize the importance to the prosecution of the war, the defense of the Western Hemisphere and the early achievement of stable conditions throughout the world, of increasing to the largest extent compatible with Chilean economy, the production in Chile of those essential agricultural commodities covered by this agreement and which are to be used for the furtherance of the war effort. It is recognized that the attainment of the desired objective implies a broad program of coordinated effort by our respective Governments in the manner hereinafter stated and as may otherwise be later agreed upon.

"2. The Government of the United States agrees to buy through the medium of a designated agency the exportable surpluses of certain agricultural commodities produced in Chile up to September 1, 1945, resulting from the crops of 1943-1944 and 1944-1945 as stipulated in Schedule A (attached)<sup>35</sup> of products, specifications, prices and conditions. Schedule A shall accompany and form a part of this agreement as soon as it is approved by our respective Governments. Exportable surplus is understood to mean the complete productions

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<sup>34</sup> Foreign Economic Administration.

<sup>35</sup> Not printed.

of the products enumerated in Schedule A, less the amounts thereof necessary for Chilean consumption, the quantities retained for germination seed and those exports necessary for the internal consumption of those countries of America which normally import from Chile. The Government of Chile will take every precaution to see that such exports are not used for stockpiling or reexportation. In the event that actual requirements for Chilean consumption or for germination seed or to meet the internal needs of other American Republics are less than the amounts estimated therefor the differences shall be a part of the exportable surplus. The United States Agency shall be free without prior consultation with the Chilean Government to sign contracts for future deliveries and make spot purchases of the products mentioned in Schedule A within the limitations of the exportable surplus as defined herein. Full performance to the United States Agency may be made of all contracts entered into within the foregoing procedure.

"3. The Government of the Republic of Chile will do everything possible to augment the production of the articles covered by this agreement including publicizing and supporting the program throughout the country. Further the Government of Chile for the same purpose will adopt a special program contemplating financial aid to farmers for providing seeds, fertilizer, machinery and also technical advice and supervision. The Government of the United States on its part will assist in obtaining the necessary licenses for the exportation to Chile of the agricultural machinery and repair parts necessary to obtain the augmentation of the crops of the articles covered by this agreement.

"[4. The Government of the Republic of Chile will try to avoid the levying of new imposts, contributions, taxes and charges of any nature which could affect directly or indirectly the prices of the 'exportable surplus'. Nevertheless prices shall be subject to mutual revision on August 1, 1944 for the purpose of bringing them in line with the cost of production or other factors which have altered and justify a change in prices.

"5. Export licenses will be promptly granted for the movement of all Schedule A commodities acquired by the United States agency under this agreement and the Government of the Republic of Chile agrees that each year, prior to the beginning of the harvesting of the scheduled crops in producing regions, it will establish and announce the amount of each of these commodities needed from these crops to meet the requirements of Chile for germination seed and for internal consumption, making due allowance for the carryover from the previous seasons. It will likewise establish and opportunely announce to the Embassy of the United States the amount of each of the commodities for which export licenses will be issued to cover shipments to other American countries for their internal consumption, and will inform the Government of the United States, through its Embassy at Santiago, of all proposed shipments to other American countries.

"6. The designated agency of the United States will be considered as a governmental agency free from taxes, contributions and other obligations which are ordinarily applied to private [*interests?*] doing business in Chile and it will be permitted to hold real and personal property.

"7. It is understood that this note and Your Excellency's reply <sup>36</sup> thereto shall constitute an agreement effective this date between our two Governments, that the notes in English and Spanish are identical, *mutatis mutandis*, and of equal force, and that the agreement shall continue until September 1, 1945, unless ended sooner or extended by mutual agreement. It is mutually understood that contracts made within the terms of this agreement shall be effective until December 31, 1945.

"Accept, Excellency, the renewed assurances of my highest and most distinguished consideration."

BOWERS

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825.24/1567

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

No. 3631

WASHINGTON, November 25, 1943.

The Secretary of State refers to the Embassy's airgram A-1370, dated November 4, 1943,<sup>36</sup> which refers to the Copper Agreement between the United States and Chile and shipments to be made from Chile under the Agreement.

The Foreign Economic Administration and the Department telegraphed the Embassy that there were no objections to the shipments of copper refinery shapes from Chile set forth in the Embassy's airgram A-1370, November 4, under reference. It is understood that these shipments are considered outside of all quotas in as much as the applications were made prior to the Copper Agreement and were presumed to have been made before the Agreement became effective.

It will be called to the attention of the Foreign Economic Administration that applications remain in the Embassy's hands totaling 195,000 kilos, to be provided for in the first quarter allocation for 1944 for Brazil. The Department will endeavor to have future estimates of requirements established to take care of each country's requirements and, except for cases brought to the Department's attention from the Embassies for special consideration, expects that it will be unnecessary to change the allocations after once established. The Department wishes to point out that it will be of assistance in establishing future requirements if prompt shipments are made where approval has been received by the Embassy from Washington. The Department desires to be informed as soon as the shipments for the fourth quarter of 1943 to the other American republics for copper and base alloys have been approved by the Embassy and the Chilean Government.

The Department concurs in the Embassy's recommendation that all estimates of requirements under the Copper Agreement will be con-

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<sup>36</sup> Not printed.

sidered over-all requirements, including military requirements, for all countries except Chile which is specifically excepted under subdivision "g" of the Copper Agreement.<sup>37</sup> The Department feels that the future estimate of requirements for Chile will be sufficient to take care of Chilean military requirements, but in view of the exception in paragraph "g" of the Agreement, the Chilean Government has reserved the right to consider its military requirements as not included in the quota.

The Embassy at Rio de Janeiro desires to be informed when the shipments from Chile will take place for the fourth quarter of 1943 for Brazil under the Copper Agreement.

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825.24/1623 : Airgram

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

SANTIAGO, December 2, 1943.

[Received December 7—3 p. m.]

A-1462. Reference is made to the Department's instruction No. 3631 of November 25, 1943, which refers to the Copper Agreement between the United States and Chile and shipments to be made from Chile under this agreement. The Embassy is carrying, in its control of copper exports, the shipments referred to in airgram A-1380<sup>38</sup> as being outside of quota which conforms to the Department's instruction under reference. The Embassy has noted that the Department would find it of material assistance in establishing future requirements if prompt shipments were made upon the approval of the Department and the Embassy. Prompt shipment does not depend upon this Embassy or upon the Department's approval of orders as it is necessary for the local agent to purchase the copper and file an application with the Ministerio de Economia y Comercio. As soon as this Embassy receives a copy of the application from the Ministerio, action is taken in accordance with recommendations from other Missions and/or the Department. The applications are then returned to the Ministerio but those applications do not receive final approval until the President of the Republic has issued a special decree. The Chilean Government requires that complete details regarding the end uses be supplied. It is therefore of utmost importance that other Missions supply this Embassy with this information covering each order. All of this requires considerable time and frequently requires additional time to coordinate shipping space.

BOWERS

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<sup>37</sup> See note No. 2210, August 11, from the American Ambassador in Chile to the Chilean Acting Minister for Foreign Affairs, p. 851.

<sup>38</sup> Dated November 6, 1943, not printed.

825.24/1652 : Telegram

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

SANTIAGO, December 18, 1943—6 p. m.

[Received 11:14 p. m.]

2117. Airgram 1424, December 10,<sup>39</sup> copper limitation agreement. We believe that refinery shapes contingency should be reduced to 50 tons and Chilean quota increased 50 tons. It will be necessary to permit extra quota shipments of 450 tons refinery shapes from Chile to Argentina under pre-limitation agreement contract between Chilean Army Workshops and Argentine Army which is being fulfilled at the rate of 150 tons monthly. Contract will be completed in May 1944. Chilean Army Workshops now negotiating new and larger contract.

Chilean Government has not commented on proposed Chilean quota as yet but we believe that with amendments above suggested the quotas are in order and may be notified to the American Government missions in Latin America.

We suggest that all missions be instructed to make every effort to complete the assignation of allotments and forward the import recommendations to this Embassy before January 31 and in subsequent quarters at an earlier date. We also suggest that the joint nature of approval of this Embassy and Chilean Government be stressed and that it be impressed upon missions that the responsibility for issuing recommendations carries with it the necessity for justification of end uses under the copper limitation agreement. This will greatly assist this office in obtaining approval of Chilean Government to exports of refinery shapes requested through other missions and contribute to the smooth operation of copper limitation agreement.

BOWERS

835.24/2445 : Telegram

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

SANTIAGO, December 27, 1943—5 p. m.

[Received 8:52 p. m.]

2159. The Department will doubtless wish to give full consideration to telegram 2960 of December 24, 2 p. m. from Buenos Aires<sup>40</sup> when replying to my 2144, December 3 [23], 9 p. m.<sup>41</sup> Whatever the

<sup>39</sup> Not printed.<sup>40</sup> Not printed; it indicated an apparent attempt by Argentine Army authorities to obtain copper for Proclaimed List firms (835.24/2439).<sup>41</sup> Not printed; it expressed willingness to acquiesce in Chile's desire to trade its copper for Argentine mares (835.24/2438).



reply <sup>42</sup> may be I suggest that its form be such that I can read it to the Foreign Minister. I hope that we can adhere closely to the spirit and letter of the copper limitation agreement. I don't know the motives behind the Foreign Minister's request for approval of this barter transaction but it may be laying the ground-work for another request for increased gasoline supplies allegedly for agriculture. I believe that Chilean Army officers are agreed that the hoofs of Argentine horses are too soft for military use; the mares would doubtlessly be valuable in building up draft animals for southern agriculture but it seems to me that the necessity for the mares is one for the Chilean Government to decide whereas the supplying of copper to Argentina is one involving not only our military operations but also the copper limitation agreement in which we have direct interest and rights.

BOWERS

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DISCUSSION BETWEEN THE UNITED STATES AND CHILE CONCERNING  
SHIPPING PROBLEMS \*

825.6363/315a : Airgram

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

WASHINGTON, February 22, 1943—7:15 p. m.

A-559. It has been brought to the Department's attention that Argentina took approximately 3,000 tons of nitrate from Chile during the month of January. This represents a consumption of about 450 tons of fuel oil supplied to Chile by the petroleum pool <sup>44</sup> for the production of nitrate. If Argentina should continue to take nitrate from Chile at this rate for the entire year, it would mean that the pool during that period would be laying down over 5,000 tons of fuel oil in Chile for the production of nitrate for Argentina.

Unless you perceive objection, please bring the foregoing to the attention of the appropriate Chilean officials and discuss the matter with them along the following lines: we feel that the pool cannot be called upon to continue to supply oil at this rate for this purpose, and accordingly suggest that the Chilean authorities may wish to raise the question with the Argentine Government with a view to having

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<sup>42</sup> In telegram No. 11, January 4, 1944, the Department instructed the Ambassador to explore a policy of terminating the copper agreement, maintaining, however, a limitation on the export to Argentina of fabricated copper (835.24/2445).

<sup>43</sup> For previous correspondence, see *Foreign Relations*, 1942, vol. VI, pp. 95 ff. For further discussions on shipping problems, see section entitled "Control of exports from the United States to Chile", *ibid.*, pp. 79 ff.

<sup>44</sup> Petroleum Supply Committee for Latin America, New York.

Argentina supply the oil necessary for the production of such nitrate as Argentina purchases from Chile.

HULL

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825.6363/317

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

No. 5823

SANTIAGO, February 23, 1943.

[Received March 3.]

SIR: I have the honor to refer to the Department's instruction No. 2677 of February 3, 1943,<sup>45</sup> and to advise the Department, for the information of the Petroleum Supply Committee for Latin America, that the Director of Petroleum Supplies<sup>46</sup> has today been informed that, in connection with the studies which he is making for the purpose of ascertaining the essential needs of Chile for diesel oil, fuel oil and kerosene, he should take into account the fact that the Supply Committee considers that those products made available for the Chilean nitrate industry shall be limited to the quantity necessary to produce the nitrate required to meet current deliveries and that no extra quantity is to be delivered merely for the purpose of creating a stock-pile of nitrate. A copy of the letter to the Director of Petroleum Supplies is enclosed.<sup>45</sup>

Respectfully yours,

CLAUDE G. BOWERS

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800.8820/1074a : Telegram

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

WASHINGTON, March 4, 1943—11 p. m.

240. It is requested that you consult the appropriate officials of the Chilean Government as to what instructions can be given to the operators of the Chilean Line to cooperate in lifting the cargo specified monthly shipping programs. The Chilean Line has been extremely selective in its choice of cargo. As a result, its vessels carry very little low-paying cargo, which compels other vessels in the Chile-United States run to carry more than their share of such freight. The cargo carried by the Chilean Line does not always coincide with the monthly shipping programs. In order to effectively carry out these programs, it is essential that the commodities specified in the programs should be

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<sup>45</sup> Not printed.

<sup>46</sup> Osvaldo Martinez.

distributed among all vessels in the Chile-United States trade, including the Chilean Line.

Please cable reply as soon as possible.<sup>48</sup>

WELLES

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825.6363/324 : Airgram

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

WASHINGTON, April 2, 1943—5:30 p. m.

A-672. Embassy's 575, March 24, 1943.<sup>49</sup> It is desirable to keep Chile's quotas of diesel oil and fuel oil as near 40 percent of 1941 consumption as possible, and it is suggested that you obtain from the Chilean authorities their estimated over-all minimum requirements for both diesel and fuel oils and submit them here for consideration by the Essentials Committee<sup>50</sup> before you begin discussions of individual categories.

HULL

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825.85/164 : Telegram

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

SANTIAGO, April 8, 1943—4 p. m.

[Received 11:22 p. m.]

663. Butrick<sup>51</sup> yesterday brought up with Jaramillo<sup>52</sup> question of *Copiapo, Imperial, Aconcagua*. Jaramillo said President Ríos against transaction but indicated a definite proposal would be entertained on a basis of a charter to Chile of equivalent ton hours of serviceable vessels not needing constant repair. Ton hours would mean larger tonnage for Chile based on comparison of speeds of Chilean and substitute vessels. Jaramillo requested detailed offer from American Government for consideration.

Today Butrick spoke with Vial<sup>53</sup> who indicated desire to sell three vessels outright retaining funds in the United States for purchase of

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<sup>48</sup> This complaint originated in the Board of Economic Warfare and led to direct correspondence with the Chilean Line, which provided a reply from which the Department concluded that the movement of cargo was affected by circumstances not always in the control of the company.

<sup>49</sup> Not printed.

<sup>50</sup> Essentials Requirements Committee, an interagency organization authorized to present requests for critical materials.

<sup>51</sup> Richard P. Butrick, Counselor of Embassy for Economic Affairs.

<sup>52</sup> Rodolfo Jaramillo, Minister of Economy.

<sup>53</sup> Carlos Vial, President of Cia. Sud Americana de Vapores.

standard United States type passenger vessels after the war. He said that he would be satisfied to charter equivalent tonnage which would have to serve under sole orders Chilean Line as latter must retain its income from clients and succulent position and prestige in American trade.

He said that Chilean Government would probably ask for more than equivalent tonnage which demand not to be taken too seriously.

The ton hours tonnage request fails to recognize that fast ships are slowed down to convoy speed and voyage.

Vial apparently anxious sell vessels perhaps fearing either requisition ships or prohibition transfer Chilean funds abroad. Suggest Department press matter through Huneeus<sup>54</sup> on basis above information.

BOWERS

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825.85/165 : Telegram

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

SANTIAGO, April 15, 1943—7 p. m.

[Received 11:50 p. m.]

705. Reference my 663, April 8, 4 p. m. Carlos Vial called on Butrick today and referred to conversations between Rockefeller<sup>55</sup> and Subercaseaux.<sup>56</sup> Vial apparently anxious to sell the three ships and thinks it can be done but must be handled carefully. He suggests discussion with Subercaseaux be continued for another week, after which Subercaseaux can come to Chile with a definite plan for presentation to Chilean Government. Vial suggests Subercaseaux be accompanied by an official of Maritime Commission with full powers to conclude deal here. Vial emphasizes that nothing herein should be attributed to him. He also states plan of purchase must be backed up by exposition showing that no harm to Chile will result and that there will be no attempt to replace Chilean prestige on the sea by other flag vessels; further that guarantee should be given that no Grace Line or other American passenger vessel will take up run of Chilean passenger vessels to be sold. He suggests possibility of a Chilean passenger service to Panama with remaining vessels of Chilean Line.

BOWERS

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<sup>54</sup> Agustín Huneeus, general manager, Chilean Line.

<sup>55</sup> Nelson Rockefeller, Coordinator of Inter-American Affairs and member of the Board of Economic Warfare.

<sup>56</sup> Francisco Subercaseaux, general manager of Cia. Sud Americana de Vapores.

825.6363/332 : Airgram

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

SANTIAGO, May 1, 1943—4 p. m.

[Received May 10—2 p. m.]

A-592. Supply of fuel oil for the production of nitrate destined to Argentina.

Reference is made to the Department's A-752 of April 24, 7 p. m.<sup>57</sup> On March 10 a letter was addressed to the Director of Petroleum Supplies on this subject, to which no reply has as yet been received. The matter was also mentioned on at least two occasions to the Minister of Economy and Commerce<sup>58</sup> who smiled and rhetorically asked if this was a form of pressure on Argentina. He was non-committal and said the matter was being studied.

The Economic Counselor will again take up the matter with the Director of Petroleum Supplies. He was unable to do so today owing to the holiday.

The Department will realize that owing to the contiguity of the Argentine and Chile there is hesitance on the part of the Chileans to take any action against the Argentine which might be considered as pressure. The commercial relationships between the two countries are considered by the two countries somewhat the same as those between Canada and the United States. At present Chile is dependent on the Argentine for food supplies. As an example, Chile is importing from Argentina 200 head of beef cattle daily.

BOWERS

825.85/170 : Telegram

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

WASHINGTON, May 3, 1943—7 p. m.

469. Your 783, April 29, 9 p. m.<sup>57</sup> The Department is informed by the War Shipping Administration that their negotiations with CSAV<sup>59</sup> for the three motorships are not progressing satisfactorily. It is the view of the WSA that the representatives of the Chilean Line are determined to drive a hard bargain on charter terms and price. While there is agreement in principle on the question of post-war replacement of the ships a departure from existing policies and arrangements by the WSA and American operators as well as arrangements existing between WSA and foreign shipping operators with

<sup>57</sup> Not printed.

<sup>58</sup> Gen. Froilán Arriagada.

<sup>59</sup> Cia. Sud Americana de Vapores.

respect to prices and charter terms would be involved in meeting the Chilean terms. WSA is not prepared to depart from such policies and arrangements in view of the fact that CSAV representatives are unwilling to guarantee the 15 knot speed which is the minimum required for Army transport service.

On April 28 the following alternative offers were made by WSA and were rejected by Subercaseaux:

(1). Without providing for the charter of WSA vessels for temporary operation, the three ships would be purchased at the asking price of \$6,600,000. The original cost of the Chilean ships was less than one million dollars each. The asking price is approximately \$600,000 higher than the cost of three C-2 type vessels of equivalent depreciation.

(2). The vessels to be purchased for \$2,000,000 each and four vessels of hog island or similar type [provided?] for operation by CSAV under bareboat charter until replacement of ships purchased. For the first year the four vessels to be chartered at a rate of \$1.10 per deadweight ton per month, every 6 months thereafter rate to be agreed upon. This rate compares with the rate of \$2.75 for similar vessels chartered to American operators, and it is estimated by WSA that it would yield a profit on the four vessels of at least \$1,000,000 a year. Marine and War Risk would be at charterers' expense in dollars.

The WSA agreed in both propositions to work out through the Department a replacement agreement, since at the present time it has no statutory authority to build or sell vessels to foreign interests.

The representatives of the WSA who have been negotiating with the CSAV have reason to believe that their offer has not been presented to CSAV in Santiago and that the representatives here have acted on the assumption that WSA can be forced to meet their demands. WSA states that this is not possible since the ability of the ships to maintain a 15 knot speed is doubtful.

The Department would appreciate your comments as to any further developments.

HULL

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825.85/171 : Telegram

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

SANTIAGO, May 5, 1943—7 p. m.

[Received May 6—6:01 a. m.]

829. Department's 469, May 3, 7 p. m., my 783, April 29, 9 p. m.<sup>60</sup> Smitmans<sup>61</sup> again attacked proposed sale in open session claiming

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<sup>60</sup> Latter not printed.

<sup>61</sup> Member of the House of Deputies.

against national interest and contrary to article 26 of Emergency Law 7200, July 1942, and Decree 701, May 6, 1940. These provisions require presidential approval sales vessels Chilean registry. Smitmans again referred to spectacular recent rise CSAV shares from 130 to 180 pesos. He introduced measure to modify article 28 of Emergency Law by adding following: "While the present war continues, the sale or rental can only be authorized by law".

From Assistant Manager Velasco CSAV today learned that, as WSA negotiators suspected, two alternative offers not referred to Santiago by Subercaseaux. Later Velasco stated he wished to review all correspondence to make sure this fact. Velasco stated that politically any agreement not providing for replacement vessels could not be accepted since President of Republic would not dare deprive Chile of tonnage. I believe this is correct.

I agree CSAV trying drive hard bargain and may have kicked up Congressional and newspaper objections deliberately.

Embassy hinted WSA discouraged by inconclusive nature negotiations and might decide abandon them altogether, especially view inability CSAV guarantee 15 knots S.S. *Marie*.

Three hours later Velasco urgently solicited continuation discussion with Carlos Vial participating.

Vial said misunderstanding speed since vessels made 18½ knots official trials and former average speed 16 knots. On Valparaiso-New Orleans run average only 14¾ knots in order save fuel depreciation.

Vial will phone Subercaseaux that WSA counter offer No. 1 impossible. No matter what price paid Chilean public and Government would not accept any agreement not providing for replacement tonnage.

No. 2. Vial said he and directors consider \$6,640,000 fair price. He questioned price being \$600,000 above current cost three C-2's equivalent depreciation.

Vial exhibited April 7 letter Admiral Land <sup>64</sup> to Subercaseaux which states WSA would pay fair reasonable price and suggests decision by impartial mixed commission if no agreement price. Vial stated agreement but before commission company's asking price would be 6,990,000. He stated would not insist all value received be included in price. If it would be embarrassing for WSA to depart from fixed policy in order to meet this figure, arrangement could be made whereby CSAV would obtain \$640,000 difference through increase 10% freight surcharge permitted company. Insisted this suggestion not be attributed to him. He feels higher freight rates would be just since

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<sup>64</sup> Rear Adm. Emory S. Land, War Shipping Administrator.

travelling in convoy has reduced company's trips from 22 to 15 or 16 per year.

Vial claims vessels offered at much less than current worth because hopes for good will of Maritime Commission and Export-Import Bank after war. . . .

BOWERS

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825.85/172 : Telegram

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

SANTIAGO, May 6, 1943—10 p. m.

[Received 11 :48 p. m.]

841. Department's 469, May 3, 7 p. m. and my 829, May 5, 7 p. m. Letter from Vial read in secret session Chilean Chamber Deputies May 24 [4] was published this morning's papers. English translation by airmail.

Vial's letter stresses concern CSAV for national interests Chile and advantage to country from small [*sic*] sale of the vessels. One condition he claims is promise by Department State to allow Chile to acquire new motor vessels after war, to give Chile most-favored-nation treatment in acquisition after war of new vessels for coastal trade, and to assure CSAV preferential position in west coast South America trade. This was news to me since from Department's telegrams I gathered that no postwar commitments had been made.

This is most distasteful and can only react to our disadvantage in long run. Since Vial's letter has been published, I suggest that WSA make fair offer on take it or leave it basis and announce publicly what it has done. This might prevent clique in question from exploiting situation further to their personal advantage. Since transfer might be rejected, the possibility of following this course depends on whether failure to acquire vessels would affect our war effort vitally.

BOWERS

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825.85/175 : Telegram

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

SANTIAGO, May 10, 1943—9 p. m.

[Received May 11—1 :40 a. m.]

874. My 854, May 8.<sup>65</sup> Vial came Embassy tonight urging completion sales contract at once, inspection tests, et cetera to follow. Vial

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<sup>65</sup> Not printed.



states popular hostile attitude developing here and company anxious to publish statement to clarify to public. He appeared surprised when informed German radio made reference to sale. Embassy impressed Vial now much concerned lest sale fall through. Opinion Vial my 829, May 5.

BOWERS

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825.85/172 : Telegram

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

WASHINGTON, May 11, 1943—8 p. m.

496. Your 841, May 6. Representatives of CSAV and WSA have discussed the matter of postwar replacement of the Chilean motorships on a strictly informal and preliminary basis and the WSA representatives have represented clearly that until approval of the Department and the War Shipping Administrator, nothing was final. During the course of the discussions various suggestions were made and the Department has been informed concerning them. As WSA lacks statutory authority to make a commitment concerning the sale of vessels to foreign buyers Subercaseaux and WSA representatives agreed informally, subject to approval by higher authorities, that a settlement of the replacement question would be effected by an agreement between the governments along the following lines:

Either directly or through the Chilean Government, opportunity will be afforded the CSAV to contract with an American shipyard for the construction of vessels of gross tonnage equivalent to the tonnage of the three vessels to be sold to the United States, to purchase such vessels privately, or to purchase them from the United States if this Government has such vessels for sale. The opportunity to acquire these vessels would be at the expense and selection of the CSAV at any time after the conclusion of hostilities. In the same manner the right to acquire vessels of the same class which any other line may acquire in the U. S. would be given the CSAV.

With respect to passenger vessel competition during the war Subercaseaux asked for additional assurance at the last meeting. With reference to the extent to which a postwar commitment is possible, WSA has excellent reasons for believing that Vial has been kept fully informed, and that the proposal, the substance of which is given above, was on April 27, repeated to him in a telephone conversation.

The WSA is very much concerned over the matter of speed, as indicated in the Department's 469.<sup>67</sup> With the view to determining the condition of the *Copiapo*, which is now in New Orleans, and its

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<sup>67</sup> Dated May 3, 7 p. m., p. 866.

ability to maintain 15 knots speed, the vessel has been inspected both by WSA and Army representatives. On the current voyage of the vessel an examination of the log indicates that at 103 revolutions the vessel maintained a speed of 14 knots for 20 days. In order to avoid strain on the machinery in view of scarcity of parts, Subercaseaux explained, the vessel has been run at a lower speed and he insists that it is capable of maintaining, under normal conditions, a sea speed of 15½ to 16½ knots. WSA doubts this statement. Subercaseaux has been informed that until the Army determines whether it wants the vessels no final offer can be submitted. For Army Transport Service the speed factor is critical. The Army's decision is expected shortly. WSA appreciates your suggestion that a fair offer on a take it or leave it basis be made and that public announcement of what has been done be made. As a matter of fact WSA have planned to make such an offer and will issue a statement such as you have suggested, if the Army wants the vessels.

HULL

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825.85/176 : Telegram

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

SANTIAGO, May 13, 1943—9 p. m.

[Received May 14—4:18 a. m.]

892. Referring to previous correspondence regarding negotiations for the purchase by WSA of three motor vessels of the CSAV.

On May 12, 1943 the leader of the indigenous Fascist Party of Chile, Deputy Gonzales von Marees, spoke in the lower Chamber of Congress approving the negotiations and recommending that the sale be consummated. He outlined the facts regarding the long negotiation in a substantially correct form, except that he implied that the price demanded by CSAV of \$6,640,000 was practically agreed upon. He stated that the sale would be advantageous for Chile and for the company since the latter would then have 200,000,000 pesos in additional capital and after the war might be able to buy double the number of motor vessels now sold.

He stated that this new capital would be invested in Chile, Argentina, the United States and other countries where it would increase during the war assuring Chile a powerful merchant marine later. The Liberal Party Deputy Smitmans objected that the greater speed of the motor vessels in question was their sole defense against submarines. Gonzales von Marees replied he was informed that Chilean vessels now were traveling in convoy in the Caribbean at 8 knots speed. Finally he defended the legality and convenience of the pro-

posed sale saying that the Government did not need to permit the sale if it did not agree.

The CSAV could not have found a more bitter enemy of the United States to defend its interests in the Chilean Chamber of Deputies. This is further evidence of the Fascist orientation of the CSAV leaders.

I feel it would have a salutary effect if the negotiations could be dropped. However, strongly recommend that the money paid for the vessels be tied up so that Carlos Vial and the CSAV cannot make this large sum in dollars available for Axis [garbled word] in the United States, Chile, Argentina or elsewhere. One cannot but wonder whether such a deal has not been made with secret Axis agents which explains the support Gonzales von Marees has given the CSAV in Congress.

BOWERS

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825.85/176 : Telegram

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

WASHINGTON, May 20, 1943—6 p. m.

531. Your 892, May 13, 9 p. m. As the War Department has recommended to the War Shipping Administration that they proceed with the negotiations of the three motor vessels in view of their usefulness as troop carriers, the Department is informing the War Shipping Administration that it has no objection to the continuance of these negotiations.

It is contemplated that an offer will be made for the vessels at \$2,000,000 each, as well as offering four vessels for charter to CSAV in accordance with the second alternative in the Department's 469, May 3. The offer is subject to the conclusion of a satisfactory agreement between the two governments with regard to post-war replacement, along the lines of that outlined in the Department's 496, May 11.

The Department has also recommended to WSA that a press release be issued when the deal is concluded, the release to emphasize the fact that negotiations for acquisition of these vessels were undertaken (a) in the spirit of full cooperation in the war effort (b) as a further means of insuring the defense of the hemisphere, and (c) with adequate consideration for present and future Chilean maritime interests.

The Chilean Government may wish to issue a press release along these lines at the same time. These vessels are urgently needed in connection with our war effort and the Department is convinced that Chilean maritime interests are adequately safeguarded in the present proposal.

Please discuss this with the appropriate Chilean officials in order that they may appreciate the important considerations involved in our offer. For your information, CSAV representatives here, as well as Chilean Embassy, have during the past few days shown great eagerness to complete this sale.

HULL

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825.85/176 : Telegram

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

WASHINGTON, May 27, 1943—1 p. m.

554. Department's 531, May 20, 6 p. m. The War Shipping Administration, under date of May 20 submitted to Mr. Subercaseaux an offer for the three vessels. There has been no response as yet from Subercaseaux.

HULL

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825.85/179 : Telegram

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

SANTIAGO, May 29, 1943—2 p. m.

[Received 4 p. m.]

966. Your 554, May 27, 1 p. m. On May 24, I conveyed to the Minister of Foreign Relations<sup>68</sup> the suggestion in regard to a press release contained in the Department's 531, May 21 [20], 6 p. m. He informed me that the sale had not received the approval of the President and that Vial was resorting to many devices to cause variations in the price of CSAV stock for speculative purposes. So far as CSAV is concerned, I am convinced that it is a purely opportunist deal which is being battered about for private gain without one iota of design to cooperate in our war effort.

I recommend that the Department urge upon the Chilean Embassy to ascertain the President's attitude on the sale, that the American Government make a final definite offer in cash and other considerations to the CSAV and the Chilean Embassy and that shortly thereafter the press be informed of the terms with emphasis on the fact that it is a business deal deemed mutually advantageous to both parties. While I have been away from the American scene some time, I think the American people will like the business approach angle and it would certainly be in accord with the facts so far as the CSAV is concerned.

BOWERS

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<sup>68</sup> Joaquín Fernández Fernández.

825.85/179 : Telegram

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

WASHINGTON, June 2, 1943—6 p. m.

574. Your 966, May 29, 2 p. m. As you know, an offer was submitted by us for the purchase of the vessels for \$2,000,000 each, plus four vessels to be chartered to the Chilean Line. The deal is, however, contingent upon the conclusion of an agreement between Chile and United States with reference to post-war replacement. Since the offer was submitted, the contract and charter party terms have been discussed between WSA and Subercaseaux. These documents, when in final form, will be sent to Chile or will be taken there by Subercaseaux. The Department will forward copies to you. It is expected that if the deal is approved in Chile by the Chilean Line and Government the documents will be signed there.

Pending arrival of these documents in Chile it is requested that further discussions on your initiative with Chilean authorities be avoided as it is up to them to accept or reject the proposal.

The Dept has given thought to the wording of a suitable press release, to be issued only when the deal is concluded. You will be kept informed.

HULL

825.6363/336 : Telegram

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

SANTIAGO, June 3, 1943—3 p. m.

[Received 10:40 p. m.]

992. Since Nuland<sup>69</sup> left in November last there has been gradual increase in use of motor cars in Santiago until now streets present scene which seems normal to those not accustomed to heavy prewar traffic. Various factors have been behind this increased use which has occurred despite strenuous efforts of Osvaldo Martinez, Director of Petroleum Supplies, to control it. Other officials, notably Oswaldo Palma, Director of Public Transit, Ministry of Interior, are authorized to issue transit permits for motor cars, and it is suspected that of gasoline issued to agriculturists by Fomento Corporation for tractors part at least is being used for personal convenience driving. This is perhaps normal in Chile where large landholders have much power and prestige. Butrick was yesterday confidentially assured by Murillo of Martinez office that if Martinez had full control gasoline

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<sup>69</sup> L. H. Nuland, Executive Secretary of the Foreign Petroleum Policy Committee.

consumption could be held within Nuland allotments and diesel within recently submitted diesel recommendations of Embassy.

Today Chile has on hand about month and half's supply gasoline and present consumption is beyond Nuland formula for this period of year. I suggest Department instruct me before I leave on 11th to bring officially to attention of Chilean Government notice that Nuland quotas are being exceeded and that because of need for tankers for prosecution of war, American Government hopes Chilean Government will ration itself within quota allotted. I also suggest that I be instructed orally to inform Chilean Government of complete confidence in Martinez and to point out that centralized control of transit permits and rationing in his office would seem natural corollary to an effective control.

Additional gasoline for Chile will probably be one of requests to be made by Ríos' party in its forthcoming visit to United States and point will probably be made that gasoline is in freer supply in Ecuador and Peru.

BOWERS

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825.6363/338 : Telegram

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

SANTIAGO, June 12, 1943—4 p. m.

[Received 10:16 p. m.]

1069. Department's 600, June 10, 9 p. m.<sup>70</sup>

1. Fuel oil statistics will be submitted later. Based January–February consumption monthly figures A not controlled by DPS <sup>71</sup> 78,000,000 liters, A controlled 6,000,000, B controlled 1,000,000. Of 78,000,000, 19,000,000 nitrate production, 45,000,000 Anaconda and 5,000,000 bunkers. Some reductions could be made principally in nitrate. No action taken by Chilean Government to obtain about 120,000 liters monthly from Argentina to cover nitrate purchases. Might be possible reduce monthly consumption to 80,000,000 liters principally through reducing uncontrolled consumption.

2. Impossible estimate how much gasoline destined for agriculture diverted to pleasure car and other use is factor, however.

3. Of 27,000 passenger cars in Chile not including taxis, approximately 7,000 in use November whereas approximately 5,000 are now in use in Santiago and 1300 in Valparaiso. In whole country approximately 12,000 in use. Embassy feels essential economy of Chile can be maintained with 6,000 passenger cars including armed forces and

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<sup>70</sup> Not printed.

<sup>71</sup> Directorate of Petroleum Supplies.

official. DPS states it cannot reduce gasoline consumption to 6,900,000 liter consumption of November without causing damage to essential economy.

Comment:

A. Casanueva,<sup>72</sup> who has no authority in matter so far as Embassy is informed, will probably ask for 1,600,000 liters diesel monthly for agriculture, basing request on approximately 700 diesel tractors imported in 1941 and 1942 and on results of food conference at Hot Springs.<sup>73</sup> Embassy considers its submitted estimates sufficient. Likewise he will probably ask for about 1,400,000 liters of kerosene while 800,000 liters sufficient based on our preliminary studies.

B. Consumption of gasoline particularly subject to political and friendship pressure which cannot be successfully resisted by local authorities unless reinforced by specific requests from us. Suggested that official suggestion be made to Chilean Embassy that number of passenger cars in circulation in Chile be reduced to 6,000 as cooperative measure to save gasoline and tanker space for use of our armed forces.

C. Embassy feels new diesel quota should be held closely as possible to figures submitted with despatch 6547<sup>74</sup> even if adjusted to 1941 basis to conform Nuland formula.

D. Embassy suggests practical advisability inviting Martinez to United States to discuss all phases.

BOWERS

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825.6363/338 : Airgram

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

WASHINGTON, June 25, 1943—6:30 p. m.

A-928. Your despatch no. 6547 of May 20, 1943<sup>75</sup> and telegram no. 1069, June 12, 4 p. m. The Essentials Requirements Committee has considered your despatch under reference and is of the opinion that, in addition to the quantities now listed as essential (361,700 barrels according to figures from the Petroleum Supply Committee for Latin America, which figures are in the possession of the Chilean Food Committee), approximately 148,000 barrels of diesel oil for the year should be made available to Chile on a war essential basis. This amount covers the requirements of the four Northern provinces (1,825,430 liters per month as per table no. 7, your despatch no. 6547) and 11 percent of the agricultural requirements (132,554 liters per month as per table

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<sup>72</sup> J. Manuel Casanueva, Director General of Agriculture.

<sup>73</sup> For correspondence regarding the United Nations Conference on Food and Agriculture at Hot Springs, Virginia, May 18-June 3, 1943, see vol. I, pp. 820 ff.

<sup>74</sup> May 20, 1943, not printed.

<sup>75</sup> Not printed.

no. 7). Subject to correction by you, it is thought that some of the mining requirements listed in table no. 1 "Class A—Controlled by D.P.S." may already be carried as essential by the Petroleum Supply Committee for Latin America, in their "Estimated Requirements 1943", dated May 11, 1943, under the heading "Other Copper" and "Manganese". In any event any war essential mining supplies should be so carried. On the same record army, navy, and ships' bunkers are also carried as essentials.

It would seem therefore that the 78,800 barrels available for national uses (PSCLA <sup>76</sup> figures) could be used entirely for public services and industry and for those requirements of agriculture remaining after the four northern provinces' requirements and 11 percent of total agricultural requirements have been met from the additional allotment of 148,000 barrels. It is thus obvious that for the total diesel requirements of Chile, other than those specifically placed on an essential basis, there will only be available approximately 1,000,000 liters per month, thus necessitating a reduction in consumption in line with that of other countries participating in the pool.

Of course, if the Chilean Government desires it can further increase the amount of diesel oil available by taking within the limits of the total allotment, aside from quantities specified for essential uses, more diesel oil and less of some other product, such as gasoline. Aside from the large amounts made available for essentials, there is a total of 577,600 barrels of all petroleum products scheduled to be supplied to Chile. It is felt that within this amount it should be possible to curtail consumption of products other than diesel oil to such an extent that the diesel oil, which could be substituted on an equivalent quantity basis for the other products saved, in addition to the above-mentioned allotment of 148,000 barrels, which has now been made, should be sufficient to care for a carefully rationed diesel oil consumption.

From figures furnished by the Petroleum Supply Committee for Latin America it seems apparent that a considerable quantity of gasoline made available for essential uses has been diverted to non-essential uses. While there may be an error in these figures, those given by you on motor car operation indicate that Chile does not yet fully appreciate the seriousness of the supply situation. The fact that the records of the Petroleum Supply Committee for Latin America show that actual consumption in Chile for essential requirements for the first four months of 1943 was less than the estimated consumption, does not justify the diversion of supplies to nonessential uses. Moreover, Chile should fully appreciate the advantage to it of the accumulation, when possible, of reserves in anticipation of sea-

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<sup>76</sup> Petroleum Supply Committee for Latin America.



sonal or other demands, and, in its own interest, should fully cooperate in the maintenance of those reserves for their proper uses rather than permitting them to be diverted to nonessential purposes. Since the supply of petroleum is subject to the exigencies of war, the danger of running out of stock when there is a particular need and without adequate means of replenishing it, should be kept clearly in mind by the Chilean authorities. After due consideration is given to seasonal fluctuations, the estimates for essential uses will be reduced so that they will be more nearly in line with necessary consumption.

If Chile would reduce the number of cars on the road, some tanker tonnage would be available for diesel. In this connection, as you are aware, there is now no pleasure driving permitted in the eastern United States where supplies have been affected by the shortage of tanker tonnage. Additional tonnage would also be saved for diesel oil if such things as the following were to be done: (1) the operations of less essential industry curtailed; (2) a portion of fuel oil consumption converted to other types of fuels (if possible, coal should be secured from Australia and Chile's own production should be increased); and (3) a reduction in the consumption of electricity by such measures as the elimination of electric signs, etc.

The Nuland formula<sup>77</sup> was devised to meet the special circumstances existing in Chile in November 1942 and is not to be taken as a precedent for deviation from the fundamental pool formula of a quota, at present 40 percent of 1941 consumption, plus war essentials and such additional amounts as may be proved to be absolutely necessary to prevent serious economic dislocation and which can be supplied by available transportation facilities. On the basis of the existing serious tanker situation, it is simply not possible to meet the Chileans' desire that Chile be supplied with sufficient petroleum to care for the normal requirements of industry, agriculture, and public services.

We have explained the views of the Essentials Requirements Committee to Casanueva and Illanes, Commercial Attaché here, and assume that Martinez will discuss this matter with you, after which you may wish to make further recommendations to the Department before communicating the Committee's conclusion to the Chilean officials. If after further discussions you still feel that Martinez should visit the United States, the Department will consider the suggestion.

It is assumed that the figures of the Petroleum Supply Committee for Latin America, quoted herein, are available to you from the Chilean pool committee.

HULL

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<sup>77</sup> For a statement of this formula, see telegram No. 2032, November 21, 1942, from the Ambassador in Chile, *Foreign Relations*, 1942, vol. vi, p. 120.

825.85/189b : Telegram

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

WASHINGTON, June 26, 1943—8 p. m.

664. With reference to the proposed purchase of the three Chilean vessels, the War Shipping Administration now desires to proceed immediately to conclude this deal assuming the terms of the various documents recently forwarded to you are satisfactory to the CSAV and the Chilean Government.

Accordingly, you are authorized to propose to the Chilean Government the conclusion of an agreement, a draft of which was forwarded to you.<sup>78</sup> The agreement should follow the text of that draft and, as to its form, it may properly be signed by you and the Chilean Foreign Minister, or put in the form of a memorandum of agreement and made the subject of an exchange of notes.<sup>79</sup>

After the above agreement is concluded it is desired that the agreement for the sale of the vessels be signed in both English and Spanish, subject to the changes in texts listed below.

There are also listed in Section 2 hereof<sup>78</sup> certain changes in the Spanish text of the bill of sale.

Please inform the Department promptly of the action taken or of any changes in either agreement which either the CSAV or the Chilean Government believes necessary. As one of the vessels is due in New Orleans very soon it is hoped that the agreements can be concluded before its arrival.

HULL

825.85/223

*The American Ambassador in Chile (Bowers) to the Chilean Minister for Foreign Affairs (Fernández)*<sup>80</sup>

No. 2178

SANTIAGO, June 29, 1943.

EXCELLENCY: I have the honor to advise Your Excellency that I have received from Admiral E. S. Land, Administrator, War Shipping Administration of the United States, a Power of Attorney authorizing me to represent him in negotiations with Your Excellency's Government and with the Compañía Sud Americana de Vapores with respect to the purchase by the War Shipping Administration of the Motor Vessels *Copiapo*, *Aconcagua*, and *Imperial*.

<sup>78</sup> Not printed.<sup>79</sup> See *infra*.<sup>80</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 7165, August 2; received August 11.

The agreement between Your Excellency's Government and the Government of the United States shall be as follows:<sup>82</sup>

1. The Government of the Republic of Chile approves the sales by the Compañía Sud Americana de Vapores, a corporation domiciled in Valparaiso, Chile, of the motor vessels *Copiapo*, *Aconcagua*, and *Imperial*, to the Government of the United States, acting through and by the Administrator, War Shipping Administration, on terms and conditions set forth in the annexed Agreement for Sale designated Annex I.<sup>83</sup>

2. It being the desire and intention of the Government of the United States to provide substitute freighter tonnage of a speed of about ten knots as replacements for the three motor vessels above named, the Government of the United States, acting through and by the Administrator, War Shipping Administration, and in accordance with the Act of Congress approved on March 11, 1941, entitled "An Act to Promote the Defense of the United States", will bareboat charter to the Government of the Republic of Chile four merchant vessels, to wit: the SS *West Gotomska*, the SS *Patricia Skakel*, the SS *Ann Skakel*, and the SS *Capulin*, or other satisfactory merchant vessels of similar type, size, and description (hereinafter referred to as "satisfactory substitute"), on terms and conditions and for the period set forth in the annexed form of bareboat charter designated Annex II.<sup>83</sup> Unless prevented by circumstances beyond the control of the (United States Government and the)\* War Shipping Administration, delivery of the said merchant vessels shall be as provided in the following paragraph.

Promptly after consummation of the sale of the first motor vessel, or prior thereto, the SS *West Gotomska* or satisfactory substitute shall be delivered. Promptly after consummation of the sale of the second motor vessel, or prior thereto, the SS *Patricia Skakel* and the SS *Ann Skakel* or satisfactory substitutes shall be delivered. Promptly after consummation of the sale of the third motor vessel, or prior thereto, the SS *Capulin* or satisfactory substitute shall be delivered. If for any reason whatsoever, the sale of only one vessel be consummated, then only the SS *West Gotomska* or the merchant vessel delivered as satisfactory substitute for the SS *West Gotomska* shall remain under bareboat charter, any other merchant vessels previously delivered to be redelivered to the War Shipping Administration at New Orleans after completion of their first round voyages. If for any

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<sup>82</sup> This agreement with a slight modification was accepted by the Chilean Government on July 31, 1943.

<sup>83</sup> Not printed.

\*Phrase in parentheses not in original note but added later, see Enclosure No. 2. [Footnote in the original; enclosure not printed.]

reason whatsoever, the sale of only two motor vessels be consummated, then only the SS *West Gotomska* or the merchant vessel delivered as satisfactory substitute for the SS *West Gotomska* shall remain under bareboat charter, any other merchant vessels previously delivered to be redelivered to the War Shipping Administration at New Orleans after completion of their first round voyages, but against the last of such redeliveries, a second merchant vessel of the West Coast type or satisfactory substitute shall be delivered under bareboat charter on terms and conditions and for the period set forth in the annexed form of bareboat charter designated Annex II.

3. The Government of the United States agrees that for a period of two years following the termination of the present war, as proclaimed by the President of the United States, the Republic of Chile, or if designated by the Republic of Chile, the Compañía Sud Americana de Vapores, shall be given the privilege, to the extent permitted by the laws of the United States, of acquiring at its own expense in the United States vessels of an aggregate gross tonnage equal to the aggregate gross tonnage of the *Copiapo*, *Aconcagua*, and *Imperial*, and of such class as may be acquired in the United States by any other Government or steamship line. The Government of the United States may accord this privilege by authorizing any or all of the following: (a) contracts with a shipyard or shipyards in the United States for the construction of vessels; (b) purchase in the United States of privately owned vessels; or (c) purchase in the United States of vessels owned by the United States. Nothing in this Article shall be construed as a commitment by the Government of the United States to give financial assistance in connection with such acquisition.

Accept [etc.]

CLAUDE G. BOWERS

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825.85/193 : Telegram

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

SANTIAGO, July 9, 1943—9 p. m.

[Received July 10—2:50 a. m.]

1227. Foreign Minister, who has been ill, this morning stated that the Ministry for National Defense had objected to the sale of the three motor vessels on the grounds that in case of trouble with Peru or Bolivia troop transports would be lacking. Fernández believes, however, he has overridden the Defense Minister's<sup>84</sup> objections and latter will now take position that there is no objection to sale from standpoint of defense. If this transpires then he said the sale would

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<sup>84</sup> Gen. Oscar Escudero.

have to be approved by the Senate in secret session. When it was pointed out that this would mean further delay Fernández implied he would hurry the Senate approval.

I fully understand that the sales agreement should not be postponed until vessels are ready for delivery but obviously it cannot be signed before the agreement between Governments is concluded. Vial CSAV states Huneeus has reported that WSA apparently unwilling permit inspection turbine of first unit covered by charter party. WSA reported to have stated it will charter first unit to others unless contracts signed today. Suggest such action be delayed unless WSA is ready to abandon the whole deal. Reference Embassy's 1218, July 7.<sup>86</sup>

BOWERS

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825.85/201 : Telegram

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

SANTIAGO, July 17, 1943—1 p. m.

[Received 4:37 p. m.]

1271. Re sale of CSAV vessels. Have been handicapped in CSAV matter by Fernández' illness, but he said on Thursday all officials would sign agreement including President and he would be in position to reply to my note<sup>87</sup> in behalf of Chilean Government unless President felt it necessary or desirable that Senate's approval be obtained as well. He personally did not think this necessary. Yesterday he sent word that the President does feel the Senate's approval desirable and that it will be asked on Monday and action would be immediately taken by Senate. Shall follow this up on Monday morning and again strongly urge immediate action. It would probably greatly facilitate action if I were authorized to imply that unless action is most speedy we may have to abandon the negotiations.

BOWERS

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825.85/204 : Telegram

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

SANTIAGO, July 23, 1943—1 p. m.

[Received 3:13 p. m.]

1302. Re sale of CSAV vessels to WSA. Chilean Senate yesterday considered approval of proposed sale in secret sessions lasting all day.

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<sup>86</sup> Not printed.

<sup>87</sup> No. 2178, June 29, p. 879.

Upon adjourning it decided to resume consideration on Monday July 26 and Tuesday July 27.

What appears to be worrying the Senate is possibility that CSAV will use proceeds of sale for other purposes and at end of war no funds will be available to purchase replacement vessels. Senate is considering making its approval conditional upon payment for vessels in gold bars to be brought to Chile for safekeeping. I know Foreign Minister is amazed and distressed by Senate's delay. Vial confident of Senate approval Tuesday.

BOWERS

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825.85/206 : Telegram

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

SANTIAGO, July 28, 1943—6 p. m.

[Received July 29—4 a. m.]

1341. Regarding sale of CSAV motor vessels by [to] USA. Last night the Chilean Senate passed a resolution which reads in translation as follows:

"Whereas: The international position adopted by the country obliges it to contribute, even at the cost of sacrifices, to the war effort of the United Nations and the defense of the hemisphere.

The general interest of the state should also be guarded.

The Senate resolves, absolving the consultation of the President, to declare that it considers convenient the transfer of the motor vessels of the CSAV to the Government of the United States of America providing that in authorizing the alienation the following basic conditions are fulfilled, (1) the substitution, as soon as possible, during the war, of the transport capacity of the motor vehicles transferred; (2) to guarantee that, once the armed conflict in Europe ends, the total yield from the sale shall be destined to the acquisition of new vessels, \$6,000,000 should be converted into its equivalent to gold bars, which shall be deposited in the Central Bank of Chile; (3) the obligation of the CSAV will include, in the acquisition of new vessels, consideration not only of the foreign trade needs of the country but also cabotage and national defense needs. Within these objectives it should be stipulated that the new vessels will be provided with refrigerating chambers of capacity not less than at present and advice should be obtained as to their adaptability as auxiliary cruisers of the navy, setting aside for this purpose an expenditure not less than 6% of the cost of each unit.

There is also recommended to the President that he obtain from the CSAV acceptance of the following obligations: (a) to destine also its present reserve funds for the future acquisition of transporting equipment; and (b) to obligate itself to purchasing during the war any of the rented vessels which may be lost."

Officials of CSAV expect to be consulted by the Minister Del Pedregal<sup>88</sup> today. They raise the question whether the United States will permit the sale of gold bars to a private agency such as CSAV for shipment outside the United States.

Voting on resolution reveals that suspicions of patriotism of Vial exist in both left and right which accounts for efforts to tie up funds received from sale.<sup>89</sup>

BOWERS

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825.85/219 : Telegram

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

SANTIAGO, August 1, 1943—5 p. m.

[Received 10:10 p. m.]

1359. Department's telegram No. 686, July 2, 3 p. m.<sup>90</sup> Re sale of CSAV vessels to WSA. Agreement between Governments now completed and agreement for sale of vessels is also signed.

Will await telegraphic announcement regarding time of telephonic communication with WSA, New Orleans, to coincide with signature of bill of sale for each vessel; this will take place at chancery.

With reference to my telegram No. 1350, July 29, 8 p.m.,<sup>90</sup> bills of sale can be signed in English and Spanish in the precise form received from Department and then these private documents can be reduced to public documents before a Chilean notary public.

BOWERS

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**EFFORTS BY THE UNITED STATES TO SECURE THE COOPERATION OF CHILE IN IMPOSING CONTROLS OVER INTERNATIONAL FINANCIAL TRANSACTIONS<sup>91</sup>**

811.51/5822

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

No. 2617

WASHINGTON, January 16, 1943.

The Secretary of State refers to the Embassy's despatch 5116, December 9 [3], 1942<sup>92</sup> in regard to the control over dollar currency in

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<sup>88</sup> Chilean Minister of Finance.

<sup>89</sup> By Decrees Nos. 582 and 583, July 30, 1943, the CSAV was authorized to sell the ships and to reach an agreement with the Chilean Government as to the destination of the funds obtained from the sale.

<sup>90</sup> Not printed.

<sup>91</sup> Continued from *Foreign Relations*, 1942, vol. vi, pp. 123-140.

<sup>92</sup> Not printed; it reported that holders of dollars were to deposit them in the Central Bank to be forwarded for collection to the United States (811.51/5393).

Chile and the Department's telegram no. 1551, December 30, 1942,<sup>93</sup> particularly the final sentence thereof.

The Department is in receipt of a letter from the Treasury Department in regard to the disposition to be made of the \$50 per person which travelers can import into Chile, the pertinent portions of which follow :

"In view of the fact that the Central Bank has rejected suggestions that it purchase sums up to \$50 brought into Chile by travelers, the Treasury is willing to permit the National City Bank to perform this function. Currency so purchased will be released by the Treasury upon its arrival in the United States, provided appropriate information is submitted regarding its origin. The National City Bank may likewise sell to persons departing for the United States up to but not more than \$50 per person."

The Embassy is requested to inform the Department in detail when final arrangements have been completed.

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811.51/5836 : Airgram

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

SANTIAGO, January 28, 1943.

[Received February 2—3 p. m.]

A-160. My despatch No. 5116, December 3, 1942, Department's telegram No. 1551, December 30, 1942, 4 p. m.,<sup>94</sup> and Department's Instruction, No. 2617, January 16, 1943.

On receipt of telegram No. 1551, Mr. Franki, Chief of the Special (Controls) Section of my Economic Division immediately contacted the National City Bank, Santiago, and advised it that the Treasury Department agreed in principle to the suggested arrangement (my despatch No. 5116) whereby said bank would handle the purchase and sale of \$50 which travelers between the United States and Chile are permitted to have in their possession under Chilean Decrees Nos. 4021 and 3192. At that time the Bank's suggestions as to the provisions of a proposed regulation to be dictated by the Consejo Nacional de Comercio Exterior were also considered. Thereafter the proposed regulation was discussed with Sr. Luis Felipe Letelier, Attorney for the Consejo, who in turn discussed same with appropriate officials of

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<sup>93</sup> Not printed ; it gave the Embassy some latitude in handling the amount of United States currency allowed each traveler (811.51/5393).

<sup>94</sup> Neither printed.



the Banco Central. The whole problem was taken under advisement by the Consejo and on January 26, Sr. Letelier after further discussions with Mr. Franki submitted a proposed regulation representing the combined views of the Consejo and the Banco Central. The pertinent provisions of the proposed regulation are as follows:

The Consejo Nacional de Comercio Exterior decrees:

a) That the National City Bank be authorized, through its subsidiaries in the country, to buy from and sell to persons traveling between Chile and the United States, up to the sum of \$50, which such passengers may buy and sell freely;

b) The Bank shall demand in advance from the purchaser that he exhibit the documents which evidence his immediate departure from the country and from the seller the documents which verify whence he came;

c) The National City Bank shall have the authority, moreover, to send the bills which it purchases to the United States without the necessity for a special permit each time, it having the right to transmit such bills by plane, as well as by other means;

d) The National City Bank shall declare monthly to the Banco Central de Chile and the Consejo Nacional de Comercio Exterior the bills which, in conformity with the present regulation, it has purchased and sold between the first and the last day of each month;

e) The rate of exchange at which the National City Bank shall make its purchases and sales, shall be that which the Directors of the Banco Central de Chile shall fix as the dollar "D. P." rate (Disponibilidades Propias—private funds not arising from export-import transactions), with the approval of the President of the Republic; in accordance with Article 30 of Law 7200.

f) In handling purchases as well as sales, the National City Bank may charge a commission not exceeding  $\frac{1}{4}$  of 1%.

The Manager of the National City Bank after examining the above and discussing same with Mr. Franki states that the proposed regulation appears satisfactory provided a clause is added requiring the Consejo to give the National City Bank reasonable notice of termination and stipulating that upon notice of termination, the regulation will be continued in force for such time as is necessary to enable said Bank to dispose of any dollar notes it may have acquired pursuant thereto. The Embassy sees no objection to this additional clause.

The National City Bank also desires that the Banco Central be committed to purchase from it any dollar notes which the National City Bank is not able to dispose of by sale to travelers departing from Chile en route to the U. S. or by transmission to the United States. Both the Consejo and the Banco Central believe there is no legal authority for including such provision in the regulation to be dictated by the Consejo. However Sr. Letelier states that there will probably be no objection to an informal arrangement in this respect, perhaps evidenced by exchanges of correspondence between the Na-

tional City Bank and the Banco Central. This point will be discussed with the Banco Central at the first opportunity.

The proposed regulation perhaps with the exception of slight verbal modifications and the addition of a phrase to clause "b" authorizing the National City Bank to demand any other pertinent information of purchasers and sellers of dollar notes, appears satisfactory to my staff. Please instruct by telegraph whether the above proposed regulation and the suggested modifications are approved.

The National City Bank desires to know what meaning the Treasury will attach to the term "provided appropriate information is submitted regarding its origin" (Instruction No. 2617). I suggest that the Treasury briefly outline the information it desires and that same be transmitted to the Embassy as soon as possible by telegram. This should be given prompt attention as persons are arriving here daily with small amounts of U. S. currency.

BOWERS

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811.515/1817: Airgram

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

SANTIAGO, January 30, 1943.  
[Received February 5—noon.]

A-166. My despatch No. 4692 of October 19, 1942 and my airgram A-387 of November 25, 1942.<sup>96</sup> Señor Luis Dávila E., Secretary-Attorney of the Banco Central de Chile, in a conversation with Mr. Franki of this Embassy today stated that to date the Banco Central had received and transmitted \$374,363 to the United States under Chilean Decrees Nos. 4021 and 3192, of which \$213,377 were transmitted on October 7, 1942, and \$160,986 on December 30, 1942. According to Sr. Dávila no money had been turned over to the Banco Central by the Customs authorities, who under said decrees are required to take currency in excess of \$50 from travelers and to transmit same to the Banco Central for transmission to the United States. On January 13, Mr. Franki called on Sr. F. Jorquera, Under Secretary of Hacienda, to ascertain what instructions if any had been given to the Customs authorities respecting the enforcement of these provisions of the decrees, and Sr. Jorquera stated that no instructions had been issued to the Customs authorities as the decrees were self executing, and that a copy of such decrees had been immediately transmitted to the Customs authorities on the day the decrees became effective. At that time Sr. Jorquera had no information as to how the Customs authorities were performing their duties under the decrees and Mr.

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<sup>96</sup> Neither printed.

Franki suggested to Sr. Jorquera that he direct a letter to the Chief of the Customs instructing him to rigidly enforce the decrees and to report to the Sub-Secretary of Hacienda what enforcement measures had been taken, and also to make a report to the Sub-Secretary giving the name of persons from whom dollar notes had been taken, the amount thereof and other pertinent data. Sr. Jorquera stated that he would immediately write such a letter to the Customs authorities and that as soon as he had a reply, he would communicate with the Embassy. To date no information has been received from Sr. Jorquera, who will be contacted again in a few days.

Sr. Dávila today also stated to Mr. Franki that only \$47,000 of the \$374,363 which were transmitted to the United States had been released by the Treasury Department, which was but a small part of the \$213,377 which were transmitted by the Banco Central on October 7, 1942, and that many persons whose dollar notes had been sent to the United States called on officials of the bank every day desiring to know if there was any news respecting their funds. Sr. Dávila further stated that a great many of these people complained that the Banco Central was in some way responsible for the delay and intimated that the bank was deliberately withholding information from them, although the bank accepted their bills solely for the purpose of transmitting same to the United States, without any obligation whatever to the persons owning the funds. Sr. Dávila expressed the view that it would be helpful to the Banco Central if it were advised of the names of the persons whose funds have been frozen in the United States so that it can advise these people definitely to that effect.<sup>97</sup> In as much as the Banco Central has thus far been very cooperative, the Embassy feels that any available information as to the funds which have been definitely blocked should be transmitted to the Embassy in order that the Banco Central may be advised.

BOWERS

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740.00112A European War 1939/25331

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

[Extracts]

No. 5618

SANTIAGO, February 3, 1943.

[Received February 13.]

SIR: I have the honor to refer to my Strictly Confidential despatch No. 5277 of December 23, 1942,<sup>98</sup> enclosing a copy of the written dis-

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<sup>97</sup> In airgram No. A-549, February 19, the Treasury Department was reported to have approved applications covering \$170,287 of the \$374,363, denied \$82,151, and had pending those covering \$121,925. Lack of adequate information from Chile was offered as the reason for delay in the pending cases.

<sup>98</sup> Not printed.

cussion of the desired economic and financial controls for Chile which was given to the secret committee<sup>99</sup> of the Chilean Government on December 19, 1942, and also a copy of my note No. 1601 of December 19, 1942,<sup>1</sup> transmitting a copy of said written discussion to the Foreign Office.

Up to the present time the secret committee has not communicated to the Embassy any information as to what conclusions, if any, it has reached. Members of my staff have, however, kept in touch with Sr. Arturo Torres a member of the committee who was delegated by its President Sr. Vigorena to keep the Embassy informed of the progress being made. Apparently the committee has thus far been unable to come to any definite understanding as to what controls should be adopted, or the administration has concluded that nothing should be done for the time being, notwithstanding severance of diplomatic relations with the Axis Governments.

On December 31, 1942, Sr. Torres stated to members of my staff that the secret committee was to hold a meeting early during the following week for the purpose of discussing what controls might be instituted and that he and other members of the committee would thereafter keep in close touch with the Embassy at frequent intervals. He added that the Minister of Foreign Affairs<sup>2</sup> had instructed the committee to proceed with its work as if the Chilean Government had severed relations with the Axis Governments. Nothing further having been heard, Mr. Franki of the Economic Division of the Embassy again called on Sr. Torres on January 12, to ascertain if there was anything new. In this discussion Sr. Torres stated that the Minister of Foreign Affairs had recently given the committee additional instructions (the nature of which were not disclosed) in regard to the controls which it was studying, and because of this, members of my staff had not been called in for further discussions as promised. However, Sr. Torres again assured Mr. Franki that the committee would discuss the proposed controls with members of my staff within the next few days. At the same time he indicated that the Chilean Government would be obliged to proceed carefully in subjecting factories and manufacturing establishments to controls intimating that such establishments might be eliminated from the program entirely on the score that by controlling them the economy of the country would be injured. He also expressed his personal view that the controls calling for the vesting of title of certain individuals and firms, and for their liquidation, did not appear to be important as he felt

<sup>99</sup> A group of Chilean officials to consider economic and financial controls.

<sup>1</sup> Not printed.

<sup>2</sup> Joaquín Fernández Fernández.

that the disadvantages to be derived therefrom far outweighed any advantages. . . .

The speech of President Ríos, which was broadcasted to the Nation on January 20, announcing the severance of diplomatic and consular relations with the Axis Governments<sup>3</sup> and outlining his Government's reasons for taking these steps, has been carefully examined to see if there is anything in it indicating the attitude of the Government toward the economic and financial controls recommended by the Rio and Washington conferences.<sup>4</sup> While the President points out that the Rio Conference does not legally obligate Chile to adhere to the resolutions which were adopted, nevertheless he declares that Chile is morally obligated to do so. At the same time the President's speech makes it clear that the measure severing relations with the Axis Governments was "of a strictly diplomatic nature" and further, that Germans, Japanese, and Italians can continue to expect the protection of existing Chilean laws provided they maintain their tranquility. . . .

A few days prior to rupture of relations, and in the light of the foregoing developments, the Economic Division prepared a list of preliminary measures which the Chilean Government should adopt immediately upon severance of relations with the Axis Governments to be transmitted to the Foreign Office. The listed measures included the following:<sup>5</sup>

- a) Severance of commercial and financial relations with the Axis and Axis-occupied countries, whether carried on directly or indirectly;
- b) Severance of all communications with the Axis and Axis-occupied territories whether carried on directly or indirectly;
- c) Regulation of commercial and financial transactions and communications with the neutral countries of Europe;
- d) Immediate Governmental control of all banks, insurance companies, and news agencies owned and controlled by the Axis and Axis-occupied nations together with appropriate steps to prevent such institutions from removing, changing or altering their books and other records;

<sup>3</sup> For correspondence on Chile's severance of relations with the Axis, see pp. 795 ff.

<sup>4</sup> For correspondence on the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.; for the resolutions of this Meeting, see Department of State *Bulletin*, February 7, 1942, pp. 117-141. For comment on the Inter-American Conference on Systems of Economic and Financial Control, held at Washington June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.; for the resolutions of this Conference, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942).

<sup>5</sup> The Ambassador communicated to the Chilean Foreign Office on January 29, 1943, an outline of the specific economic and financial controls desired.

e) Recognition of the Proclaimed List of the United States Government;

f) The freezing of the properties and assets of the Axis and Axis-controlled Governments, as well as of Axis and Axis-controlled persons and firms;

g) Prohibition of any transaction undertaken for the purpose of evading the above.

Respectfully yours,

CLAUDE G. BOWERS

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840.51 Frozen Credits/9344b : Telegram

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

WASHINGTON, February 3, 1943—9 p. m.

122. Department understands that very substantial Axis funds have escaped from Chile not only in anticipation of the severance of relations but also subsequent to the break. We assume this is due to the Chilean Government's delay in putting into effect adequate freezing controls.

Unless you perceive good reason to the contrary, please indicate to the Chilean Government at once 1) the concern with which this Government regards the failure of the Chilean Government to guard promptly against the flight of Axis funds, and 2) the importance of immediate steps to correct this regrettable situation.

HULL

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840.51 Frozen Credits/9345 : Telegram

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

SANTIAGO, February 4, 1943—5 p. m.

[Received 8:50 p. m.]

240. Your telegram 122, February 3, 9 p. m. Days ago we heard that large sums had been withdrawn by Germans and Japanese, and I instantly discussed the matter with the Foreign Minister, and so reported. Subsequent investigation by Economic Division here reveals that the story was a gross exaggeration. Apparently very little if any has been withdrawn since the rupture. Meanwhile on three separate occasions I have pointed out to the Minister the vital need for immediate action by the secret committee working out the plans and he, in complete accord, has urged this strongly. All this reported to Washington. . . . I have repeatedly done what I am instructed to

do "unless I perceive good reason to the contrary", and shall continue on every occasion to do, and have made it clear that the views expressed by me are the views of my Government.

BOWERS

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740.00112A European War 1939/25869

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

No. 5688

SANTIAGO, February 9, 1943.

[Received February 24.]

SIR: I have the honor to refer to my Strictly Confidential despatch 5618 of February 3, 1943 in regard to economic and financial controls for Chile.

A few days ago, a member of my staff suggested to Mr. A. J. Pack, Commercial Counsellor of the British Embassy that he call on appropriate Chilean officials for the purpose of furthering our joint efforts to induce the Chilean Government to institute controls. Accordingly, on February 5, 1943, Mr. Pack accompanied by Mr. John Royden, also of the British Embassy, called on General Arriagada, Minister of Commerce and Economy, and his legal adviser, Arturo Torres. A memorandum of this conversation is herewith enclosed.<sup>7</sup>

While General Arriagada stated that no further remittances would be made through the German-Chilean compensation account in the Banco Central, which he considers as having automatically lapsed with severance of diplomatic relations, he had nothing definite or encouraging to say in regard to affirmative financial and economic controls. It is to be noted also that Sr. Torres said that no decision had been reached by the secret committee, and moreover, that the feeling of the Government was against taking any measures so long as Axis elements kept quiet.

The British Embassy here has been cooperative in every respect, and has assisted in every way possible to bring about local controls. At the same time my staff has kept the British Embassy informed of all developments and has consulted with the British on all steps which have been taken.

Respectfully yours,

CLAUDE G. BOWERS

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<sup>7</sup> Not printed.

811.51/5836: Telegram

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

WASHINGTON, February 11, 1943—5 p. m.

150. Your A-160, January 26 [28], Treasury Department approves the proposed regulation and suggested modifications.

Treasury merely requires an indication that the currency has been acquired by the bank from travelers in order that Treasury can identify currency as having been purchased in connection with above regulation.

HULL

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840.51 Frozen Credits/9519

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

No. 5745

SANTIAGO, February 13, 1943.

[Received February 24.]

Subject: Economic and Financial Controls for Chile.

SIR: I have the honor to refer to despatch No. 5688 of February 9, 1943 in regard to the above subject.

Recent information from various governmental officials indicates that the secret committee has reached an impasse in its deliberations. A few days ago it held a stormy session, and it is reported that violent disagreements between its members developed and that Sr. Vigorena, President of the committee, resigned. It is believed that the committee will probably pass out of existence and that the study of economic and financial controls will be committed by the Government to a smaller group. In a conversation between members of my staff and Sr. Manuel Casanueva, Director General of Agriculture and Sr. Fernando Ortuzar, Executive Secretary of the Economic Committee of Ministers, on February 11, the Chilean officials mentioned the fact that two officials had very recently been delegated by the Government to outline a definite control program. No details were given, and the names of these persons were not revealed. However it is anticipated that the details of these developments will soon be known.

There is enclosed herewith a copy of a *Note Verbale* dated February 10, 1943,<sup>8</sup> which was handed to the Minister for Foreign Affairs on that date. The note transmits to the Minister a printed copy of the

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<sup>8</sup> Not printed.



Report on the activities of the Montevideo branch of the Banco Alemán Transatlántico prepared by the Uruguayan Congressional Committee Investigating Anti-National Activities, copies of which were transmitted to the Department by my colleague in Montevideo in his despatch No. 2103 of January 23 [26], 1943.<sup>9</sup> My note to the Minister calls his attention to the conclusion of the Investigating Committee and the action taken by the Uruguayan Government, and suggests that the Banco Alemán Transatlántico in Chile should be accorded like treatment.

Respectfully yours,

CLAUDE G. BOWERS

840.51 Frozen Credits/9345 : Airgram

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

WASHINGTON, February 19, 1943—8:10 p. m.

A-548. Your A-85, January 15 [14]; Department's telegram no. 68, January 20; Department's telegram no. 101, January 27;<sup>10</sup> your telegram no. 240, February 4. Please send by air mail to the Department a brief progress report covering the Embassy's activities toward securing Chilean observance of the Washington Resolutions since the break with the Axis. A similar progress report should be sent to the Department every 2 weeks until further notice.

The Department would like to have the Embassy's views on whether it would be preferable, as a matter of procedure, to concentrate on the adoption and implementation of one phase of the desired controls at a time. If this type of approach appears likely to achieve more rapid results, it would seem that a logical choice, as the first goal, would be the elimination of financial transactions with enemy territory. For this purpose it would seem desirable to single out immediately the Banco Alemán Transatlántico, the Banco Germanico and the Banco Francés e Italiano for close Chilean supervision to prevent transactions covered by Resolution I (b).

HULL

840.51 Frozen Credits/9695

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

No. 5868

SANTIAGO, February 27, 1943.

[Received March 10.]

SIR: I have the honor to refer to my confidential despatch No. 5745 of February 13, 1943, transmitting to the Department a copy of my

<sup>9</sup> Not printed.

<sup>10</sup> None printed.

*Note Verbale* dated February 10, 1943 <sup>11</sup> to the Minister for Foreign Affairs in regard to the Banco Alemán Transatlántico in Chile.

I enclose herewith a copy and translation into English of a *Note Verbale* dated February 22, 1943, <sup>12</sup> which is a reply to my *Note Verbale* above mentioned. It is to be noted that the Minister for Foreign Affairs has requested the Minister of Finance to report on the activities of the Santiago branch of the bank in question.

In a conversation with Moisés Vargas V., Chief of the Commercial Policy Section of the Ministry for Foreign Affairs on February 25, Mr. Thayer and Mr. Franki of the Economic Division of the Embassy pointed out to Sr. Vargas that under the Chilean Banking Laws, the Superintendent of Banks had ample authority to investigate the Banco Alemán, to assume control of same and to deal effectively with it should the investigation disclose the same or similar facts contained in the report of the Uruguayan Congressional Committee with respect to the Banco Alemán in Montevideo. Señor Vargas said that the Superintendent of Banks had been requested, through the Ministry of Finance to report on the activities of the Banco Alemán in Santiago and pointed out that the facts found by the Uruguayan Congressional Committee related principally to activities engaged in by the Montevideo branch of this bank for the year 1941 and prior years. Apparently the question has arisen as to whether the Banco Alemán in Santiago should be dealt with on the basis of its present activities only without reference to its activities in the past. Mr. Thayer and Mr. Franki pointed out to Señor Vargas that the past conduct of the bank was certainly evidence of what it might now be doing, and that its present activities could only be judged in the light of the bank's past history; and moreover, that the bank was unquestionably an enemy concern controlled by the parent institution in Germany.

For some time past the desirability and urgent necessity of blocking and liquidating the Banco Alemán Transatlántico has been called to the attention of the Chilean Government not only by this Embassy but by the British Embassy as well. This problem has been discussed from time to time with the Minister of Finance, the Minister of Economy and Commerce and his legal advisor, and also with members of the secret committee, which until a short time ago was studying the subject of economic and financial controls for Chile. The recent information from the Ministry for Foreign Affairs is the first indication that the Chilean Government may investigate the bank.

My staff will continue to press this particular problem as it has in the past, along with the whole problem of economic and financial con-

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<sup>11</sup> Latter not printed.

<sup>12</sup> Not printed.

trols, which is being constantly called to the attention of the Chilean Government.

Respectfully yours,

CLAUDE G. BOWERS

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840.51 Frozen Credits/9618 : Telegram

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

SANTIAGO, March 3, 1943—10 a. m.

[Received 10:38 p. m.]

402. Reference your airgram A-548, February 19, 1943, and the following despatches on the subject of economic and financial controls and Proclaimed List cooperation since the rupture: 5618 February 3; 5621 February 4; 5687 and 5688 February 9; 5745 February 13; 5769 and 577 [5767] February 17;<sup>13</sup> and 5868 February 27.

The work of the secret Committee produced no tangible results and its dissolution has now been confirmed. Through the medium of the Committee, however, the Chilean Government received much information on economic and financial controls and the subject is now being studied by a smaller group composed of Del Pedregal, Minister of Finance, Pablo Ramirez, former Minister of Finance, and Alfonso Fernandez, manager of the Chilean Amortization Institute. On February 25 the last named was designated by President Ríos as his personal representative to discuss Proclaimed List matters with Mr. Thayer as my representative. It is expected that discussions will be initiated this week.

Recent conversations with the Minister for Foreign Affairs and other Chilean officials indicate that the Chilean Government has fully determined to initiate soon a far reaching program of economic and financial controls some aspects of which are currently being placed in effect. Decree number 736 dated March 1, 1943, and published yesterday in the *Diario Oficial* provides that within 15 days of publication all real and juridical persons in Chile who have in their possession or control funds or securities of persons or institutions resident or domiciled in Axis countries or Axis-occupied territories shall file sworn statements with the Superintendent of Banks showing funds and securities in their possession and data as to domicile; and further that pending the filing of such data no transactions with respect to such property may be effected. A copy of this decree follows by despatch. It is believed that this decree is the forerunner of a general program of freezing Axis and Axis-controlled assets as suggested to the Chilean Government in my notes enclosed with despatches 5618 and 5769.

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<sup>13</sup> Despatches Nos. 5621, 5687, 5769, and 5767 not printed.

Adriasala, manager of National Foreign Trade Council, informed Thayer and Franki on February 26 that Council was not granting import permits to Proclaimed List firms or individuals but would continue to "study" same until a definite program is adopted. Council is also considering a program for consignee control which was submitted to Adriasala during the same interview and details of which are being transmitted by despatch. Adriasala also has agreed to supply the Embassy unofficially with copies of all import permits filed by importers of United States and Argentine merchandise. This should aid materially in the prevention of cloaking by providing a check on traffic from the Argentine.

The Chilean Government believes that a comprehensive program of controls requires enabling legislation and the Foreign Minister advises me that such legislation will be submitted as an administrative measure to a special session of Congress to be called this month. Ramirez has prepared draft of a law in effect recognizing the resolutions and recommendations of the Rio and Washington Conferences and authorizing the President to issue decrees to implement the same and specifically to sever commercial and financial relations with the Axis. However, Vargas of the Ministry for Foreign Affairs indicated in conversation with Thayer and Franki last week that a more specific measure might be submitted to Congress. Thayer and Franki offered to assist by preparing draft of a suggested law and Vargas welcomed the offer. The draft is being prepared and will be submitted to Vargas soon.

Yesterday after several conferences Thayer and Franki submitted to Señores Casanueva and Ortuzar a suggested basis for further discussions concerning certain Proclaimed List agriculturists (my despatches 5621 and 5687). Briefly it was suggested to the Chileans that pending the establishment of adequate controls and to prevent a decline in agricultural production, agriculturists on the list will be reviewed and classified in accordance with the Department's circular instruction of December 17, 1942<sup>14</sup> and that the Chilean Government deal with such agriculturists in conformity with Rio and Washington resolutions by blocking assets and proceeds of transactions, removal of objectionable personnel and management, forced transfer of title, and liquidation, in accordance with agreed classification of firms and individuals in question. Casanueva and Ortuzar, who are extremely sympathetic to our program, believe that even before legislative action many of our desired objectives can thus be attained by denial of credit

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<sup>14</sup> Not printed; according to this instruction the United States Government through the Export-Import Bank stood ready to aid with funds and technical personnel firms affected by forced sales, vesting of title (nationalization), etc. (740.00112A European War 1939/22236b).

and transportation facilities, refusal of gasoline and fuel oil, and a firm attitude on the part of the Department of Agriculture.

In the light of the foregoing résumé and in view of the present receptive attitude of the Chilean Government, I believe that it is of the utmost importance to press for the adoption of a comprehensive program of controls rather than to seek individual components of such a program. The Economic Division of this Embassy shares this view, and it is our opinion that by pursuing such a policy satisfactory results may be expected within a reasonable time.

BOWERS

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840.51 Frozen Credits/9618 : Telegram

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

WASHINGTON, March 12, 1943—7 p. m.

286. Your no. 402, March 3, 10 a. m. and 424, March 4, 7 p. m.<sup>15</sup> Department appreciates progress being made in program of economic and financial controls in Chile, and Embassy should continue to render all proper assistance desired by Chilean Government. However, such assistance should under no circumstances extend to preparation of draft laws or decrees by the Embassy for consideration and possible enactment by Chilean Government. Such a procedure, especially in view of del Pedregal's connection with this matter, might have unfortunate repercussions. There is no objection to Embassy's making appropriate comments on decrees drafted by Chilean Government or to the communication of informal and tactful oral suggestions.

WELLES

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740.00112A European War 1939/29151 : Telegram

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

SANTIAGO, April 20, 1943—10 a. m.

[Received 1:35 p. m.]

731. Reference my telegram number 679, of April 10, 2 p. m.<sup>16</sup> Council of Ministers meeting yesterday afternoon agreed on convocation of extraordinary session of Congress to convene April 27. Prior to the meeting Messrs. Thayer and Franki were given in strictest confidence a copy of the President's message and project of law which will be submitted to Congress. This law authorizes the President,

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<sup>15</sup> Latter not printed.

<sup>16</sup> Not printed.

during the state of war which affects the American Republics, to adopt all measures necessary to effect a continental policy of solidarity, of reciprocal aid and defensive cooperation, and to give effect to the recommendations and resolutions approved at international American conferences and at meetings of the Foreign Ministers of the American Republics.

BOWERS

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740.00112A European War 1939/29547 : Telegram

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

SANTIAGO, April 26, 1943—7 p. m.

[Received 11:55 p. m.]

758. For Under Secretary and Duggan.<sup>17</sup> My telegram 731, April 20, 10 a. m. As reported Pablo Ramirez gave us the draft of the proposed control law as follows:

"The President of the Republic is hereby authorized during the state of war which affects the American countries to adopt all measures considered indispensable in order to make effective a policy of continental solidarity, of reciprocal aid and of defensive cooperation, and so that he may promulgate and put into effect the recommendations and resolutions approved at International American conferences and at the consultative meetings of Ministers of Foreign Affairs of the American Republics."

On the afternoon of the 23rd Ramirez informed us that at a meeting of the Cabinet Pedregal asked that he be permitted to include this in his general economic bill, drastically covering domestic economy, and that the President had agreed. The substitute for the original bill, above quoted, and prepared by Pedregal reads:

"The President of the Republic may dictate and apply all of the measures of an economic nature which he deems indispensable for the better fulfillment of the obligations contracted as a result of the present international position adopted by the country."

I agree with Bushmck [*Butrick?*], Thayer and Franki that this is not as satisfactory as the original. Sunday night Cruz Coke<sup>18</sup> and Ramirez called at the house, both much disturbed about it. This afternoon I saw Fernández and told him, first, that the substitute is not as satisfactory as the new proposed law; that the first specifically indicated what was meant and the second does not. "Very well", he said instantly, "we will use the first, but we thought the second even

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<sup>17</sup> Laurence Duggan, Adviser on Political Relations.

<sup>18</sup> Eduardo Cruz Coke, member of the Chilean Senate.

more comprehensive". I expressed a preference for the first. Then I urged that it be presented as a separate bill and that it not be tied up with a highly controversial measure dealing exclusively with domestic matters; that I knew there would be a bitter fight on the tax, rent, and profits features of the domestic bill and the debate would be prolonged; that I thought it unwise to attempt to deal with international and purely domestic matters in a single measure; and that I hoped the first bill would be presented as a separate measure. Fernández said he thought I had a good point in this and that he will take it up with the President immediately.

It is possible that Pedregal, knowing there would be a fight on his domestic bill, thought the international bill tied in would make it easier to get the whole through, though, as you know, I do not have complete confidence in the pro-Americanism of the Minister of Finance. Fernández tells me that since Wallace's visit<sup>19</sup> he thinks he has changed and is really ready to cooperate. But I feel that his substitute bill leaves far too much to the President's judgment as to what constitutes "indispensable" measures to fulfill the obligations. I have high hopes that the original bill will be separately presented to Congress.

BOWERS

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840.51 Frozen Credits/11006

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

No. 6939

SANTIAGO, July 6, 1943.

[Received July 20.]

SIR: I have the honor to transmit a despatch No. 6923 of July 3, 1943,<sup>20</sup> entitled "Observations on Chilean controls of Axis assets and the German, British and American post war positions in Chile" prepared by Mr. Butrick, Counselor for Economic Affairs, and Mr. Franki. I signed the despatch without change because I find it thoughtful, timely and stimulating.

The thesis, however, "It . . .<sup>21</sup> behooves us to withhold favors from the present cabinet-administration in order that we may have something substantial in the basket to pass out to a pro-United Nations cabinet, not only to show our appreciation but to enable it to obtain the confidence and support of the Chilean people" needs perhaps some definition and amplification.

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<sup>19</sup> For correspondence on the visit of Vice President Henry A. Wallace to some of the American Republics, see pp. 55 ff.

<sup>20</sup> Not printed.

<sup>21</sup> Omission indicated in the original despatch.

We are continually being requested to authorize the export of products or services, or furnish aid above the absolute minimum necessary to keep the Chilean economy functioning. Compliance with such requests is often mutually advantageous and politically desirable, and it is my understanding that neither Mr. Butrick nor Mr. Franki desire to suppress such service entirely but rather only when such requests are substantial.

I am, of course, in entire accord that any commitments for sizeable grants of capital or for post war markets of Chilean copper, nitrates or other commodities should be withheld for negotiation between the two governments and for any concessions on our part there should be a *quid pro quo* much more important than the enactment or enforcement of control legislation of Axis assets. We desire, of course, the passage of such legislation to enable the Chilean government to control Axis assets and we want such legislation enforced since it would stiffen the operation of the Proclaimed List.

However, as a practical matter, it is not possible, except with the occurrence of a fanatically Leftist administration, which is not in the cards, that the control legislation would result in the liquidation or nationalization (vesting) of the several hundred Axis firms that we have listed as dangerous or non-essential. The comment of the Department, as to whether such wholesale action against Axis firms is practically desirable, is invited.

We would, however, like to see certain key firms which have been leaders or agents in the Nazi work here in Chile at least nationalized with their income and capital blocked. But I do not feel any such action would need to be paid for by any particular "favors" or concessions on our part, beyond perhaps occasionally furnishing facilities or perhaps capital, in exceptional cases, to Chilean groups taking over Nazi firms.

Respectfully yours,

CLAUDE G. BOWERS

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840.51 Frozen Credits/11215

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

No. 7117

SANTIAGO, July 28, 1943.

[Received August 11.]

SIR: I have the honor to refer to my despatch No. 6017 of March 20, 1943,<sup>22</sup> reporting the extension of Ministry of Finance Decree No. 736 of March 1, 1943.

It will be recalled that decree No. 736 required the registration within 15 days of all properties held by persons in Chile for the

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<sup>22</sup> Not printed.



account of or in the name of persons and institutions in Axis and Axis-occupied countries, and provided that such properties be blocked while registration was in progress. Decree No. 736 was extended to April 10 by Ministry of Finance Decree No. 939 of March 17, 1943, which also authorized the Superintendent of Banks to make a further extension to April 30, 1943, if necessary. Extension beyond April 30 was effectuated by Ministry of Finance Decree No. 1,393, which carried the registration period forward to May 31, 1943. For the Department's information there is enclosed a translation of Decree No. 1,393 of April 30, 1943.<sup>23</sup>

Unfortunately no extension was made upon the expiration of the last mentioned decree on May 31. The decrees were allowed to lapse although my economic advisors on several occasions prior to that date reminded Srs. Pablo Ramirez and Alfonso Fernandez, the personal representatives of the President in Proclaimed List and control matters, of the necessity for keeping the decrees in force, particularly the blocking provisions thereof, until such time as controls legislation were enacted, so that the assets registered under such decrees could thereafter be subjected to appropriate controls in accordance with the provisions of the Rio and Washington conferences, and although Srs. Ramirez and Fernandez received assurances from appropriate officials of the Chilean Government that the decrees were being kept in force and would be extended as often as necessary to accomplish the desired results. Subsequent information, however, revealed that the decrees had been allowed to lapse. This was presumably due to a misunderstanding of the purposes and objectives of the decrees by the office of the Superintendent of Banks and certain officials of the Ministry of Finance.

On June 23, immediately after I received this information, I called on the Minister for Foreign Affairs and transmitted to him the above information, expressing the hope that the Chilean Government would find appropriate and effective means to immediately immobilize the properties which had been released because of the expiration of the decrees in question, and suggesting that the officials charged with the administration of such measures as might be adopted would be fully informed of their objectives. I also informed the Minister that I understood the total value of the assets which had been registered to be in excess of 6 million pesos and pointed out that the Chilean Government should appreciate the fact that these huge funds, unless subjected to rigid control, were actually at the disposal of the Axis Governments for use against the United Nations not only in Chile but

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<sup>23</sup> Enclosures mentioned in this despatch not printed.

throughout the Western Hemisphere. As a result of this discussion a further extension to August 31, 1943 has been placed into effect. This was accomplished by Ministry of Finance Decree No. 2,255 of July 6, 1943, published in the *Diario Oficial* of July 17, 1943 and a translation of which is enclosed herewith.

In view of the fact that the office of the Superintendent of Banks apparently did not appreciate the full significance of these registration decrees, and since some of the registered assets were very likely transferred between May 31, the date when Decree No. 1,393 expired and July 6, the date of the recent extension, I again called on the Minister for Foreign Affairs and handed him my *Aide-Mémoire* of July 20, 1943 suggesting that the Chilean Government take appropriate action respecting the points mentioned. A copy of my *Aide-Mémoire* is enclosed. It is impossible to ascertain at this time whether a substantial portion of the registered assets were transferred when the decrees were allowed to lapse, but according to Srs. Fernandez and Ramirez the number of such transfers is not likely to be large. In any event Decree No. 2,255, the new decree, has the effect of again placing the previous decrees in force, and new registrations will doubtless be required in appropriate cases.

The attached tabulation which was procured in confidence by one of my economic advisers from an official of the Ministry of Finance indicates that the total declared value of the registered assets as of March 2, 1943 was 749,895,029.08 pesos or approximately 24,268,-447.54 dollars. This is a surprisingly large sum, especially when it is considered that registration was incomplete at the time the tabulation was compiled and that the registrants probably under-estimated the value of the properties declared by them. It is to be noted that the tabulation lists residents of France as the owners of properties in Chile having the greatest value, i.e. \$250,735,703.07 pesos. Residents of Germany own almost as much: \$249,964,285.02 pesos. Residents of Italy are third in importance with properties having a declared value of \$107,748,706.53 pesos. The principal assets in Chile belonging to persons and firms in enemy territory, according to these figures, consists of cash and deposits, amounting to \$448,600,155.20 pesos or 14,517,804.37 dollars.

My staff will of course endeavor to secure such additional renewals and extensions of the registration decrees as may become necessary. As previously reported these decrees were placed into effect as preliminary measures, pending the adoption of controls legislation by the Congress, upon which appropriate administrative decrees dealing with the registered assets, would be based. However, it is feared that little can be done in this direction should the controls legislation as

emasculated by the Chamber of Deputies be adopted by the Congress. (See my telegram No. 1320 of July 24, 1943, 3 p. m.).<sup>24</sup>

Thus far the above data is the only concrete information which my staff has been able to procure in regard to the properties which have been registered. Apparently the officials of the Chilean Government concerned with the administration of the registration decrees have been somewhat reluctant to divulge the data disclosed in the sworn statements which have been filed. A possible explanation is that these officials are reluctant to allow any one to examine the sworn statements themselves owing to their confidential nature; also they very probably have not had a sufficient opportunity to study in detail the information which has been filed, particularly since registration is still in progress, theoretically at least. It may be added that the office of the Superintendent of Banks is actively administered by Walter Lebus, Sub-Superintendent who is a German-born, German-educated Chilean, and to whom may be attributed in a large measure the lack of cooperation from that office. However, it is hoped that in the near future more up-to-date and complete information respecting these properties, as well as their owners and registrants, may be obtained.

Respectfully yours,

CLAUDE G. BOWERS

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840.51 Frozen Credits/11383

*Memorandum of Conversation, by Mr. James H. Wright of the  
Division of the American Republics*

[WASHINGTON,] August 19, 1943.

Participants: Chilean Ambassador, Señor Don Rodolfo Michels

RA—Mr. Bonsal<sup>25</sup>

Mr. Keith<sup>26</sup>

Mr. Wright

Ambassador Michels called at Mr. Bonsal's request. Mr. Bonsal explained that for a long time conversations had been going on in Santiago between our Embassy and the Chilean Government, concerning the implementation of the Washington and Rio Resolutions, in so far as the control of Axis interests is concerned, and that also he and the Ambassador had discussed the matter briefly some months ago. More than a year and a half had passed since Pearl Harbor and a year had passed since the Washington Resolutions were adopted.

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<sup>24</sup> Not printed.

<sup>25</sup> Philip W. Bonsal, Chief of the Division of the American Republics.

<sup>26</sup> Gerald Keith of the Division of the American Republics.

So far practically nothing had been done by Chile to implement the resolutions calling for the control of Axis interests and he would be less than frank were he not to tell Ambassador Michels that there is a definite feeling in Washington that Chile should take expeditious action to perform under these Resolutions.

Mr. Bonsal briefly reviewed the Resolutions from two memoranda which had been prepared for this purpose and then handed the Ambassador copies of the memoranda which are attached.<sup>27</sup> He said that of course the manner of implementation which involved legal dispositions and legislation was solely a matter for Chile, but that he thought the Ambassador would want him to tell him the feeling which existed in this country on the subject. Of course, where the implementation of the Resolutions might cause harm to the economy of the country this Government recognized an obligation which it had to assist Chile in preventing such harm. The effectuation of the Resolutions would be important, not only so far as defeating the Axis is concerned, but also on psychological grounds. Mr. Bonsal carefully stated that the fact that Chile had failed to implement the Resolutions could not go unnoticed in Washington among other Government agencies and this knowledge was bound to reflect in the attitude of these agencies toward Chile, and there was an inescapable lingering in the minds of those dealing with Chilean matters of this absence of action. Mr. Bonsal did not want to see this feeling exist, since he was convinced of the sincerity of Chile.

The Ambassador said that he was very thankful that Mr. Bonsal had brought the matter to his attention and that although they had discussed it some months ago, they had done so in very general and vague terms and this was the first real presentation of the matter that had been made to him. He was glad to know that discussions had already been carried on in Chile and that both our Embassy in Santiago and the Chilean Government were *au courant* on details. He would not fail to take the matter up with his Government and in addition, would prepare a case to present Foreign Minister Fernández when he arrives in Washington on September 16. The Ambassador said that he had only a few days ago received a copy of the bill which has already passed the Chilean House of Representatives and now has gone to the Senate. He said that according to Article 18 of the bill (when it becomes law) the President will have authority fully to implement the Resolutions, and that upon seeing the memoranda which Mr. Bonsal handed him he was convinced that Article 18 had

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<sup>27</sup> Not printed.

been included in the bill for that purpose.<sup>28</sup> He would be glad to furnish Mr. Bonsal with a copy of the bill, for which Mr. Bonsal thanked him.

The Ambassador was understanding in his attitude and a number of times stated that he would not fail fully to inform his Government. Mr. Bonsal observed that this was not a matter of starting something fresh but rather a matter of closing up a negotiation which was already under way but on which action was lagging.

JAMES H. WRIGHT

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825.50/144

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

[WASHINGTON,] August 31, 1943.

The Chilean Ambassador telephoned me yesterday afternoon to say that he had just had a telegram saying that the Senate Finance Committee had just approved certain clauses of the Government's Finance Project which were even more favorable than those approved in the Deputies and which would give the Government full powers to implement the Rio and Washington Resolutions. Among other things, the President is to be granted the power to adopt all measures designed for continental security and specific reference is made to the agreements of the Rio meeting.

The Ambassador concluded that it is hoped that the bill will be approved by both houses of Congress prior to September 18, when Congress adjourns.

PHILIP W. BONSALE

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840.51 Frozen Credits/11006

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

No. 3396

WASHINGTON, September 8, 1943.

SIR: Reference is made to the Embassy's despatches nos. 6923 of July 3, 1943<sup>29</sup> and 6939 of July 6, 1943, setting forth certain observa-

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<sup>28</sup> Article 18 of the original version of the general Economic and Financial Project as submitted to the Chamber of Deputies authorized the President to adopt all measures necessary for continental solidarity, reciprocal aid and defensive cooperation and to put into effect the Resolutions of inter-American conferences and meetings of the Ministers for Foreign Affairs.

<sup>29</sup> Not printed.

tions concerning Chilean control of Axis assets and the German, British and American post-war positions in Chile. Reference is particularly made to the request set forth in the penultimate paragraph of despatch no. 6939 of July 6, 1943 for the comment of the Department concerning the desirability, as an immediate objective, of requesting wholesale action by the Chilean Government looking to the liquidation or the nationalization of the several hundred Axis firms that have been listed as dangerous or non-essential.

The Department, as the Embassy is aware, has never taken the position that all firms on the Proclaimed List should be liquidated or nationalized. The criterion which has heretofore been followed is that only firms which are deemed "inherently bad" should be subjected to such treatment. The use of the phrase "inherently bad" is, of course, a broad generality, but it permits differentiation between, for instance, firms actually owned or controlled by interests in Germany, such as the subsidiaries of I. G. Farben, Siemens-Schuckert, et cetera, and firms which have merely cloaked for Axis firms or which have merely entered into undesirable contracts. The Department has also appreciated the necessity of treating each country as a separate problem and recognizing to the full the practical aspects of the local situation. In view of the facts that Chile has but recently broken off diplomatic relations with the Axis, that there is still a strong feeling in certain governmental circles that, if not pro-Axis, is at least neutral, and that certain important firms can be singled out as the spearheads of Nazi penetration into Chile, it might well be preferable to concentrate at this time upon the elimination of the more important firms on the Proclaimed List and not to request the liquidation or forced transfer of all listed firms, large or small, which may be deemed inherently bad. In this connection it is noted that in the classification of Proclaimed List enterprises in Chile set forth in the Embassy's despatch no. 5687 of February 9, 1943 <sup>30</sup> there are but twenty-one firms listed in category 3. The nationalization or forced transfer of these firms, together with other important firms to be liquidated, such as the German banks, A. E. G. Compania Sudamericana de Electricidad, might therefore constitute a desirable primary objective.

It is further suggested that the Embassy study carefully the circular instruction <sup>31</sup> which will shortly be sent to the missions in the American republics relating to the program for economic warfare matters recently formulated for Brazil. While this program is based,

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<sup>30</sup> Not printed.

<sup>31</sup> Not found in Department files. For correspondence on financial controls developed in Brazil, see pp. 742 ff.

in the main, upon controls adopted by Brazil, it recognizes that to a large degree the objectives of this Government's economic warfare policy are met by appropriate measures of liquidation, forced transfers or a reorganization of the spearheads of Axis penetration. While a program comparable to that set forth for Brazil certainly cannot as yet be adopted for Chile, the approach used in formulating such program does, it is believed, have a direct application in helping to meet the economic warfare problems presented therein.

The other suggestions in the despatches under reference relating to the adoption of an over-all economic warfare policy for Chile are presently under consideration in the Department, and it is hoped that a further communication on this subject will be forwarded in the near future.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

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840.51 Frozen Credits 25/42: Telegram

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

SANTIAGO, November 29, 1943—2 p. m.

[Received 8:48 p. m.]

2011. The economic project containing controls legislation, see my telegram 1892, November 4, 7 p. m.,<sup>32</sup> was voted on in the Chamber of Deputies on November 23 after having been voted out of the Senate on November 17. The final result was that Senate and lower house approved all except some half dozen provisions and most of last week was occupied in determining whether differences should be resolved by a mixed commission of both houses under article LI of the Constitution. Notwithstanding considerable opposition the project was transmitted directly to the President of the Republic Saturday, omitting the articles not agreed on, but it is reported that the President may veto certain sections respecting increased salary scales of Government employees before signing the measure. It therefore appears likely that project and with it the controls legislation may be promulgated as a law this week or the early part of the ensuing week.<sup>33</sup>

BOWERS

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<sup>32</sup> Not printed.

<sup>33</sup> The President and his Ministers signed the decree promulgating the Economic Project legislation on December 22, 1943.

EFFORTS TO PREVENT COMMUNICATION BETWEEN CHILE AND THE  
AXIS COUNTRIES THROUGH COMMERCIAL WIRELESS COMPANIES <sup>34</sup>

810.74/678 : Telegram

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

SANTIAGO, January 2, 1943—7 p. m.

[Received 10:25 p. m.]

10. My strictly confidential despatches numbers 3539, June 9, "Report on Transradio Chilena" <sup>35</sup> and 4440, September 16, 1942, "No Proclaimed List action recommended against Transradio".<sup>36</sup> Your confidential telegram 1552, December 31 [30], 6 p. m.<sup>37</sup> The basis for the statement is the large ownership of Transradio stock by enemy nationals and the facility with which it is believed minor employees could be persuaded by remuneration to obtain copies of radiograms, thus creating a leak. Transradio recently dismissed all suspected Nazi employees. Its manager is British. Please consult Second Secretary Mills now in Washington.

BOWERS

810.74/885 : Airgram

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

WASHINGTON, January 9, 1943—3:05 p. m.

A-435. British Embassy here states that West Coast Telegraph Company in Chile is only accepting messages to Axis and Axis-controlled countries including Vichy on the same terms as All America.<sup>38</sup>

Department informally advised by representative of All America that it has received a message from its Santiago manager reading as follows:

"Incorrect. West Coast accepts all classes of traffic for all points including Axis and Axis-controlled countries. AAC accepts for none of these points including Vichy France. Transradio accepts plain language messages only to all these points except Vichy France to which they only accept Chilean Govt traffic."

Please advise Department at your earliest convenience what the exact situation is with regard to this matter.

HULL

<sup>34</sup> For previous correspondence, see *Foreign Relations*, 1942, vol. v, pp. 108 ff., *passim*.

<sup>35</sup> Despatch not printed. Transradio Chilena was controlled by a consortium in which French, German, British, and American interests participated equally.

<sup>36</sup> Not printed.

<sup>37</sup> Not printed; it requested an explanation of an alleged German bribery scheme of obtaining information from wireless messages (810.74/677a).

<sup>38</sup> All America Cables, an affiliate of the International Telephone and Telegraph Company.



810.74/897d : Airgram

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

WASHINGTON, January 12, 1943—5:30 p. m.

A-442. Your A-441, December 8.<sup>39</sup> Department has given careful consideration to your suggestion that we give some of our business to Transradio Chilena. However, Department has noted statement in your despatch No. 5107 of December 3, 1942<sup>40</sup> concerning the furnishing of copies of telegrams received by Transradio to the German Embassy and the statement in your telegram No. 10 of January 2, 7 p. m. concerning the large ownership of Transradio stock by enemy nationals and the large possibility of leaks. In the circumstances the Department would be loath to take any chances that our nonconfidential code messages would be made available to Axis representatives in Santiago and believes, therefore, that telegraphic communications between the Department and your Embassy should continue to be sent by cable, at least until we are absolutely certain of the discretion of the personnel of Transradio. Mills and Gray of your staff have been consulted and they feel that your airgram under acknowledgment correctly depicts the present situation of Transradio. Department will be pleased to receive your further comments in the light of the considerations advanced above.

The Department is concerned by the indication in your telegram No. 10 of January 2, 7 p. m. that there still are working for Transradio Chilena persons of questionable loyalty. The Department had assumed from General Davis' <sup>41</sup> report that Transradio Chilena had been cleaned up so that it was as reliable and responsible as any other company in which the interests of the United Nations were dominant. The Department desires that you inform the directors representing RCA <sup>42</sup> of the desire of this Government that whatever further steps are necessary to make this a "safe" operating company be taken at once. The Department will also take the matter up with the RCA here as well as with the British Embassy which will be requested to have similar instructions issued to the British directors in Santiago.

HULL

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<sup>39</sup> Not printed; it stated that Transradio Chilena was losing money through its efforts to cut off Axis communications (810.74/654).

<sup>40</sup> Not printed; it reported that the Germans had arranged a scheme in which refugees could deposit sums in neutral countries via telecommunication to ransom a relative (862.5151/2402).

<sup>41</sup> Gen. Robert C. Davis, chairman of the Transradio Consortium Trust.

<sup>42</sup> Radio Corporation of America.

810.74/951 : Airgram

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

SANTIAGO, January 21, 1943—6:30 p. m.  
[Received March 27—noon.]

A-122. Reference Department's airgram no. 435 of January 9, 3:05 p. m. West Coast Telegraph Company was instructed only on or about January 15 by Cables and Wireless that it was not to accept for transmission to the Axis and Axis controlled countries including Vichy.

The telecommunications companies were instructed yesterday by the Chilean Government (reference my telegram no. 136, January 21, 6 p. m.<sup>43</sup>) not to accept any messages for Germany, Italy and Japan and countries controlled by them. Consequently, all the companies are now operating on the same terms.

BOWERS.

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810.74/898 : Airgram

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

SANTIAGO, January 25, 1943.  
[Received January 30—5 p. m.]

A-142. Your A-442 of January 12, 5:30 p. m. It should not be construed from the statement contained in despatch No. 5107 of December 3<sup>44</sup> that Transradio itself has been furnishing copies of telegrams received to the German Embassy. If the latter has a copy of the message in question, which was *en claire*, 1) it may have been taken off the air by individuals monitoring Transradio radio circuits for the Axis representatives or 2) a copy may have been obtained by bribing some minor employee of the company although there is no proof that this has actually occurred.

Numeral 2) represents a problem confronting all the communications companies here and it is extremely difficult to control. To circumvent such a possibility the Embassy takes delivery of and delivers all its messages to All America.

While it is true that German and French interests have a large ownership in Transradio the voting of shareholdings is fully controlled by individuals friendly to the United Nations. These individuals and the management of the company have been cooperating fully with the Embassy to make it a "safe" operating company and

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<sup>43</sup> Not printed.

<sup>44</sup> See footnote 40, p. 910.

have given their renewed assurances that they will take any further steps the Embassy may suggest to guarantee both its reliability and responsibility. The Embassy has . . . not succeeded in obtaining any evidence that it has continued to employ individuals of questionable loyalty.

When the Department was endeavoring to stop communication with the Axis territories through Chile and Argentina, the President of Transradio tried his best to comply with our views but was not permitted to do so by the Chilean Government and thereupon at a great sacrifice of revenues to his company devised the formula whereby it decided to refuse communications to all non-American countries because that was the only formula which would be accepted by the Chilean Government. The drop in revenues was great and most of the business went to All America and the West Coast Cables. Feeling that we do owe a debt of gratitude to Transradio, I made the suggestion contained in my A-441, December 8, 6:30 p. m.,<sup>45</sup> and which I repeat here that the Department instruct me to route a proportion of our nonconfidential messages through Transradio and/or arrange to forward a portion of such messages to Chile over RCA circuits.

BOWERS

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810.74/911 : Telegram

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

SANTIAGO, February 10, 1943—3 p. m.

[Received 5:44 p. m.]

266. Ricnz [*Ricci*], Manager Transradio Chilena, has requested instruction from Director Posts and Telegraphs to close the company's direct Berlin and Tokio radio circuits which are carrying no traffic. The Director has declined to issue such instruction claiming closure of these circuits is a matter of company decision. It is surmised that he does not wish to act fearing that were he to order closure the company might allege *force majeure* as the reason for dismissal of operators whose services are no longer required and refuse them payment of discharge indemnities thereby giving rise to protests which could prove embarrassing to the Government.

As I am of the opinion that the Berlin and Tokio radio circuits should be closed I recommend that RCA and CRIC instruct Jory and Blood, respectively, to introduce and support a motion to this effect at the next meeting of Transradio directors which I understand is scheduled for February 16.

BOWERS

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<sup>45</sup> See footnote 39, p. 910.

810.74/932

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

No. 5798

SANTIAGO, February 20, 1943.

[Received March 1.]

SIR: I have the honor to refer to my telegram No. 226 [266] of February 10, 3 p. m., concerning the direct Berlin and Tokio radio circuits of Transradio Chilena and to report that these circuits were closed down on February 16.

This action was taken pursuant to a motion to close the circuits presented by Directors Jory and Blood and passed at the February 16 meeting of the Board of Directors of Transradio. Just prior to this meeting these two directors received a telegraphic instruction from Mr. David Sarnoff, President of RCA Communications, to present such a motion. It is apparent that this instruction was issued in accordance with the Department's suggestion to RCA.

Respectfully yours,

CLAUDE G. BOWERS

825.7494/1

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

No. 5890

SANTIAGO, March 3, 1943.

[Received March 16.]

SIR: I have the honor to refer to the Department's strictly confidential Instruction No. 2493 of December 18, 1942,<sup>46</sup> requesting an investigation of a report that arrangements were made during September 1942 by direct negotiations between the two governments for radio telegraphic communications between Chile and Japan via Colombo, Ceylon.

A direct radio circuit between Chile and Japan was in operation prior to September 1942 and messages in plain language approved by the Chilean Government continued to be sent by this means until February 16, 1943. The Chilean station is known by the call letters CEF, CEG, CEA, and CEA2 and is owned by the Compañía Transradio Chilena, in which RCA Communications holds a minority interest. The Japanese station was usually JUF at Tokyo. As I reported in my despatch No. 5798 of February 20, 1943, the directors of Cía. Transradio Chilena voted on February 16 to cease direct operations with Tokyo and Berlin and the circuits were closed down the same day. There has also been direct communication between station LQE at Buenos Aires and Japanese stations and I have not heard that this service has been interrupted.

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<sup>46</sup> Not printed.

In view of the existence of direct radio communications in September and thereafter until the break of relations, it is difficult to understand what advantage the Japanese could have sought in providing for connection through a relay point in enemy territory and it seems preposterous that the British Government would consider itself bound by any previously existing international agreement to permit radio facilities in its territory to be used for communicating directly with Japan, even for relaying messages to and from Chile.

On December 18, 1942, the Santiago daily *El Mercurio* printed the following item (translated from Spanish) :

"Postal Service From Japan to Argentina and Chile—Tokyo 17—(Intercepted by the United Press). The official radio station announced that the Ministry of Communications has stated that as a result of 'successful negotiations with Argentina and Chile' it has been decided to resume postal service with both countries via Siberia. It added that for the present Japanese post offices will accept only letters and postcards. Postal service between Japan, Argentina, and Chile was suspended upon the outbreak of war a year ago."

A member of my staff brought this to the attention of the manager of All America Cables and inquired whether he knew of any similar arrangement regarding cable or radio communications, but nothing had come to his notice although he had seen the article about postal service and considered it unimportant, whether or not it was true.

The West Coast Telegraph Company, a subsidiary of Cables and Wireless, Ltd., continued to accept messages for Axis countries and controlled areas, including Japan, after the American company, All America Cables, had declined to do so in October 1942. The manager for Chile of the West Coast Telegraph Company stated that he lacked authority to take such action on his own responsibility and had not received instructions to do so, but that specific instructions from the Chilean Government to that effect would constitute sufficient authorization. As reported in my airgram <sup>47</sup> in reply to the Department's No. A-435 of January 9, 1943, 3:05 P. M., the West Coast Telegraph Company received instructions about January 15 from Cables and Wireless, Ltd., to cease accepting messages for transmission to Axis and Axis-controlled countries and on January 21 the Chilean Government issued instructions to all the telecommunications companies to accept no such messages. During the period September 1942–January 1943 it is possible that messages despatched by the West Coast Telegraph Company may have been routed for retransmission via Colombo through Russia or some other Asiatic country not at war with Japan.

Because of the distinct change of atmosphere which has occurred in the Ministry for Foreign Affairs since September and the present

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<sup>47</sup> A-122, January 21, p. 911.

satisfactory attitude toward direct radio communications between Chile and Japan, it would probably be necessary to ask a direct question in order to establish the authenticity of the information received by the Department. This, of course, I shall not do, but I shall report any information on the matter that may be learned by other means.

Respectfully yours,

CLAUDE G. BOWERS

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800.91225/3 : Airgram

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

SANTIAGO, May 15, 1943.

[Received May 22—5 p. m.]

A-659. Reference your A-586 of March 3, 6:05 p. m. and A-710 of April 13, 4:00 p. m.<sup>48</sup> Transocean and Stephani Mundial closed down after cancellation of their authorizations to disseminate news abroad or in Chile. The radio receiving equipment then in possession of these agencies was later removed from their premises and stored under Chilean Government seal.

As Domei was never registered locally as a news agency it was not affected by the Government's action reported in my telegram No. 205 of January 20th [30th], 12 noon.<sup>49</sup> Domei news broadcasts from Japan were copied by an employee of the Japanese Legation which mimeographed and distributed them by messenger and mail. This activity ceased with the closing of the Legation.

The authorization of the Chilean PACH (PL) news agency to disseminate news abroad or locally was cancelled upon instructions of the Minister of Interior by an administrative decree, dated March 3, issued by the Director General of Posts and Telegraphs. This was done on the grounds that PACH press despatches purporting to originate in the capitals of Europe and the Americas and published in the daily *El Roto*, a tabloid pro-Axis newspaper which made its appearance on February 13 of this year, were "contrary to the truth". *El Roto* is edited by the Sociedad Prensa Chilena Camilo Henriquez Ltda. PCCH (PL) whose articles of partnership were protocolized on February 25. These listed Bobillier as a partner and managing director. About a month later there was organized the Sociedad Asociación Internacional de Prensa AIP (PL) controlled and managed by Bobillier.

At the end of March PACH's radio receiving station was closed and sealed by order of the Minister of Interior who charged that it

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<sup>48</sup> Neither printed; these airgrams sought information on the control of Axis news agencies (800.91225/2a).

<sup>49</sup> *Ante*, p. 806.

had been intercepting the foreign news despatches which were appearing in *El Roto* accredited to "AIP", which abbreviation constitutes part of the style of Bobillier's Sociedad Asociación Internacional de Prensa AIP but is claimed by the Asociación Internacional de Prensa, Uruguay, as its property.

This action and the cancelling of PACH's authorization to disseminate news were countered by Bobillier who filed a bill of complaint with the Chilean Senate alleging that the Minister of Interior had acted illegally and unconstitutionally. On May 11 the Legislative and Judiciary Committee of the Senate ruled this was not the case.

When deprived of the use of PACH as a credit line for its news, *El Roto* accredited its press despatches to "AIP" until PACH's radio receiving station was closed. It then adopted and continues to use "Intercepted PCCH" (Prensa Chilena Camilo Henríquez) as the credit line for its news which evidently is largely taken from the news bulletins regularly broadcasted by radio stations located in Axis controlled territories.

With the object of suppressing *El Roto* the Minister of Interior decreed on March 18 that newspapers and magazines could only publish foreign news furnished by news agencies registered with the Department of Posts and Telegraphs. This decree proved ineffective as apparently it has not been possible to implement it with penalties for non-compliance. The use of the credit line "AIP", however, provided grounds for the authorities proceeding against the pro-Axis publication, and on April 15 Bobillier and *El Roto* were charged with violating the Printing, Internal and External laws by publishing false and contentious news and usurping "AIP" which abbreviation is claimed by the representative in Chile of the Asociación Internacional de Prensa as its property.

It is stated that a decision in the Government's case vs. Bobillier and *El Roto* probably will be handed down within another 15 days.<sup>50</sup> It is also stated informally that should the decision be unfavorable to the Government, consideration will be immediately given to other means of suppressing *El Roto* which is the only daily newspaper in Chile at this time devoted to the publication of Axis news reports.

BOWERS

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<sup>50</sup> No further report on this has been found in Department files.

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