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Foreign
Relations
of the
United
States



1946

Volume XI

THE AMERICAN
REPUBLICS

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Department of State
Washington

Philip E. Morely

Foreign Relations
of the
United States
1946

Volume XI

The American Republics



United States
Government Printing Office
Washington : 1969

DEPARTMENT OF STATE PUBLICATION 8474

HISTORICAL OFFICE

BUREAU OF PUBLIC AFFAIRS

For sale by the

Superintendent of Documents, U.S. Government Printing Office

Washington, D.C. 20402 - Price \$6.75 (Buckram)

PREFACE

This volume was prepared under the direct supervision of the Chief of the Foreign Relations Division, S. Everett Gleason, assisted by Fredrick Aandahl.

The compilations on Mexico, the republics of Central America, and the Caribbean were the work of Velma Hastings Cassidy. Former staff member Almon H. Wright compiled the documentation on the individual nations of the South American continent. The general compilations relating to the Latin American states as a regional group were the joint work of Mr. Wright and Mrs. Cassidy.

The technical editing of the volume was the responsibility of the Publishing and Reproduction Services Division, Jerome H. Perlmutter, Chief.

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

JUNE 30, 1969

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 2 FAM 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 regulation, as further amended, is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States* 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* is edited by the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record is guided by the principles of historical objectivity. There may 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 may 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*, the Historical Office:

- a. Refers to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refers 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.

CONTENTS

| | Page |
|--|------|
| PREFACE | III |
| LIST OF ABBREVIATIONS, SYMBOLS, AND CODE NAMES | XI |
| GENERAL: | |
| The proposed Inter-American Conference for the maintenance of peace and security in the hemisphere | 1 |
| Preliminary discussions concerning the Ninth International Conference of American States to meet in Bogotá | 28 |
| Problems concerning Argentina and Panama considered at the International Labor Conferences held at Mexico City and Montreal | 40 |
| Caribbean Regional Air Navigation Meeting | 65 |
| Participation of the United States Government in the Second Pan American Congress of Mining Engineering and Geology, Rio de Janeiro, October 1, 1946 | 66 |
| The withdrawal of the Proclaimed List and the resolution of the Emergency Advisory Committee for Political Defense concerning Nazi Influences | 76 |
| United States policy with respect to the provision of military assistance and armaments to the American Republics | 86 |
| The wheat-rubber problem of Argentina, Brazil, and the United States | 111 |
| Interest of the United States in the problems of the Inter-American Coffee Board | 154 |
| Cooperation of the United States with other governments in the construction of the Inter-American Highway and Rama Road | 168 |
| ARGENTINA: | |
| The issuance by the Department of State of the "Blue Book" and the position of the United States on supplying arms to Argentina | 182 |
| Negotiations concerning an air transport agreement between the United States and Argentina | 339 |
| BOLIVIA: | |
| Concern of the United States with respect to the violence accompanying the Bolivian revolution and the problem of recognition | 340 |
| Interest of the United States in the arrangements and facilities for obtaining Bolivian raw materials | 374 |
| The problem of replacing former Axis business influences with more desirable trade contacts in Bolivia | 404 |
| Aid provided by the United States in the Bolivian food crisis | 417 |
| BRAZIL: | |
| The disposal of military bases and surplus equipment to Brazil | 426 |
| Termination of the Proclaimed List and disposal of Axis properties | 462 |

| BRAZIL—Continued | Page. |
|---|-------|
| Technical assistance by the United States to Brazilian air transportation and the negotiation of a bilateral aviation agreement | 465 |
| Concern of the United States with Brazilian indebtedness and financial needs for economic development | 485 |
| Discussions and understandings concerning coffee between the United States and Brazil | 504 |
| Interest of the United States in the operation of American petroleum companies under Brazilian law | 523 |
| CHILE: | |
| The policy of the United States of supplying armaments to Chile | 559 |
| Efforts by the United States to secure the cooperation of Chile in eliminating Axis business interests in Chile | 575 |
| Interest of the United States in the status of Chile's external debt and policy toward advancing credit for Chilean development | 591 |
| The concern of the United States with Chilean petroleum and minerals problems | 620 |
| COLOMBIA: | |
| Position of the United States with respect to the supply of arms to Colombia | 648 |
| Interest of the United States in the elimination of Nazi influence in Colombia | 661 |
| Discussions between Colombia and the United States concerning an air transport agreement and operating problems | 666 |
| Interest of the United States in Colombian communications problems . . | 672 |
| Interest of the United States in the development of Colombia's natural resources, especially petroleum | 674 |
| COSTA RICA: | |
| Financial and military assistance by the United States to Costa Rica . . | 682 |
| United States-Costa Rican cooperation in international, political and labor relations | 690 |
| CUBA: | |
| United States concern with Cuban problems related to the defense of the Western Hemisphere | 702 |
| United States interest in Cuban-Soviet relations and Communist activities in Cuba | 719 |
| Negotiations to stabilize postwar reconversion policies on trade, transport and communications | 736 |
| Policies of the United States concerning Cuban financial aid and settlement of financial obligations | 762 |
| Discussions and agreements relating to the 1946 and 1947 Cuban sugar crops | 772 |
| DOMINICAN REPUBLIC: | |
| Delineation of policies for guidance in the conduct of general relations of the United States with the Dominican Republic | 805 |
| United States rejection of Dominican requests for military aid | 816 |
| Attitude of the United States with respect to Communist activities in the Dominican Republic | 827 |

CONTENTS

VII

DOMINICAN REPUBLIC—Continued

Page

Discussions regarding United States-Dominican treaty obligations with respect to claims and trade relations 834

ECUADOR:

Negotiations concerning United States bases in Ecuadoran territory and other defense problems 836

Efforts to secure the cooperation of the Ecuadoran Government in the elimination of Axis business interests 865

Participation of the United States in the economic development of Ecuador 873

Position of the United States with respect to the wheat deficiency in Ecuador 881

EL SALVADOR:

Agreement between the United States and El Salvador for the one-year renewal of the agreement of May 21, 1943, providing for the detail of an officer of the United States Army to serve as Director of the Military School and of the Military Academy of El Salvador 884

GUATEMALA:

Termination of 1942 agreement between the United States and Guatemala to provide for procurement of crude rubber in Guatemala for use in prosecution of the Allied war effort 885

Settlement of the remaining obligation of the United States under its mutual aid agreement with Guatemala 885

United States concern over the possible nationalization of railway lines in Guatemala 890

Protection of American interests in the expropriation of an airline in Guatemala 895

HAITI:

United States recognition of the new Haitian Government 902

Representations by the United States to Haitian authorities regarding provisions of proposed Haitian constitution which would discriminate against United States interests in Haiti 912

Efforts to ease the burden of Haiti's foreign debt while protecting the interests of American bondholders 931

HONDURAS:

The question of military cooperation with the Honduran regime as affected by the United States attitude toward dictatorship 955

MEXICO:

United States policy of non-intervention in the Mexican Presidential campaign 969

Discussions of the problem of lend-lease obligations of Mexico to the United States 978

United States-Mexican disagreement on the termination of a 1943 agreement on military service and its effect on Mexican residents in the United States 988

| | Page |
|---|-------------|
| MEXICO—Continued | |
| Breakdown of United States–Mexican negotiations on a proposed bi-lateral air transport agreement | 992 |
| Export-Import Bank loans to Mexico for purchase of United States equipment, materials, and services for public works and industrialization projects | 997 |
| United States policy regarding the participation of foreign oil companies in the Mexican oil industry | 1005 |
| Arrangements by the United States and Mexico regarding the temporary migration of agricultural and other workers into the United States | 1017 |
| Efforts by the United States to rehabilitate the Mexican National Railway Lines | 1036 |
| Discussions between the United States and Mexico regarding Mexican import restrictions and trade agreement revision | 1039 |
| Joint United States–Mexican campaign against hoof-and-mouth disease in Mexico | 1048 |
| Wheat shipments by the United States to relieve food crisis in Mexico | 1051 |
| Continental Shelf policy of Mexico and its effect on United States–Mexican fisheries relations | 1054 |
| Agreement between the United States and Mexico amending and extending to 1948 the 1942 agreement respecting a United States Fisheries Mission to Mexico | 1067 |
| Agreement between the United States and Mexico respecting a cooperative program for weather stations on Guadalupe Island | 1067 |
| NICARAGUA: | |
| Reaffirmation of United States policy of nonintervention in the internal affairs of Nicaragua | 1068 |
| Transfer by the United States of strategic bases to Nicaragua | 1077 |
| Efforts to obtain settlement of Nicaraguan financial obligations to the United States | 1083 |
| PANAMA: | |
| Discussions between Panama and the United States on the defense sites | 1095 |
| Relations of the United States and Panama with regard to commerce, coinage, and consular services | 1142 |
| The Panamanian accusations of discriminatory labor practices by United States Government agencies | 1149 |
| Participation by the United States in the development of Panamanian public works and facilities | 1167 |
| PARAGUAY: | |
| Interest of the United States in the development of democratic government in Paraguay | 1175 |
| The provision of armament for Paraguay | 1190 |
| Concern of the United States in the elimination of Axis interests in Paraguay | 1193 |
| Policy of the United States respecting Paraguayan debts and loans | 1200 |

CONTENTS

IX

| PERU: | Page |
|--|------|
| The relinquishment of military bases and the provision of military assistance by the United States | 1206 |
| The status of the program for liquidating or replacing Axis firms | 1227 |
| The United States position on jurisdiction in criminal matters of Peruvian courts over American military personnel | 1232 |
| The policy of the United States on loans to and debts of the Peruvian Government | 1251 |
| Efforts of the United States to relieve the Peruvian wheat crisis | 1265 |
| | |
| URUGUAY: | |
| The Uruguayan lend-lease account and need for armaments | 1270 |
| Concern of the United States with respect to German penetration in Uruguay | 1276 |
| Discussions between Uruguay and the United States concerning an Air Transport Agreement | 1283 |
| Efforts of the United States to relieve Uruguay's wheat crisis | 1289 |
| | |
| VENEZUELA: | |
| Interest of the United States in the Venezuelan political situation | 1298 |
| Problems concerning the procurement of armament by Venezuela from the United States | 1306 |
| The position of the United States toward the continued presence of German economic interests in Venezuela | 1322 |
| Attitude of the United States with respect to the impact of Venezuelan laws on American petroleum companies | 1330 |
| Concern of the United States with respect to the Venezuelan wheat crisis | 1356 |
| | |
| INDEX | 1365 |

LIST OF ABBREVIATIONS AND SYMBOLS

EDITOR'S NOTE.—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurrence which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

- A**, Airgram
AAF, Army Air Forces
AB, Assistant Secretary of State (Benton)
A-Br, Assistant Secretary of State for American Republic Affairs (Braden)
Aerovias Q, Cuban Airline
Abwehr, Foreign Intelligence Service of the High Command of the German Armed Forces
AC or **A-C**, Assistant Secretary of State (Clayton)
ACC, Allied Control Commission
AD, *Acción Democrática* (Democratic Action Party in Venezuela)
ADP, Airport Development Program (of the United States)
AFL or **AF of L**, American Federation of Labor
Agri, Department of Agriculture
a.i., ad interim
AMAA, Assistant Military Air Attaché
Amb, Ambassador
AmEmb, American Embassy
ANLA, *Agencia Noticiera Latino-Americana* (news agency in Mexico City)
AP, Associated Press
APRA, *Alianza Popular Revolucionaria Americana* (Peruvian Party of the People)
ARA, Office of American Republic Affairs, Department of State
Arg, Argentina
ARP, American Republics Projects
AsstSecy, Assistant Secretary of State
ATC, Air Transport Command
AV, Aviation Division, Department of State
B, biplane
BA, Buenos Aires
BA, Division of Brazilian Affairs, Department of State
Baires, Buenos Aires
BDC, Bolivian Development Corporation
Bol, Bolivia, Bolivian
Braz, Brazil
Brit, British
BS, Bolivianos
CAA, Civil Aeronautics Administration
CAB, Civil Aeronautics Board, Department of Commerce
CAB, Division of Caribbean Affairs, Department of State
CAUSA, *Compañía Aeronáutica Uruguaya* (Uruguayan Air Company)
CCA, Division of Caribbean and Central American Affairs, Department of State
CCT, *Confederación Costarricense de Trabajadores* (Costa Rican Confederation of Labor)
CDC, Caribbean Defense Command
CFB, Combined Food Board
CGCDC, Commanding General, Caribbean Defense Command
CGT, *Confederación General de Trabajadores* (General Confederation of Labor)
c.i.f., cost, insurance, and freight
CIO, Congress of Industrial Organizations
CIPA, *Carretera Internacional del Pacífico* (International Road of the Pacific, Guatemala)
cirins, circular instruction
cirtel, circular telegram
Col, Colombia

- com**, committee
conf, confidential
CP, Division of Commercial Policy, Department of State
CPA, Civilian Production Administration
CPA, Division of Central America and Panama Affairs
CPD, Committee for Political Defense (Emergency Advisory Committee for Political Defense)
Cr, Cruzeiros
CRC, Combined Rubber Committee
CTAL, *Confederación de Trabajadores de América Latina* (Latin American Confederation of Labor)
CTC, *Confederación de Trabajadores de Cuba* (Confederation of Cuban Workers)
CTC, *Confederación de Trabajadores de Colombia* (Confederation of Colombian Workers)
cwt., hundredweight
Depcirtel, Department circular telegram
Deptel, Department telegram
Deptstel, Department's telegram
desp, despatch
DNC, National Coffee Department (Brazil)
EACPD, Emergency Advisory Committee for Political Defense
Ec, Ecuador
ECEFP, Executive Committee on Economic Foreign Policy
ED, Division of Investment and Economic Development, Department of State
Emb, Embassy
Embgam, Embassy airgram
Embtel, Embassy telegram
Embstel, Embassy's telegram
ES, Division of Economic Security Controls, Department of State
Eximbank, Export-Import Bank of Washington
Ex-Imp, Export-Import Bank of Washington
FAMA, *Flota Aérea Mercante Argentina* (Argentine Mercantile Air Fleet, joint governmental and private company)
FBI, Federal Bureau of Investigation
FCC, Federal Communications Commission
FEA, Foreign Economic Administration
FLC, Foreign Liquidation Commissioner
FN, Division of Financial Affairs, Department of State
f.o.b., free on board
FoMin, Foreign Minister
FonMin, Foreign Minister
FonOff, Foreign Office
FP, Division of Foreign Service Personnel, Department of State
Ger, German
IA, Division of Special Inter-American Affairs, Department of State
IADC, Inter-American Development Commission
IDPLC, Interdepartmental Proclaimed List Committee
IAA or **OCIAA**, Institute of Inter-American Affairs, United States Government instrumentality
ILH, Division of International Labor, Social and Health Affairs, Department of State
ILO, International Labor Office
info, information
instr, instruction
IPC, International Petroleum Company
IPIMIGEO, Pan American Institute of Mining Engineering and Geology
IR, International Resources Division, Department of State
IRCA, International Railways of Central America, Guatemala
IT&T, International Telephone and Telegraph Corporation
JBUSMC, Joint Brazil-United States Military Commission
JCS, Joint Chiefs of Staff
LAB, *Lloyd Aéreo Boliviano*
LADE, *Lineas Aéreas del Estado* (State Air Lines, an Argentine Government owned and operated transport company)
LP, Division of Lend-Lease and Surplus War Property Affairs, Department of State

- MA**, Division of Mexican Affairs, Department of State
- MA**, Military Attaché
- MAA**, Military Air Attaché
- MinFonAff**, Minister of Foreign Affairs
- mm.**, millimeter
- MNR**, *Movimiento Nacionalista Revolucionario* (Nationalist Revolutionary Movement of Bolivia)
- mytel**, my telegram
- NAC**, National Advisory Council on International Monetary and Financial Problems
- NARBA**, North American Regional Broadcasting Agreement
- NCB**, National City Bank of New York
- Niact**, communication indicator requiring attention by the recipient at any time of the day or night
- NR**, National Revolutionary Party in Argentina
- NWC**, Division of North and West Coast Affairs, Department of State
- OA** or **PBY**, Navy patrol bombing plane
- OA-IO**, observation plane
- ODT**, Office of Defense Transportation
- OES**, Office of Economic Stabilization
- OFAR**, Office of Foreign Agricultural Relations, Department of Agriculture
- OFD**, Office of Financial and Development Policy, Department of State
- OFLC**, Office of Foreign Liquidation Commissioner
- OIC**, Office of International Information and Cultural Affairs, Department of State
- OIT**, Office of International Trade, Department of Commerce
- OPA**, Office of Price Administration
- OS2U**, Scout observation, "Kingfisher", plane
- Pan**, Panama
- Panagra**, Pan American Grace Airways
- Panam**, Pan American Airways
- par**, paragraph
- PCM**, *Partido Comunista Mexicano* (Mexican Communist Party)
- PED**, Petroleum Division, Department of State
- PEMEX**, *Petróleos Mexicanos* (Mexican Petroleum Company, a government instrumentality)
- Per**, Peru
- pgh**, paragraph
- PICAO**, Provisional International Civil Aviation Organization
- PIR**, *Partido de la Izquierda Revolucionario* (Party of the Revolutionary Left in Bolivia)
- PL** or **P/L**, Proclaimed List
- PLUNA**, *Primeras Líneas Uruguayas de Navegación Aérea* (First Uruguayan Air Navigation Lines)
- PRA**, Public Roads Administration
- PRC**, *Partido Revolucionario Cubano Auténtico* (Cuban Authentic Revolutionary Party)
- Pres**, President
- PRI**, *Partido de la Revolución Institucional* (Party of the Institutional Revolution in Mexico)
- PRM**, *Partido de la Revolución Mexicana* (Mexican Revolutionary Party)
- PSP**, *Partido Socialista Popular* (Popular Socialist Party in the Dominican Republic and in Cuba, Communist)
- RDC**, Rubber Development Corporation of the Reconstruction Finance Corporation
- reDepcirtel**, regarding Department circular telegram
- reDepinstr**, regarding Department instruction
- reDeptel**, regarding Department telegram
- reEmbtel**, regarding Embassy telegram
- remytel**, regarding my telegram
- reourtel**, regarding our telegram
- reps**, representatives
- reur**, regarding your
- reurlet**, regarding your letter
- RFC**, Reconstruction Finance Corporation
- RL**, Division of American Republics Analysis and Liaison, Department of State
- RPA**, Division of River Plate Affairs, Department of State

- rptd**, repeated
- RUME**, *Ruta Militar de Emergencia* (Emergency Military Route in Guatemala)
- SAMF**, Syndicate of Action and Railroad Worker Betterment in Guatemala
- SAMI**, Subsidiary of the Pan American Grace Company concerned with radio
- Scadta**, *Sociedad Colombo-Alemana de Transportes Aéreos* (Colombia-German Association for Air Transportation)
- SCEP**, Special Committee on Enemy Property
- SD**, State Department
- SD**, *Sicherheitsdienst* (Security Service of the National Socialist Elite Guard in Germany)
- Sec**, Secretary of State
- Secy**, Secretary of State
- SHADA**, *Société Haitiano-Américaine de Développement Agricole* (Haitian-American Society for Agricultural Development)
- SPA**, Office of Special Political Affairs, Department of State
- STF**, *Sindicato de Trabajadores Ferrocarrileros* (Union of Railway Workers in Guatemala)
- SWNCC**, State-War-Navy Coordinating Committee
- TACA**, *Transportes Aéreos Centro-americanos, S.A.* (Central American Air Transport Company)
- TACA**, *Líneas Aéreas Taca de Colombia* (Taca Air Lines of Colombia)
- TVA**, Tennessee Valley Authority
- UK**, United Kingdom
- UN**, United Nations
- UndSecy**, Under Secretary
- UNO**, United Nations Organization
- UNRRA**, United Nations Relief and Rehabilitation Administration
- UP**, United Press
- ur**, your
- urdes**, your despatch
- urgam**, your airgram
- urtel**, your telegram
- Urug**, Uruguay
- USAAF**, United States Army Air Forces
- USAFSA**, United States Air Force, South Atlantic
- U.S. Cy.**, United States currency
- V-E Day**, Victory-in-Europe Day
- V-J Day**, the day of Japanese capitulation
- Wash**, Washington, D.C.
- WFO**, War Food Order
- YPFB**, *Yacimientos Petrolíferos Fiscales Bolivianos* (Bolivian Petroleum Company, a government monopoly)

THE PROPOSED INTER-AMERICAN CONFERENCE FOR THE MAINTENANCE OF PEACE AND SECURITY IN THE HEMISPHERE ¹

710 Consultation 4/1-846

Memorandum by Mr. Carl B. Spaeth, Special Assistant to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] January 16, 1946.

I notice that the Brazilian Ambassador ² is seeing you at 11 o'clock. With regard to his memorandum of January 8,³ the following points might be made:

1) We feel that the Uruguayan initiative ⁴ requires full discussion and that it seems almost inevitable that it will be discussed at least informally at Rio. This would not, however, involve a formal addition to the agenda.

2) We do not feel that the mere fact of difference of opinion on the proposal should result in its exclusion from any inter-American meeting. The inter-American process would become very sterile indeed if controversial subjects were to be excluded.

3) It is our view that Argentina was to benefit by participation in the permanent Act of Chapultepec only if she complied with the other provisions of the Final Act of Mexico City.⁵ Argentina has not met her responsibilities under the Final Act of Mexico City. She is therefore not entitled to the benefits of the Act, including participation in the inter-American mutual assistance pact.

¹ Continued from *Foreign Relations*, 1945, vol. ix, pp. 154-171. For complementary information on Argentina, see *post*, pp. 182 ff.

² Carlos Martins Pereira e Sousa.

³ Not printed; in this memorandum, the Brazilian Government indicated opposition to any enlargement of the agenda of the proposed conference and expressed a preference for the inclusion of Argentina in the conference (710 Consultation 4/1-846).

⁴ The Uruguayan proposal on human rights; for documentation, see *Foreign Relations*, 1945, vol. ix, pp. 185 ff.

⁵ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945). The Act of Chapultepec was Resolution VIII of the Final Act, *ibid.*, p. 40. For documentation on the Chapultepec Conference, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.

710 Consultation 4/1-2246

Memorandum by the Assistant Chief of the Division of Brazilian Affairs (Braddock) to the Director of the Office of American Republic Affairs (Briggs)

[WASHINGTON,] January 22, 1946.

We are approaching an impasse as regards holding the Conference in Rio de Janeiro in April since the circumstances that led to postponement of the earlier scheduled Conference remain the same:

- 1) Argentina has been invited to the Conference.
- 2) The United States will not sign a defense pact to which the present Argentine Government is a signatory.

It is my understanding that we propose to let Brazil work out this unfortunate situation as best she may, without taking any responsibility ourselves for requesting or suggesting a new postponement.

At the meeting of the Pan American Union in November which provided for fixing a new date for the Conference,⁶ the United States seems to have led other American Republics, or at least Brazil, to believe that we would be willing to attend the Conference at the later date. Since it now appears that as a result of our continued stand regarding Argentina, the Rio Conference cannot possibly succeed (unless in the meantime a government should emerge in Argentina which we are willing to accept), I submit that the initiative in seeking a new postponement of the Conference should be properly ours and that Brazil should not be expected to assume the responsibility for this unpopular step.⁷

D B[RADDOCK]

710 Consultation 4-1-2246

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*⁸

[WASHINGTON,] January 26, 1946.

With respect to the attached memorandum⁹ from Mr. Braddock, I yesterday suggested to Phil Chalmers before he left that he discuss the

⁶ See *Foreign Relations*, 1945, vol. IX, pp. 154 ff.

⁷ A marginal notation by Philip Chalmers of the Division of Brazilian Affairs reads as follows: "I agree. We can scarcely expect future cooperation from Brazil if we let her 'hold the bag' on this one. PC".

The following notation by the Director of the Office of American Republic Affairs also appears in the margin: "This ignores reasons why we won't do business with Perón, but this is no doubt position Brazil would take. B."

⁸ Addressed to A-Br: Mr. Wright, Mr. Duran, and Mr. Spaeth, and to ARA: Mr. Briggs and Mr. Butler.

⁹ *Supra*.

proposed Rio Conference with Ambassador Berle¹⁰ along the following lines:

1. In not being willing to sign the proposed treaty with the present Argentine regime, we are standing on two points, viz., (1) to do so would make a mockery of the treaty itself, and (2) knowing what we do of Perón and company, we would be lacking in self-respect and dignity.

2. We now enjoy the friendship of the Argentine people that we have [not?] had in generations, certainly since Sarmiento's¹¹ time. Were we to sign the proposed treaty with the Argentine Government, we would lose this friendship and, together with it, the friendship and respect of those genuinely democratic elements throughout the rest of Latin America who are our only true friends and only real guarantee for the future.

3. We seek a real solidarity of all the twenty-one republics and this we would not have in signing the treaty and thus encouraging the present Fascist regime.

4. I said that we were thoroughly alive to the difficult position in which Brazil finds herself and have racked our brains for a solution, and that so far as I could see the solution would consist in the other American republics and Brazil, in particular, taking our forthcoming exposé of the Nazi connections of the Farrell-Perón government¹² as a basis. Too often, I said, our Latin friends are disposed to adopt an excessively charitable and courteous approach in these matters, whereas they should view the situation from the hard-boiled point of view of the facts in the case, and that, by following this latter course, Argentina could properly be excluded from the Conference.

SPRUILLE BRADEN

710 Consultation (4)/2-146

*Memorandum of Conversation, by the Director of the Office of
American Republic Affairs (Briggs)*

[WASHINGTON,] February 1, 1946.

Participants: A-Br—Mr. Braden

ARA—Mr. Briggs

Mr. C. B. Pearson, Canadian Ambassador

During a call on Mr. Braden on February 1 on other matters, the Canadian Ambassador mentioned the pending Rio Treaty, indicating

¹⁰ Adolf A. Berle, Ambassador in Brazil.

¹¹ Domingo F. Sarmiento, President of Argentina, 1868-1874.

¹² See section under Argentina entitled "The Issuance by the Department of State of the Blue Book . . .". pp. 182 ff.

that the clause in the United States draft making possible adherence by Canada (but not mentioning Canada by name) is entirely satisfactory to his Government. He expressed his appreciation of our courtesy in making a copy of the draft available for the confidential information of his Government.

Ambassador Pearson then inquired concerning the prospects for holding the Rio Conference, and Mr. Braden outlined to him the present situation, including our views relative to the Argentine situation.

E. O. B[RIGGS]

710. Consultation 4/2-246: Telegram

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

SECRET

WASHINGTON, February 6, 1946—6 p. m.

187. Urtel 238, Feb. 2.¹⁴ Your understanding correct that US will not negotiate or sign with present regime in Argentina a treaty to implement Act of Chapultepec. However this Govt remains disposed at any time to negotiate and sign such a treaty with all American Republics except Argentina.

US has not requested and will not take initiative of requesting further postponement of Conference. If Brazil is not prepared to hold Conference without Argentina, then US would agree to suggestion of postponement by Brazil, but we would in that case insist that announcement of our attitude be withheld until after a substantial number of other republics have likewise accepted postponement proposal. As you will readily understand the reason for our putting the matter this way is that we wish to avoid any misinterpretation of our views along the lines that "the US has again suggested postponement". In short, we will go along with postponement but do not wish to be put in position of taking lead; there is no reason we should do so since our position has been clear since last October.

The foregoing was drafted prior to the receipt of urtel 246¹⁴ and you may now communicate the substance of our views to the ForMin,¹⁵ along with an expression of our appreciation of the position in regard to general matters which he has informed you Brazil proposes to follow.

We expect to complete our statement of the Argentine case at a very early date.

BYRNES

¹⁴ Not printed.

¹⁵ João Neves da Fontoura.

835.00/2-1546 : Telegram

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

SECRET

WASHINGTON, February 20, 1946—8 p. m.

248. Embtel 327, Feb. 15.¹⁶ Please express our appreciation assistance offered by FonMin and inform him that our position is as follows:

1. The information which we have submitted to other American republics in our memo fully justifies and compels our refusal to sign mutual assistant pact with Farrell-Perón Govt or with any Govt controlled by same elements.

2. We confidently believe that, after other American republics have had an opportunity to analyze information which we have presented, they will take same position and will jointly refuse to conclude mutual assistance pact with Farrell-Perón Govt or with any Govt controlled by same elements.

3. Our position would not be affected if Perón, by whatever means, is elected next Sunday. Such an event certainly would not remove grounds for distrust which are at foundation of our case, and might well call for even greater caution on part of other American republics.

4. It is of greatest importance that American republics indicate their position on issue of confidence in Perón, if elected, before any further action or decision is taken with respect to Rio Conference. We believe that if a substantial majority of the Republics jointly declare their lack of confidence in a Perón Govt, such declaration (a precedent for which exists in Res 59 at Mexico) would suffice to exclude Argentina from participation in treaty and to permit ready reconstitution of Conference. With Perón Govt excluded we would wish to go forward with the treaty as soon as possible.

You should stress that mere postponement of Conference in order to avoid embarrassment of decision with regard to Perón Govt would fall far short of needs of situation and responsibility of inter-American system. Such a postponement would mean a failure of the American republics to face squarely the most important issue before them. If American republics lack confidence in one of their number because latter aided and continues to protect our enemies, they should openly declare that lack of confidence and not allow it to block their constructive action. It would, indeed, be ironical if non-cooperation of a single Govt were permitted to block achievement by the other 20.

Furthermore, the inter-American system should take the first and decisive action in handling this problem, as proof to the world organization that our regional system can function as contemplated by the UN Charter.

If for any reason you feel it would be undesirable to deliver foregoing message to FonMin, please cable your comments.

¹⁶ *Post*, p. 212.

In general relation to Brazilian position, for your background information only, we are concerned over indications, supported by urdes 4109 Jan 28, 1946,¹⁷ that since 1942 Brazil has been inclined to favor existence in Arg of type of Govt which would be incapable of full cooperation with US, as means of maintaining a favored position for Brazil. It is reported that Aranha¹⁸ tacitly admitted that some such motivation inspired Brazil's hasty recognition of military regime in 1943. We hope it is not true but we would appreciate your judgment whether any such inclination exists currently.

BYRNES

710. Consultation 4/3-946: Circular telegram

*The Secretary of State to Diplomatic Representatives in the
American Republics Except Argentina and Haiti*

SECRET

WASHINGTON, March 9, 1946—8 a. m.

Please seek interview at earliest opportunity with FonMin to say following to him, covering which a closely paraphrased *aide-mémoire* should be left:

(1) Irrespective of outcome of Argentina elections, which were no factor in this Govt's preparation and submission to other American republics of memorandum concerning Argentina¹⁹ handed to Chiefs of Mission here on Feb 11, it is the firm position of Govt of United States that evidence of complicity with the enemy of elements which dominate Farrell-Perón Govt is so overwhelming that it compels our refusal to sign mutual assistance pact with any Govt in which those same elements play a principal role.

We are not concerned with what type of Govt Argentine electorate chooses for itself, but rather with specified elements in whom confidence is entirely lacking.

(2) We believe that sufficient time has passed for Govts to have studied our memorandum and you should say that we would welcome Govt's official expression of views and recommended action thereon as early as possible. Included in the reply which the Govt may wish to make on our memorandum, we in particular would desire its views on conclusion of mutual assistance pact with a Govt controlled by elements such as those described in our memorandum. You should express the hope that the Govt's reply will be one which it will itself publish or authorize this Govt to publish as part of the general consultation.

(3) Once views of all of American republics have been expressed and made public as contemplated by (2) above, consensus of opinion

¹⁷ Not printed.

¹⁸ Oswaldo Aranha, former Brazilian Minister for Foreign Affairs.

¹⁹ Known as the "Blue Book"; Department of State, *Consultation Among the American Republics With Respect to the Argentine Situation* (Washington, 1946).

of Govts of all American republics concerned will be available in clear and concise form.

In event Govt to which you are accredited has already submitted its reply, you should discuss matter in an appropriate way with FonMin and inquire from him whether his Govt plans to make its reply public and express hope that, if that not be the case, he authorize this Govt to do so.

BYRNES

710 Consultation 4/3-1346

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*²⁰

CONFIDENTIAL

[WASHINGTON,] March 13, 1946.

At the meeting of the Governing Board of the Pan American Union this afternoon all representatives voted in favor of postponement, excepting Panama and Venezuela. The Chilean made the following statement:

“The Government of Chile attributes the greatest importance to the celebration of the Treaty on Reciprocal Assistance and American Solidarity recommended in Resolution VIII of the Inter-American Conference on Problems of War and Peace, which is known as the Act of Chapultepec, since it considers that the said treaty would be the crown of the inter-American system and because if it is not concluded before the official termination of the state of war, we shall be in the position in which the Act of Chapultepec loses its effectiveness and is juridically annulled.

“Nevertheless the Government of Chile is in accord with postponing the Conference of Rio de Janeiro on the understanding that this would be no more than postponement.

“The Government of Chile also concurs in leaving the host Government of Brazil free to fix the new date on which the conference will be convoked.”

Subsequently, the Ecuadoran Ambassador moved that the Chilean statement be accepted as declaration of the sentiment of the meeting. Immediately thereafter I stated that my instructions were to go along with the majority whatever way they should determine the question. Since it was evident the majority favored postponement, we likewise accepted this decision, but I did wish to take the opportunity to second the motion of the Ecuadoran Ambassador in respect of the Chilean statement.

SPRUILLE BRADEN

²⁰ Addressed to the Secretary of State, the Under Secretary, the Counselor of the Department and to Mr. Leo Pasvolksy, Special Assistant to the Secretary of State.

710. Consultation 4/4-146 : Telegram

*The Chargé in Brazil (Daniels) to the Secretary of State*RESTRICTED
U.S. URGENTRIO DE JANEIRO, April 1, 1946—8 p. m.
[Received April 2—12:49 a. m.]

609. Memorandum dated April 1 handed me late this afternoon by Foreign Minister in reply to our memoranda on Argentine situation. Full text in translation follows:

"1. By memorandum of March 11th last,²⁴ the Government of the United States of America manifested the desire to know the opinion of the Brazilian Government on the American memorandum delivered to the Brazilian Embassy in Washington on February 11th last,²⁵ and on the possibility of concluding a pact of mutual assistance with an Argentine Government controlled by elements mentioned in the 'Blue Book'.

"2. The Brazilian Government has studied with most careful attention all the declarations of the 'Blue Book' and is sincerely convinced of the just importance which the American Government attributes because of their political significance, to the documents published. Likewise Brazil, which participated in the war and was for so many years under the menace of a Nazi-Fascist victory, shares the same preoccupation which determined in this case the attitude of the Department of State. The Brazilian Government, however, cannot avoid the thought that with the consummation of the military victory of the United Nations against the totalitarian Axis the revelations of the aforesaid report—all concerning activities carried on by the enemy or by other governments of an attitude then undefined—lose in part their frightening character, and it does not appear to it that they require of the American nations a different, more accentuated course of action beyond a constant yet prudent vigilance. The Brazilian Government therefore is not inclined to believe that Nazi-Fascist doctrines crushed at their centers of irradiation can encounter in the Western Hemisphere a propitious climate for new and dangerous adventures, above all since the United States hold the secret of the manufacture of the most deadly weapon of war until today known. At the same time the Brazilian Government is sincerely convinced that if in spite of the painful experience which humanity has just undergone the American Continent should find itself once more threatened the nations of the hemisphere would find in the provisions of the charter of San Francisco, especially in Chapter 7, the formula necessary for the preservation of their peace and their security.

"3. With reference to the second question of the American memorandum the Brazilian Government reaffirms its desire that there be signed as soon as possible in the present circumstances a pact of mutual assistance between the nations of the hemisphere. Evidently the aforesaid instrument will have effective value in the task of the consolidation of peace only if it is signed by all of the American nations as an expression of continental unity which was always the idea of all of the

²⁴ See circular telegram from the Secretary of State, March 9, 1946, p. 6.

²⁵ The "Blue Book".

advocates of Pan-Americanism simply as a result of the very designation of the system.

"Therefore to exclude any of the American Republics from participation in that act, decisive for the destiny of the Americas, would have the effect of nullifying in great part its political and military significance. The Brazilian Government, which the United States has always found at its side in so many decades of uninterrupted friendship, would not desire then to contribute to the exclusion of the Argentine Republic from the celebration and signature of the pact.

"4. The Brazilian Government does not feel at liberty to enter into an analysis of the elements which are going to comprise the new Argentine Government, since publicly all the parties which participated in the last election, the final results of which are not yet definitely known, proudly declared that the public pronouncement was free and clean. With the government which may emerge from the electoral count the Brazilian Government will continue therefore the usual diplomatic relations without this implying the least disagreement with the Government of the United States of America or weakening to the slightest degree the political solidarity of Brazil with the great nation of which it was an ally in the war and at whose side it desires to cooperate in the task of reconstructing the world. The invariable dedication of the Brazilian Government to the cause of continental unity leads it to assure the American Government that it is disposed to exert all its efforts in the sense of finding a formula capable of conciliating the superior interests of hemispheric defense and best adapted to the support of continental concord and solidarity."

Foreign Minister said text of memorandum would be released to Rio de Janeiro press Thursday afternoon, April 4, for afternoon papers. He requested that no release of memorandum be made in Washington prior to that time.

DANIELS

710 Consultation 4/4-146: Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics Except Argentina and Haiti*²⁶

TOP SECRET

WASHINGTON, April 1, 1946—midnight.

Please see FonMin at once and submit memo embodying text quoted in immediately following circular telegram²⁷ and stating that if majority of Govts agree with our position we propose to make a public statement thereof on or about Apr 8. Memo should add that we hope Govt to which you are accredited will authorize us to express its concurrence with our position or will make a public statement along similar lines on same date.

ACHESON

²⁶ This circular was sent to Buenos Aires and to Port-au-Prince "as secret information only".

²⁷ *Infra.*

710 Consultation 4/4-146 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics Except Argentina and Haiti*²⁸

RESTRICTED

WASHINGTON, April 1, 1946—11 p. m.

"1. In Oct 1945 this Govt within the framework established by the Inter-American System initiated consultation with the other American republics concerning the Argentine situation and in connection therewith issued a memo now commonly known as the Blue Book.

2. In initiating such consultation the US was not animated by any feeling of hostility towards the Argentine people. On the contrary it was the desire of the US to strengthen the friendly relationships between the people of US and the people of Argentina by bringing into the open those conditions which had caused the Govt of US great embarrassment and concern in its relations with the then Govt of Argentina. It was also the desire of the US that the other American Republics should know the conditions which caused this embarrassment and concern so that it would be clear that the US was acting in defense and not in derogation of the principles of the inter-American system.

As Secy of State Byrnes stated in his address before Herald Tribune Forum on Oct 31, 1945 :

'We believe other nations have a right to know of our own deep attachment to the principles of democracy and human rights, our profound belief that Govts must rest upon the free consent of the governed; and our firm conviction that peace and understanding among nations can best be furthered by the free exchange of ideas.

'While we adhere to the policy of non-intervention, we assert that knowledge of what other people are thinking and doing brings understanding; and understanding brings tolerance and a willingness to cooperate in the adjustment of differences. . . .

'The policy of non-intervention in internal affairs does not mean the approval of local tyranny. Our policy is intended to protect the right of our neighbors to develop their own freedom in their own way. It is not intended to give them free rein to plot against the freedom of others. . . .

'If, therefore, there are developments in any country within the inter-American system which, realistically viewed, threaten our security, we consult with other members in an effort to agree upon common policies for our mutual protection.'

3. The consultation respecting the Argentine situation initiated by the US raised the question whether the proposed inter-American

²⁸ Repeated to Buenos Aires and Port-au-Prince for information only. This telegram was marked "approved by Secretary Byrnes". Text of telegram was released to the press April 8, and frequently referred to as the April 8th statement. A circular telegram of April 8 indicated that a majority of the American Republics concurred in the position set forth herein (710 Consultation 4/4-846).

Mutual Assistance Treaty should be negotiated with the participation of the Farrell Govt of Argentina in view of its failure to fulfill its obligations and commitments under the inter-American system.

4. To date, in the consultation respecting the Argentine situation initiated by the Govt of US, replies have been received from less than half of other American Republics. Some of these answers entirely agree with views expressed by US; others emphasize the changed position resulting from the recent election. All of the Govts so far heard from join with the US in their dedication to the following principles and objectives:

(1) The 'unity of the peoples of America is indivisible' and 'the Argentine nation is and always has been an integral part of the union of the American republics.'

(2) The security of the Hemisphere is of paramount importance and will be materially enhanced by the negotiation and signature of a Mutual Assistance Treaty at the projected Rio de Janeiro Conference.

5. While it is not clear that the election will remove the conditions which prompted the Govt of US to initiate a consultation on the Argentine situation, the Govt of US does not believe that the people of Argentina intended to approve the continuance of conditions which would threaten the safety of the inter-American system.

6. A new constitutional Govt will soon be inaugurated in Argentina. The Govt of US feels that it expresses the sentiments of all its sister Govts in declaring its fervent hope that when that newly elected Govt takes office and its congress meets, it will give prompt implementation by positive acts to its solemn commitments under the Inter-American System, in particular, those undertaken in Final Act of Inter-American Conference on Problems of War and Peace. Those undertakings are plain and unequivocal. They require the elimination from this hemisphere of Axis influences which have threatened the security of inter-American system.

Were such unequivocal and sustained performance to ensue, the road would then be open to that 'complete unity of the peoples of America,' and the negotiation and signature of a Mutual Assistance Pact. But there must be deeds and not merely promises.

7. The military assistance commitments undertaken by the US under Act of Chapultepec will terminate with expiration of War Powers Act in this country. It is to benefit of all of American republics that a treaty of mutual assistance be negotiated and signed at earliest possible date.

To do this, it is proposed that at next meeting of Governing Board of Pan American Union a committee of its members be appointed to coordinate the five draft treaties, which have been under consideration,

together with such other suggestions as may then be received, into a single document.

This document would in due course be presented to Rio Conference.

We hope the Conference can be called to meet after new Govt of Argentina has been installed and has had a reasonable time to comply with promises made at Mexico City. When it has complied we feel satisfied the American Republics will welcome that Govt's participation in the treaty of mutual assistance."

ACHESON

710. Consultation 4/4-346: Telegram

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

SECRET

PANAMA, April 3, 1946—3 p. m.
[Received 6:40 p. m.]

234. ReDeptel April 1, midnight and Depcirtel April 1, 11 p. m. requesting views of Pan Govt re proposed public statement concerning Arg situation which Dept proposes to release on or about April 8. In an interview with FonMin²⁹ at noon today he authorized me to advise my Govt that Pan Govt concurs generally with Dept's views with exceptions as follow:

Pan advocates appointing immediately committee consisting of representatives of countries which have prepared draft treaties and not to await next meeting of Governing Board of Pan American Union which might delay Rio Conf which Pan believes should be held at as early date as possible with Arg in attendance and that mutual assistance agreement should be negotiated because this projected multilateral treaty would lose in great measure its interest and its value if rep of Arg does not take part in it.

A copy our memo and FonOff's reply will be forwarded probably tomorrow.³⁰ FonMin read me draft of his reply.

HINES

710. Consultation 4/4-346: Telegram

The Ambassador in Costa Rica (Johnson) to the Secretary of State

TOP SECRET
US URGENT

SAN JOSÉ, April 3, 1946—5 p. m.
[Received 8:18 p. m.]

146. Deptcirtel April 1, midnight. Just submitted memo to MinFonAff.³¹ MinFonAff immediately stated his entire agreement with position taken by Dept and authorizes Dept to express agreement of

²⁹ Ricardo J. Alfaro.

³⁰ Neither printed.

³¹ Julio Acosta García.

Costa Rica with our position. He added that if Argentine Government does not give prompt implementation to its commitments under Inter-American System, it will then be time for further consultation between American Republics.

JOHNSON

710 Consultation 4/4-446: Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extract]

RESTRICTED

BOGOTÁ, April 4, 1946—4 p. m.
[Received April 5—4:30 a. m.]

271. Foreign Minister³² just informed Counselor³³ that Colombia is in complete accord with contents of Department's circular telegram April 1, 11 p. m., concerning Argentina. He said he had just telegraphed Colombia diplomatic representatives in other American republics that Colombia is in full accord so they could express that viewpoint to the various governments in an effort to aid US in securing satisfactory response from them. He said Ambassador Santamaria had been telegraphed to express Colombia's complete approval to Department so that it could be stated in published statement by Department that Colombia is in agreement. . . .

WILEY

710. Consultation 4/4-646

*The Ecuadoran Ministry for Foreign Relations to the American Embassy in Ecuador*³⁴

[Translation]

MEMORANDUM

QUITO, April 6, 1946.

The Ministry of Foreign Relations thanks the Embassy of the United States of America for having brought to its attention in the memorandum of the third instant the text of the declaration which its Government proposes to publish on or about April 8, 1946 on its position relative to the Argentine case.

The aforesaid projected declaration has been carefully studied by the Ministry of Foreign Relations, whose points of view with respect to the problem in question were brought to the attention of the Gov-

³² Fernando Londoño y Londoño.

³³ Gerald A. Mokma.

³⁴ Copy transmitted to the Department in despatch 4108, April 6, 1946, from Quito; not printed.

ernment of the United States by means of a memorandum dated at that time, March 30 last.³⁶

The Government of Ecuador agrees with that of the United States of America in the desire that the American Republics may formulate a joint declaration on such delicate matter. Of course, the text of such declaration should be the object of careful consultation to the end that its terms may faithfully express the unanimous thought of the American Republics.

From a study of the declaration which the Government of the United States proposes to make it is deduced that it contains various points of view which do not coincide with those expressed by the Government of Ecuador during the course of the consultation on the Argentine situation, therefore, this Government regrets that it cannot adhere to it. In order to set out the Ecuadoran position publicly, the Ministry of Foreign Relations will give to the press for its publication on April 8, 1946 copies of the memorandum of March 30 which was delivered on that date to the Embassy of the United States.

710. Consultation (4)/4-646: Telegram

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

RESTRICTED

SANTIAGO, April 6, 1946—1 p. m.

US URGENT

[Received 3:20 p. m.]

365. Following is translation of reply of FonOff to Emb memo embodying Depteirs April 1, 11 p. m. and midnight:

“Ministry for FonAff has noted with special interest memo No. 2879 of Emb of US dated April 3, 1946³⁶ and in reply has honor to indicate its conformity to procedure suggested, that governing board of Pan American Union at its next meeting appoint committee of its members to coordinate in a single document, and taking into account new suggestions which may be received opportunely regarding matter, the drafts which have been prepared for treaty on mutual assistance, intended to give permanent form to part II of Act of Chapultepec, which document will be presented in due course to conference to be held at Rio de Janeiro.

Ministry for FonAff has also taken note of position maintained by Govt of US regarding convocation of conference of Rio de Janeiro and participation of Govt of Argentina in treaty of mutual assistance, as well as of its proposal of making public statement with regard thereto on or about April 8, in which it would like to be joined by Govt of Chile. On date indicated Ministry for FonAff of Chile will be agreeable to making statement on subject in terms in harmony with unchanging sentiments of continental solidarity and good neighborliness of firm adherence to permanent desirability of peace and general

³⁶ Not printed.

security and to democratic principles which inspire Govt of Chile, as well as with opinions which Ministry expressed to Embassy of US in its memo No. 2568 and *note verbale* No. 2569 of March 26 last."³⁷

BOWERS

710. Consultation 4/4-646 : Telegram

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

CONFIDENTIAL
U.S. URGENT

LA PAZ, April 6, 1946—7 p. m.
[Received 10:08 p. m.]

292. Foreign Minister³⁸ personally handed me 1-page memo on Argentine consultation at 7 p. m. Résumé as follows:

1. Reiterated its memo of Dec. 27, 1945 to this Embassy re erroneous or incomplete information on political situation of American countries which cause judgments [not in?] accordance reality.

2. As it is principal interest strengthen American solidarity based on agreements atmosphere of misconfidence must vanish.

3. San Francisco Security Pact in order to have regional manifestation in mutual assistance treaty must not exclude any of its members so as to guarantee its effectiveness.

4. Bolivian Govt feels new conditions for finding complete continental solidarity have arisen as result Argentine elections.

5. Bolivian Govt declares it will continue to maintain same cordial relations with Argentine Govt as has marked its policy towards all nations of the Continent.

ADAM

710. Consultation 4/4-746 : Telegram

The Chargé in Cuba (Woodward) to the Secretary of State

US URGENT

HABANA, April 7, 1946.
[Received 6:30 p. m.]

275. Following is translation of release issued by Cuban MinState late April 6 for publication April 7 since there are practically no newspapers in Cuba on Mondays.

"The MinState Doctor Alberto Inocente Alvarez has received a memo from the Embassy of the US concerning the Argentine situation and the negotiation of a treaty of mutual assistance at the projected conference of Rio de Janeiro.

The MinState has replied to the memo of the Embassy of the US fixing the position of Cuba in this question consistent with the following points:

1. The Govt of Cuba orients its foreign policy on cardinal juridical bases and considers that international law should be progressively

³⁷ Neither printed.

³⁸ The Acting Foreign Minister, Col. José Celestino Pinto.

more positive in order to guarantee inter-American solidarity and promote reciprocal benefit, the ability of peace, and the security and progress of the American Republics.

2. The Govt of Cuba agrees with the Govt of the US with respect to these two principles:

a. The unity of the peoples of America is indivisible and the Argentine nation is, and has always been, an integral part of the Union of the American Republics.

b. The security of the hemisphere is of paramount importance and will be strengthened in a material manner by the negotiation and signature of a treaty of mutual assistance at the projected conference of Rio de Janeiro.

3. In giving its full adherence to the two principles enunciated, the Govt of Cuba recognizes also that all the nations that participate in the negotiation of the projected treaty of mutual assistance should comply with their freely contracted commitments in conformity with the inter-American system, especially those commitments contracted at the inter-American conference concerning problems of war and peace. Likewise the Govt of Cuba recognizes that it is of essential importance that the twenty-one American Republics participate in the negotiation of the treaty of mutual assistance in order to assure inter-American unity and solidarity.

4. In the event there should arise some controversy or difference with respect to participation of some American country in the negotiation of the treaty of mutual assistance, such controversy or difference should be resolved in accordance with the procedure previously proposed by Cuba.

5. The Govt of Cuba professes the cordial friendship which has governed its relations with Argentina throughout its history and its confidence that this sister national will conform, in the community of American Republics, with democratic ideology and practices, the reason for existence and the tradition of the American States which it is so vital and important to maintain integrally, in the present need that all human values, with which sense of cooperation, may unite their efforts in the great work of reconstruction of a better world. Habana, April 6, 1946."

WOODWARD

710 Consultation (4)/4-846: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, April 8, 1946—8 p. m.

NIACT

[Received 9:35 p. m.]

656. Memo just received from Foreign Office in reply to Embassy's memo April 2 which transmitted substance Dept's Cirtel April 1, 11 p. m., regarding Argentine situation. FonOff memo after repeating substance Embassy's memo concludes along following lines:

The Brazilian Government likewise desires to express its confidence that the new Argentine Government will collaborate with the other

American Republics in a spirit of most intimate solidarity. However, considering that there is about to be convened the Peace Conference at Paris and that the duration of that conference will offer a margin of time sufficient for the inauguration of the new Argentine Government and for its general lines of foreign policy to become known the Brazilian Government proposes that the Rio Conference be convoked at the best opportunity after the Paris Conference. In proceeding in this way, the Government of Brazil does so in use of prerogatives conferred upon it by the decisions of the Governing Board of the Pan American Union last March and in the desire of conciliating the attitude of the US with the just aspiration of the American Republics to conclude as soon as possible and without breaking continental unity the Inter-American Mutual Security Treaty. The Brazilian Government desires and hopes that its suggestion will meet with the support of the US Government.

Full text and translation of Brazilian memo follow by air.

Memo does not contain reference to proposal that committee be appointed among members of Governing Board of Pan American Union to coordinate draft treaties into single document for presentation at Rio Conference. However Gracie³⁹ has informed me officially that this proposal is acceptable to Brazilian Government and has indicated that instructions in this sense would be sent to Ambassador Martins.

Following conversation with Wright⁴⁰ this afternoon I have informed Gracie that Dept was releasing text of its proposals this evening and had no objection to Brazilian FonOff releasing press statement it had already prepared summarizing memo just delivered to me.

It now appears that full agreement has been reached between Brazil and US in regard to further procedure, and it is suggested that fact of agreement be stressed in public releases rather than one country supporting the views of position of the other.

DANIELS

710. Consultation 4/4-846: Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

ASUNCIÓN, April 8, 1946.

[Received 10:20 p. m.]

154. Following is translation of note from Foreign Minister dated today:

"Mr. Ambassador: . . .

.

³⁹ Samuel de Souza-Leão Gracie, Brazilian Acting Minister for Foreign Affairs.

⁴⁰ James Wright, Special Assistant to Assistant Secretary of State for American Republic Affairs (Braden).

. . . Discounting the circumstance that the United States was not and is not animated by any feeling of hostility toward the Argentine people, and that, on the contrary, it was inspired solely by the 'desire to strengthen the friendship relations between the people of the United States and the people of Argentina by bringing into the open those conditions which had caused the Government of the United States great embarrassment and concern in its relations with the then Government of Argentina' an attitude assumed by the United States 'acting in defense and not in derogation of the principles of the inter-American system' it is the opinion of the Paraguayan Government that because of its clearly democratic origin the new Argentine Government necessarily will give its support and its full and decided collaborations in the negotiation and signature of a pact of mutual assistance which will guarantee the peace and security of a united and indivisible American Continent.

The Government of Paraguay shares with the Government of the United States the fervent hope that the new Argentine Government democratically and constitutionally elected in its two branches Executive and Legislative, will demonstrate by immediate and effective acts its adherence to and compliance with solemn obligations contracted as a member State of the inter-American system and that it will direct its internal and foreign policy toward the ideal of continental cooperation, understanding and solidarity.

I take this opportunity to reiterate to you, Mr. Ambassador, the assurances of my highest consideration.

Signed Antonio Taboada"

I understand statement has been made available to press and will be published tomorrow.

BEAULAC

710 Consultation 4/4-846

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

No. 29,132

MEXICO, D. F., April 8, 1946.

RESTRICTED

[Received April 12.]

SIR: I have the honor to refer to the Department's circular telegram of April 1, 12 p. m., setting forth the substance of a statement which the Secretary of State intends to make on April 8 on the Argentine situation.^{40a} I also have to refer to my despatch No. 29, 111 of April 4, with which was transmitted a copy of the note of this Embassy, No. 4915, of April 3,⁴¹ which I personally delivered to the Acting Minister of Foreign Relations,⁴² and in which is set forth the substance of the Department's circular telegram above mentioned.

^{40a} For text of the "U.S. Memorandum to American Republics on Argentine Situation," released to the press on April 8, see Department of State *Bulletin*, April 21, 1946, p. 666.

⁴¹ Neither printed.

⁴² Manuel Tello.

I had informed the Department by telephone of the delivery of this note and to the effect that it had been favorably received by the Acting Minister, who had indicated that the Mexican Government would undoubtedly make a statement of its own on April 8 or shortly thereafter.

This morning Mr. James Wright of the Department called me on the telephone to state that the Department would be very much interested in receiving immediately, if possible, an indication from the Mexican Government as to its reaction to the note and particularly, whether the Secretary of State could this afternoon in a press statement include the Government of Mexico among those which were in accord with the spirit of the note.

I asked the Acting Minister whether in view of the foregoing the Secretary of State in making an announcement to the press could not include numerically, Mexico as one of the countries in accord with our proposal, without specifically mentioning Mexico, and he said that I could so inform the Department.

The Acting Minister clearly indicated that the Mexican Government is in accord with our note but that it believes that with the situation as it is and with the possibilities which lie in the situation, that it can in its own statement use somewhat different language and arrive at the same end.

I conveyed the foregoing by telephone to Mr. Wright and to Dr. Spaeth in the Department at 12:30 o'clock Mexico City time.

The Acting Minister indicated that the Mexican Government would make a statement but he did not indicate clearly whether it would be made today or tomorrow or any specific time, but I know that he is in touch with the President of Mexico.⁴³

Respectfully yours,

GEORGE S. MESSERSMITH

710 Consultation 4/4-1046

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

No. 8615

CARACAS, April 10, 1946.

RESTRICTED

[Received April 15.]

SIR: With reference to the Department's circular telegram of March 9, 8 a. m., directing me to leave with the Minister of Foreign Affairs an *aide-mémoire* closely paraphrasing its contents, I have the honor to enclose a translation of a memorandum (No. 1129 of April 6, 1946) which has been received by the Embassy from the

⁴³ Avila Camacho.

Foreign Office, replying to the Embassy's *aide-mémoire*, which was delivered by me to the Foreign Minister on March 12.⁴⁴

It will further be noted that the enclosed Venezuelan memorandum sets forth succinctly the position of the Venezuelan Government in regard to the Argentine situation in the sense that (1) it supports the publication of the Blue Book, (2) will recognize the Perón regime, (3) believes that no action should be taken at this time on the evidence of Argentine complicity with the enemy adduced in the Blue Book, (4) feels that any judgment on the new Argentine regime should be suspended pending observation of its conduct in office, (5) favors signature of the proposed Inter-American Mutual Assistance Pact by all of the American Republics, including Argentina, and (6) hopes that the Rio de Janeiro Conference may be held within a reasonable period after the inauguration of the new Argentine Government.

Although the Embassy's *aide-mémoire* of March 12, 1946, in accordance with the Department's instructions, contained a sentence reading: "It is hoped that the reply of the Venezuelan Government will be one which it will itself publish or authorize the Government of the United States to publish as part of the general consultation", there is no reference to this matter in the enclosed Venezuelan reply. It is understood, however, that the Foreign Minister made an informal statement on April 8, 1946 to the representatives of the American press associations in Caracas outlining the Venezuelan position in terms similar to those contained in the Foreign Office's memorandum of April 6.

Respectfully yours,

FRANK P. CORRIGAN

710. Consultation 4/5-746

Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden) to the Acting Secretary of State

[WASHINGTON,] May 7, 1946.

When the agenda of the Conference of Rio de Janeiro was considered last fall, the Department was opposed to including in the scope of the Conference the conclusion of provisions for the pacific settlement of inter-American disputes because we did not feel it possible to prepare ourselves on this subject in addition to the Treaty of mutual assistance.

During the last months, however, several American republics have indicated their desire to have procedures of pacific settlement agreed upon at the Conference, either as part of the treaty of mutual assist-

⁴⁴ None printed.

ance or in the form of a separate treaty. Officers of the Department who have been working on this problem have recommended that this Government favor such a step, not only because of the interest of the Latin American countries, but also because the conclusion of peaceful settlement provisions would balance the primarily military character of the mutual assistance pact.

Mr. Hiss ⁴⁵ and I agree that it would be desirable to include the subject of peaceful settlement in the Rio Conference if the other governments so desire. The Brazilian Government has, however, indicated through its representative on the Governing Board a strong objection to any broadening of the agenda for the Conference. We have assured the Brazilians that we will not make any move to change the agenda without first consulting with them. There are indications, however, that many of the other governments do desire to take up the subject of peaceful settlement at the Conference, and it is quite likely that the question will come up before the Governing Board for decision.

I am therefore asking the officers working on this Conference to draw up, on the basis of work already done, provisions for pacific settlement of disputes which could be used by our delegation at Rio de Janeiro, in the event the Conference is to take up this question. If you concur, I believe that this subject should be taken up with the Congressional group advising on the Rio treaty, if and when it becomes clear that the Conference will negotiate provisions of pacific settlement.

SPRUILLE BRADEN

710 Consultation (4)/5-1046: Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, May 10, 1946—7 p. m.

615. Martins asked Braden Wed whether US was agreeable to tentative scheduling of Rio Conference for Sept 7 as previously proposed, by which time Brazil considered Arg Govt should have had time to demonstrate its real desire to comply with commitments. He said no public announcement of date contemplated at this time and that all that was wanted was provisional understanding with US.

Braden replied that US was anxious to hold meeting as soon as possible and voiced supposition that 3 months should allow Arg sufficient time. Suggestion that Sept 7 be set as date for opening of Conference raised question, he said, of possible conflict with meeting of UN General Assembly scheduled for first week Sept; moreover, in view impossibility of estimating now degree to which new Arg Govt will fulfill its inter-American commitments, determination now of definite date for Conference believed by US to be premature.

ACHESON

⁴⁵ Alger Hiss, Director of the Office of Special Political Affairs.

710. Consultation 4/7-1646

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*⁴⁶

[WASHINGTON,] July 16, 1946.

Pursuant to instructions, the Brazilian Ambassador has informally requested our views on a proposal of the Brazilian Foreign Minister to announce November 15 as the date for the Rio Conference prior to the Minister's departure for Paris.

The Ambassador explained that his government was taking this matter up with the United States before discussing it with any other government.

You will recall that, in our communication of April 1 to the other American republics (which was approved by practically all of them), we stated that

"We hope the Conference can be called to meet after the new Government of Argentina has been installed and has had a reasonable time to comply with the promises made at Mexico City. When it has complied we feel satisfied the American republics will welcome that Government's participation in the treaty of mutual assistance."

We added that "there must be deeds and not merely promises."

In his inaugural address on June 4, President Perón announced that his Government did not consider itself bound by the Mexico Agreements until their ratification by the Argentine Congress. Perón subsequently stated that while he was submitting the Agreements to the Congress, it would be improper for him to recommend one way or another respecting their ratification.

The extraordinary consequences of the Perón announcement are further evident from the fact that we and the other American republics voted to admit Argentina to the United Nations upon the understanding that the adherence of the Farrell Government to the Mexico Agreements in April 1945 was final and binding. During the period of a year and a half between the Mexico Conference and Perón's inauguration there was no reference by any Argentine official to a requirement of legislative action. It had been assumed that in the exercise of war powers the Argentine executive had bound his government to the Mexico Agreements just as had the President of the United States and the chiefs of state of the other American republics.

In declaring that it is not bound by the Mexico Agreements, the Perón Government has postponed the day when the question of the sufficiency of Argentine performance of those agreements can be placed in issue and finally decided. Moreover, even if we could ignore the

⁴⁶ Addressed to the Secretary and the Under Secretary of State. A notation on the original by the latter reads: "I agree. D.A."

Argentine disclaimer of any commitments on its part, Ambassador Messersmith's⁴⁷ reports show that no adequate action has in fact been taken by the Perón Government since its installation on June 4 looking toward more effective control or elimination of Nazi agents or property.

Under these circumstances, our acceptance of a definite date would be construed as an abandonment of our position as announced on April 8. By the same token, Ambassador Messersmith's efforts to obtain both ratification *and* compliance as conditions precedent to participation in the pact would be seriously prejudiced if not completely undermined. The Brazilian proposal is, therefore, clearly premature.

I recommend, therefore, that I be authorized to inform the Brazilian Ambassador orally that, in the light of the Argentine position, it would seem improper and inopportune to announce now a date for the Conference.⁴⁸

SPRUILLE BRADEN

710. Consultation (4)/8-246: Telegram

*The Ambassador in Brazil (Pawley)*⁴⁹ to the Secretary of State

SECRET

RIO DE JANEIRO, August 2, 1946—3 p. m.
[Received 8:30 p. m.]

1385. Reference Paris 3694, July 29 and Buenos Aires despatch 406, July 22.⁵⁰ Before leaving for Paris Foreign Minister⁵¹ stated he was extremely anxious to set date of November 15 for Rio Conference. He stated he was looking forward to opportunity discuss date Rio Conference with Secretary Byrnes Paris.

High government officials here feel further delay in setting date would be construed as weakness on part United States, Brazil and other American republics. They feel Argentina is stalling in order to make impression of importance and indispensability to conclusions of pact. Other sources inform that Argentina has no intention ratifying either Chapultepec or San Francisco Acts this year. Ambassador Messersmith does not think this to be case as pointed out in Buenos Aires despatch referred to.

Foreign Minister, War Minister Goes Monteiro, acting Foreign Minister Gracie and Justice Minister Luz (Special Ambassador to

⁴⁷ Ambassador George S. Messersmith, transferred from Mexico to Argentina, assumed charge in Buenos Aires on May 23, 1946.

⁴⁸ In telegram 984, July 20, 1946, 2 p. m., the Secretary indicated to the Ambassador in Brazil his opposition to setting a date for the conference by reason of the heavy commitments of the Secretary (710 Consultation (4)/7-2046).

⁴⁹ Ambassador William D. Pawley, transferred from Peru to Brazil, assumed charge in Rio de Janeiro on June 13, 1946.

⁵⁰ Neither printed.

⁵¹ João Neves da Fontoura was the Brazilian delegate to the Paris Peace Conference.

Perón inauguration) all expressed opinion favoring inclusion Argentina in hemispheric defense pact but all agreed that if continued stalling on part of Argentina should prejudice conclusion defense agreement of other American republics with United States (and they apparently feel that it will) then matter should go forward without Argentina.

I think it important to understand that first preference of Brazil is to conclude pact with Argentina participating. But there is also conviction that Argentina owes more willing cooperation to Brazil and other American republics because of latter's original insistence on inclusion of Argentina and they state they are not willing to tolerate further Argentine procrastination in fulfilling pledged agreements.

Repeated to Buenos Aires and Paris for Secretary Byrnes; sent to Department as 1385.

PAWLEY

710. Consultation (4)/8-2246: Telegram

*The Acting Secretary of State to the Ambassador in France (Caffery)*⁵²

SECRET

WASHINGTON, August 23, 1946—7 p. m.

4340. If we interpret correctly your 4179 Aug 22⁵³ Brazilian FonMin considers that we shd accept Arg Senate ratification of Mexico City resolutions as actual performance by Arg of its obligations thereunder.

It is of course premature to speak of ratification as an accomplished fact until Arg Chamber of Deputies also ratifies. This body now has the resolutions under consideration and according to last reports is not expected to act before middle of next wk.

More importantly we do not consider that ratification is performance however much we welcome it as an indication of Perón's intention to comply with deeds and not promises. (Refer to par 6 of Secy's statement of Apr 8.)^{53a} After ratification it remains for Arg Govt to take the necessary positive steps which are the essence of the pertinent inter-American agreements.

If before those positive steps are taken we agree to the fixing of a date for Rio Conf we wd encourage Arg to believe we wd accept mere ratification in lieu of performance and hence lessen possibility of obtaining adequate performance by Arg of its agreements.

⁵² Sent to Buenos Aires as 1115 and to Rio de Janeiro as 1128.

⁵³ Not printed; in it Ambassador Caffery reported that the Brazilian Foreign Minister was urging acceptance of the Argentine ratification "at face value" and the immediate convoking of a conference (710. Consultation(4)/8-2246),

^{53a} See footnote 28, p. 10.

Amb Messersmith considers there is reasonable hope of getting adequate compliance in near future. We strongly support his recommendation (BAires tel 1985 Aug 8)⁵⁴ that it wd be most unwise to proceed now with the fixing of definite date for Rio meeting.

Sent to Paris; rptd to Buenos Aires and Rio.

ACHESON

710. Consultation (4)/8-2446: Telegram

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

SECRET

BUENOS AIRES, August 24, 1946—11 a. m.

[Received 11:33 p. m.]

2064. I am completely unable to understand reasoning of Brazilian FonMin as expressed in statement quoted close Ambassador Caffery's telegram to Department No. 4179 of August 23⁵⁵ and repeated to me.

Senate has ratified acts Mexico and San Francisco and deputies almost certainly will this next week and this is tremendous step forward as I have reported Department and it is to be hoped it represents a new attitude Argentine Govt, which attitude will be adequately implemented. We must accept this step as taken in all good faith and it would be grave mistake to question good faith any way.

In my opinion Argentine Govt will proceed adequate action enemy property and aliens and is presently working hard at this but we must wait somewhat longer to observe concrete performance before we can proceed fixing definite date Rio de Janeiro.

There is a new attitude Argentine Govt which is most encouraging and we must accept current acts as made in all good faith but I cannot concur Brazilian FonMin's statement that by fixing date now we "should be able to lead Argentines like sheep". He completely disregards certain feelings Argentines still have concerning Brazil and US and his thinking is wishful and unrealistic.

I still think we must stand firm on not fixing date Rio de Janeiro meeting now but there is hope developments here are making and will make possible fixing date relatively near future.

I believe Department will wish to repeat this telegram to Secretary Byrnes Paris.

After drafting foregoing received Department's 1115, August 23⁵⁶ sent Paris with which I am in complete accord.

MESSERSMITH

⁵⁴ Not printed.

⁵⁵ See footnote 53, p. 24.

⁵⁶ Same as telegram 4340 to Paris, *supra*.

710 Consultation 4/12-2046: Telegram

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

SECRET

RIO DE JANEIRO, December 20, 1946—11 a. m.

[Received 2: 35 p. m.]

2021. On my second call on President Dutra since my return here Thursday, December 11, in addition to other things discussed, I took this occasion to ask the President if there had been any change in Brazilian Govt's view re Argentine problem and eventual holding of Rio Conference. The President replied that there had been no change and asked if there was any basis for my question.

I told the President that in General Obino's⁵⁷ visit with Acting Secretary Acheson he discussed the hemispheric defense plan and Rio Conference and that General Obino's statements were not in accordance with views expressed to me by President Dutra, previous Minister Foreign Affairs João Neves da Fontoura and other Ministers of Brazilian Cabinet. The President asked in what respect did the General's views conflict.

I did not wish to go into detail but explained to the President that the General was anxious that President Truman's arms bill⁵⁸ might be passed reasonably soon and that Brazil should receive arms in advance of other American Republics under this program. I stated that there was some question in the General's mind whether other American Republics were ready to participate in arms program and that he especially questioned advisability of furnishing arms to Argentina now.

President Dutra stated that these views were strictly personal views of General Obino who had come to bid him farewell before his departure and that he had received no instructions to discuss with Dept of State or elsewhere. President Dutra also stated that he could understand General Obino's desire as a military man that Brazil should be principal recipient in hemisphere of arms from US but that any such plan would react unfavorably for Brazil equally as much if not more than it would for US.

The President stated that as General Obino did not have authority to speak on behalf of Brazilian Govt he would appreciate it if I would telegraph Dept immediately so that there might be no misunderstanding in Dept reviews of Brazilian Govt vis-à-vis Argentina. The President reiterated his Govt's desire to hold Rio Conference at early date and after US Govt was satisfied that Argentina had complied with commitments undertaken at Chapultepec and San Francisco.

⁵⁷ Lt. Gen. Salvador Cesar Obino, Brazilian Chief of Staff.

⁵⁸ See House Document No. 548, 79th Cong., 2d sess., pp. 3-5.

Although I did not discuss Obino's visit to Dept with Foreign Minister, I did ask Foreign Minister if there was any change in Brazil's policy with reference Argentina and Rio Conference. His comments were identical to those made by President Dutra yesterday.

PAWLEY

710 Consultation 4/12-2046 : Telegram

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

SECRET

WASHINGTON, December 21, 1946—2 p. m.

1557. Reurtel 2021, Dec. 20, 11 a. m. Situation with respect to the matters you discussed with Pres Dutra is as follows:

Since there has thus far not been compliance on part of Arg no useful purpose could be served by speculating with Brazilian officials concerning date for Rio Conf.

Furthermore Arms Bill question has been referred to a committee representing the three interested Depts for further detailed study. Its ultimate form and fate are therefore uncertain.

Dept cannot accordingly approve your initiative in taking up without specific instrs either subject with Brazilian Govt and it is requested that no further conversations along that line be undertaken without such instructions.

BYRNES

PRELIMINARY DISCUSSIONS CONCERNING THE NINTH
INTERNATIONAL CONFERENCE OF AMERICAN
STATES TO MEET IN BOGOTA

710.J/1-546

*Memorandum by the Assistant Secretary of State for American
Republic Affairs (Braden)*¹

[Extract]

[WASHINGTON,] January 5, 1946.

The Bogotá Conference scheduled for the end of this year has every indication of being extremely important and incidentally complicated in that it will take up a number of very important subjects, not the least of which is the reorganization of the Pan American Union. Very careful preparation will therefore be necessary, and I feel that no time should be lost in assigning some one officer under Mr. Dreier's immediate direction and, if needs be, working with a committee to prepare our instructions on all of the various points of the agenda which may be presented (perhaps we can use some of McCormack's² research people on this).

SPRUILLE BRADEN

710.J/1-1446: Airgram

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

WASHINGTON, January 14, 1946.

A-12. This Government has no information of any specific plans the Colombian Government may have with respect to the Ninth International Conference of American States, scheduled for Bogotá this year. The Pan American Union is likewise without information. There have been indications, however, that the Colombian Government finds itself seriously embarrassed by the lack of hotel and other accommodations to meet the needs of such a conference and that

¹ Addressed to Mr. Ellis O. Briggs, Director of the Office of American Republic Affairs, and to Mr. John C. Dreier, Chief of the Division of American Republics Analysis and Liaison.

² Alfred McCormack, Special Assistant to the Secretary of State in Charge of Research and Intelligence.

it is, consequently, disposed to put off the date to the extent that it can. Some concern is felt in the Department that these mere mechanical difficulties may unduly delay action to convene the conference and, perhaps, result in postponing it until next year. It was originally to have been held in Bogotá in 1943. Since there should be ample time to prepare for a conference of such magnitude, it is to be hoped that the Colombian Government will set a date and issue invitations shortly.

Please inquire what the Colombian Government plans to do and report to the Department.

ACHESON

710.J/1-2146 : Airgram

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extract]

BOGOTÁ, January 21, 1946.

[Received January 30—4:24 p. m.]

A-24. ReDepgam A-12, January 14. Foreign Office states that Ninth International Conference of American States will definitely take place at Bogotá sometime during December, 1946. Preparatory Commission for Conference, whose formation was announced in Embassy despatch no. 1287 of January 10,³ has held several meetings with President and Foreign Minister⁴ but Foreign Office states that plans are yet in formative stage. It has been definitely ascertained, however, that Conference will be held in Capitol building which will be completely renovated for occasion. Delegates, etc. will probably be lodged in private residences and part of Hotel Granada will also be reserved for this purpose. Foreign Office adds that invitations for Conference, which is expected to last ten or twelve days, will probably be sent out in three to four months' time.

Local press, with exception of Communist *Diario Popular*, has been most enthusiastic in commenting on preparations for Conference. It is stated by press that special appropriation of 1,500,000 pesos has been approved by Cabinet for expenses in connection with Conference. Other plans, such as paving of streets, decoration of buildings, etc. will probably be included in budgets of state and municipal governments.

WILEY

³ Not printed.

⁴ Alberto Lleras Camargo and Fernando Londoño y Londoño, respectively.

710.J/3-1346

Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden) to the Special Assistant to the Secretary of State (Pasvolsky)

[WASHINGTON,] March 13, 1946.

PROGRAM OF THE BOGOTÁ CONFERENCE

The Ninth International Conference of American States is to be held in Bogotá next December. I attach the Report on the Program of the Bogotá Conference approved by the Governing Board of the Pan American Union. This Report requests that the American governments transmit to the Union on or before May 20:

(a) Their observations and comments on the preliminary list of topics for possible inclusion in the Program of the Ninth International Conference of American States which is appended to the report;

(b) Any additional topics which in the opinion of the Governments should be included in the program of the Bogotá Conference within the criterion set forth in paragraph one of the report.

May I have your views and any specific suggestions with respect to the program of the Conference? I am making a similar request of Messrs. Clayton and Hackworth.⁵

SPRUILLE BRADEN

[Annex]

REPORT OF THE SPECIAL COMMITTEE ON THE PROGRAM OF THE NINTH INTERNATIONAL CONFERENCE OF AMERICAN STATES

Pursuant to the action taken by the Governing Board at its meeting of February 6th, preliminary studies have been undertaken looking toward the formulation of the program of the Ninth International Conference of American States. As a first step in the preparation of the program the undersigned beg to submit the following conclusions for the consideration and approval of the Governing Board:

1. That, in accordance with the recommendations of the Eighth International Conference of American States⁶ and the Inter-American Conference on Problems of War and Peace,⁷ the program of the

⁵ William L. Clayton, Assistant Secretary of State for Economic Affairs, and Green H. Hackworth, Legal Adviser.

⁶ See Department of State Conference Series No. 50: *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941). For documentation on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

⁷ See Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945). For documentation on this Conference, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.

Ninth International Conference of American States be limited to topics relating to the larger aspects of inter-American policy and the structural organization of the inter-American system.

2. That the attached preliminary list of topics, referred to the Bogotá Conference by previous inter-American assemblies, be forwarded to the Governments for observation and comment.

3. That, in transmitting their views on the attached list, the Governments be requested to submit such additional topics as in their opinion might be included in the agenda, within the criterion set forth in paragraph 1 above.

4. That the views of the Governments on the attached list, and the additional topics which they may wish to propose, be communicated to the Pan American Union on or before May 20, 1946, in order that the undersigned Committee may proceed with the formulation of a definitive project of program.

The above recommendations are based on the following considerations and antecedents:

Resolution IX of the Inter-American Conference on Problems of War and Peace stipulated that the International Conferences of American States

shall be the inter-American organ entrusted with the formulation of general inter-American policy and the determination of the structure and functions of inter-American instruments and agencies.

The Eighth International Conference of American States also recommended that

in the programs of future International Conferences of American States preference be given to questions relating to the maintenance of peace and to those which should regulate the general political relations of the American Republics.

It is on the basis of these recommendations that the Committee proposes that the program of the Bogotá Conference be limited to topics relating to the larger aspects of inter-American policy and the organization of the inter-American system.

TOPICS REFERRED TO BOGOTÁ BY PREVIOUS INTER-AMERICAN CONFERENCES

The attached list of topics for possible inclusion in the program of the Ninth International Conference of American States is based wholly on subjects which have been referred to Bogotá by the Eighth International Conference of American States and the Inter-American Conference on Problems of War and Peace.

Topic 1.—Reorganization of the Inter-American System—is included pursuant to Resolution IX of the Inter-American Conference on Problems of War and Peace. It also includes and will permit the

consideration of the Colombian-Dominican project on an Association of American Nations, which was referred to Bogotá by the Eighth International Conference of American States.

Topic 2.—Inter-American Peace System—was referred to Bogotá by the Eighth Conference of Lima as well as by the Conference of Mexico. It is in reality a part of the general problem of reorganization of the Inter-American System, but because of the importance of the subject is included in this list as a separate topic.

Topic 3.—Reports of the Inter-American Juridical Committee—is intended to cover projects and reports which were referred for preparation and study to the Inter-American Juridical Committee by the Inter-American Conference on Problems of War and Peace, with the request that the conclusions of the Committee be submitted to the Bogotá Conference. These include the Ecuadoran project on the abolition of the recognition of *de facto* governments; the Guatemalan and Venezuelan projects on cultural relations and peaceful orientation; and the formulation of an Inter-American Charter of Social Guarantees. It is unknown what form these studies and projects will take, and for this reason topic 3 has been formulated in general terms, sufficiently broad to cover any report that may emanate from the Juridical Committee.

Topic 4.—Statutes of the Inter-American Commission of Women—was referred to Bogotá by the Eighth International Conference of American States.

If the foregoing plan of procedure meets with the approval of the Governing Board, the undersigned will proceed with the formulation of the program of the Bogotá Conference immediately on receipt of the observations and suggestions of the Governments.

Respectfully submitted,⁸

February 20, 1946.

[Subannex]

LIST OF TOPICS FOR POSSIBLE INCLUSION IN THE PROGRAM OF THE NINTH INTERNATIONAL CONFERENCE OF AMERICAN STATES

1. Reorganization of the Inter-American System:
 - (a) Convention on the Organization of the Inter-American System
 - (b) Declaration of the Rights and Duties of States
 - (c) Declaration of the International Rights and Duties of Man
 - (d) Permanent Organization of the Inter-American Economic and Social Council

⁸ Signed by the Ambassadors to the United States of Chile (Marcial Mora), El Salvador (Hector David Castro), Cuba (Guillermo Belt), Colombia (Antonio Rocha), and by the Chargé of Brazil (Fernando Lobo).

- (e) Reorganization of the Agencies for the Codification of International Law
- (f) Consideration of an Agency for the Promotion of Inter-American Cultural Relations.

Paragraphs (a) to (d) are based on the Resolution of Mexico. Paragraphs (e) and (f) are included in the general plan of reorganization of the System

2. The Inter-American Peace System—Coordination of the Treaties and Conventions for the pacific settlement of international disputes.

Based on Resolution IX of Mexico and Resolution XV of the Lima Conference

3. Consideration of reports presented by the Inter-American Juridical Committee on various matters entrusted to its study.

Various matters have been entrusted to the study of the Inter-American Juridical Committee with the request that it prepare reports and projects for submission to the Ninth Conference

4. Consideration of the Statutes of the Inter-American Commission of Women. The Commission will first present a report to the Conference.

This subject has been entrusted to the Ninth Conference by Resolution XXIII of the Conference of Lima.

710.J/3-1346

Memorandum by the Director of the Office of Special Political Affairs (Hiss) to the Assistant Secretary for American Republic Affairs (Braden)

[WASHINGTON,] April 10, 1946.

Reference is made to your memorandum of March 13, 1946 requesting the views and suggestions of SPA concerning the Report on the Program of the Ninth International Conference of American States, approved by the Governing Board of the Pan American Union.

The preliminary list of topics ⁹ for possible inclusion in the program appears to cover the topics with which SPA would be primarily concerned, within the criterion set forth in paragraph 1 of the Report.

It is suggested, however, that it might be desirable to insert under topic 1 some such general item as the following:

“(e) Urgent problems of the reorganization, status and relationships of various inter-American agencies.”

⁹ *Supra.*

This would include those problems now listed as topics 1 (*e*) and (*f*) and 4, making their separate enumeration unnecessary. It would also include a consideration of the status of various emergency agencies, such as the Inter-American Juridical Committee and the Committee for Political Defense, created by the Meetings of Foreign Ministers. Under this heading the Conference could likewise take up specific problems concerning procedures of coordination and cooperation among specialized inter-American agencies which appear urgent, and which it might be desirable not to hold over for study and reconsideration by the Governing Board as is contemplated in the draft charter of the system. A number of such problems appear already to be shaping up.

If this wording is accepted the report accompanying the program might contain a paragraph explaining the scope of the suggested topic by reference to the types of problems mentioned above.

710.J/4-1246

*Memorandum by the Assistant Chief of the Division of American Republics Analysis and Liaison (Halle)*¹⁰

[Extract]

[WASHINGTON,] April 22, 1946.

The Pan American Union has asked for the comments of the member governments on the Colombian proposal that the Bogotá Conference be postponed to sometime in 1947. Since Colombia is the host and is not ready to hold the Conference as scheduled in December, this Government has no choice but to agree to the postponement. There is, however, serious question whether the Colombians will be prepared at any time in the immediately foreseeable future. It has seemed desirable, therefore, that in agreeing to the postponement this Government express itself strongly in favor of holding the Conference at the earliest practicable date. The attached draft reply is intended to do this.¹¹

LOUIS J. HALLE, JR.

¹⁰ Addressed to the Director of the Office of American Republic Affairs, the Chief of the Division of American Republics Analysis and Liaison, and the Assistant Secretary of State for American Republic Affairs.

¹¹ See *infra*.

710.J/4-1246

The Assistant Secretary of State for American Republic Affairs (Braden) to the Secretary of the Governing Board of the Pan American Union (De Alba)

WASHINGTON, May 1, 1946.

MY DEAR DR. DE ALBA: In your letter of April 12,¹² you refer to the suggestion made to the Governing Board at its meeting of April 10 by the representative of Colombia, on behalf of his Government, that the Ninth International Conference of American States, now scheduled for next December, be postponed to some time in 1947, the exact date to be determined by the Governing Board in consultation with the Government of Colombia. In accordance with a decision of the Governing Board, you inquire whether my Government would be agreeable to the contemplated postponement.

My Government favors holding the next Conference at the earliest practicable date, having in mind especially, problems that will remain unresolved until that Conference has met and taken action upon them. Under Resolution IX, referred to above, the Ninth Conference is charged, specifically and by implication, with the responsibility of reorganizing, consolidating and strengthening the inter-American system. A measure of uncertainty with respect to the agencies and the operation of the system will naturally prevail until this responsibility has been discharged.

My Government accepts the judgment of the Government of Colombia that it is not practicable to hold the conference before some time in 1947 and, therefore, agrees to the suggested postponement. In doing so, however, it emphasizes its view, which it feels sure the Government of Colombia will share, of the importance of holding the Conference as soon as it becomes practicable to do so.

Sincerely yours,

SPRUILLE BRADEN

710.J/3-1346

Memorandum by the Assistant Secretary of State for Economic Affairs (Clayton) to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] May 6, 1946.

Reference is made to your memorandum dated March 13 relative to the Ninth International Conference of American States to be held in Bogotá to which was attached the Report on the Program of the Bogotá Conference approved by the Governing Board of the Pan American Union.

¹² Not printed.

The permanent organization of the Inter-American Economic and Social Council is the only topic on the proposed agenda on the economic side. Altho the Inter-American Development Commission is not specifically mentioned, it is desirable that the Department's policy with regard to it be defined and that it be included in the agenda in such a way that this policy toward it will be adequately presented.

The policy of this Government toward the future of the Inter-American Development Commission established by a document of the Executive Committee on Economic Foreign Policy (ECEFP D-26/45) dated February 23, 1945 and subsequently approved by the Secretary of State, can remain substantially unchanged. I believe that if IADC is to be perpetuated it should become attached to or a dependency of the Inter-American Economic and Social Council.

Developments since the receipt of your memorandum indicate that this Conference will probably not be held in December as scheduled.¹³ Mr. J. Raphael Oreamuno, Vice Chairman and Director of the Inter-American Development Commission, has stated that the Commission has sufficient funds to carry on planned activities during 1946. It may, therefore, be desirable for the questions concerning the future of IADC to be considered again by the Executive Committee on Economic Foreign Policy and, following approval of its action by the Secretary, the subject should be introduced in the Inter-American Economic and Social Council. Presumably the Council would then make recommendations to the governments of the American Republics.

As to substantive economic questions, I do not believe that we should take the initiative in proposing anything for discussion in the general commercial policy field. We would hope that it might be possible to keep this subject off the Bogotá agenda in view of the timing in relation to the general international trade conference. However, this may not be possible and it may be that one or more of the countries will want a discussion of the "Proposals" placed on the program. If it comes to a public attitude before the Latin American nations, we will probably have to be enthusiastic about the opportunity of discussing the "Proposals" with the neighbors in advance of the general conference.

It is believed that any "spot" economic problems which might be in the minds of Latin American nations at the time the agenda for the meeting is drawn up, will probably have changed or disappeared when the meeting is finally held. As far as Conference action is concerned on such problems, I believe that the various resolutions at Mexico City last year covered the various questions to about as thorough a degree

¹³ In a letter of May 24, 1946, to the Secretary of State, the Secretary of the Governing Board of the Pan American Union indicated that this body had voted to postpone the Conference until 1947 (710.J/5-2446).

as we would be prepared to go at present or within the next several months. I think we should be able to resist including such "spot" problems on the program both on the above grounds and because of the general principle laid down that the International Conference of American States "shall be the inter-American organ and trusted with the formulation of general inter-American policy".

With regard to broad economic policy questions, once again I believe that the resolutions at Mexico City covered the ground rather thoroughly, and at the moment I can think of no general issues which this government would want to have included in the program other than those which we would prefer to have discussed in an international rather than an inter-American setting.

710.J/3-846

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

WASHINGTON, May 17, 1946.

MY DEAR DR. DE ALBA: YOUR letter of March 8, 1946,¹⁴ transmits a copy of the Report on the Program of the Ninth International Conference of American States approved by the Governing Board at its session of March 6.¹⁵ In accordance with this Report, I take pleasure in submitting, on behalf of my Government, the following comment on its attachment, entitled "List of Topics for Possible Inclusion in the Program of the Ninth International Conference of American States".

It seems to this Government preferable that subtopics 1(e) and 1(f) and topic 4 be replaced by a new subtopic 1(e) to read somewhat as follows:

"(e) Urgent problems of the organization, status and relationships of various inter-American agencies."

This would, in addition to making unnecessary the items now listed as 1(e), 1(f) and 4 by including them in its more general scope, also allow for consideration of the status of various agencies, such as the Inter-American Juridical Committee and the Emergency Advisory Committee for Political Defense, created during the war, as well as consideration of specific problems concerning procedures of coordination among specialized inter-American agencies.

Sincerely yours,

DEAN ACHESON

¹⁴ Not printed.

¹⁵ *Ante*, p. 30.

710.J/12-346

*Memorandum of Conversation, by the Assistant Chief of the Division
for American Republics Analysis and Liaison (Halle)*

SECRET

[WASHINGTON,] December 3, 1946.

Participants: Ambassador Rocha, Representative of Colombia on the
Governing Board of the Pan American Union
A—Br—Mr. Braden
IA—Mr. Halle

Dr. Rocha came at his request to inform Mr. Braden that his Government had authorized him to announce to the Governing Board of the Pan American Union its desire to set the date for the Ninth International Conference of American States at Bogotá without reference to the date on which it might be decided to hold the Rio Conference on the Maintenance of Continental Peace and Security, and its further desire to hold the Conference in December, 1947. He said that he had in mind making such an announcement at the Board meeting tomorrow (December 4), but wished first to consult Mr. Braden on any views he might hold.

Mr. Braden asked whether it would not be possible for the Colombian Government to call the Conference at a considerably earlier date next year, but Dr. Rocha replied that it could not be held at a materially earlier date. Mr. Braden then informed Dr. Rocha in confidence of indications he had received recently from representatives of the Brazilian Government to the effect that that government was no longer interested in holding the Rio Conference at an early date but was apparently agreeable to having it postponed until after the Bogotá Conference. He added that, in a confidential conversation he had had with Señor Nieto del Rio,¹⁶ newly designated Ambassador of Chile, they had discussed the possibility that the proposed treaty to perpetuate the Act of Chapultepec¹⁷ might be confined to political and juridical matters, omitting anything that dealt with arms agreements, and that it might be concluded among the American republics without holding any special conference for that purpose. One possibility was that such a treaty might be concluded along with other treaties at the Bogotá Conference.

This latter possibility appeared to appeal to Dr. Rocha, who said it might be well to engage in some private consultation among the members of the Governing Board toward that end. Mr. Braden pointed out that this Government would naturally have to keep in the

¹⁶ Felix Nieto del Rio, Delegate from Chile to the United Nations Assembly and designated as Ambassador from Chile to Brazil.

¹⁷ March 8, 1945, Department of State, Treaties and Other International Acts Series No. 1543.

background. To Dr. Rocha's question whether the Brazilian Government would be agreeable to foregoing the Rio Conference, Mr. Braden replied that his own information and that of Nieto del Rio gave grounds for thinking it might.

Mr. Braden asked for Dr. Rocha's confidential personal opinion on the prospective agreements to furnish arms to the American republics. Dr. Rocha replied that he viewed them with misgivings on two grounds: (a) because he felt that, with the termination of the war, the conclusion of agreements for maintaining the peace and for developing the procedures of the inter-American system should take precedence over agreements for developing the war-making capacity of the American republics; and (b) because the supply of arms to the American republics was a most dangerous thing in view of the instability of many of their governments and the potential role of the armed forces in those governments. He said that such agreements no longer had the justification that they might have had while the war was still in progress.

In discussing the Argentine situation, Dr. Rocha said that Señor Dassaut, Chargé d' Affaires of Argentina, had recently expressed to him his feeling that a *golpe de estado* against Perón might be in the making. Dassaut had pointed out that Perón was now in full enjoyment of a newly acquired power but that opposition groups were developing and would develop. Mr. Braden said that his information led him to believe that Perón had pretty complete control of the situation.

In conclusion, Dr. Rocha said he would announce at tomorrow's Governing Board meeting the desire of his government that the Bogotá Conference be held next December, regardless of when the Rio Conference was held.

PROBLEMS CONCERNING ARGENTINA AND PANAMA
CONSIDERED AT THE INTERNATIONAL LABOR CON-
FERENCES HELD AT MEXICO CITY AND MONTREAL

500.C115 Mexico City/3-2946: Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

CONFIDENTIAL

WASHINGTON, March 29, 1946—8 p. m.

311. It is possible that credentials Argentine delegates to ILO Conference will be challenged. Dept's views are:

1. U.S. delegates should not take initiative in raising question.
2. If credentials Arg workers or employers delegates, or both of them, are challenged and it appears necessary for US delegates to make statement, they should at an appropriate time and in their discretion state that credentials requirements are governed by terms of ILO Constitution; and that only question is whether they were chosen in consultation with most representative organizations.
3. If credentials Arg Government delegate challenged and statement by US delegates appears necessary they should at appropriate time and in their discretion state that question is governed by ILO Constitution which apparently contains no exception to provision that a member of organization is entitled to two Govt delegates.
4. US delegates should attempt to stay off any committee which will be required to pass on credentials.
5. If question of seating Arg workers or employers delegates reaches vote US delegates should vote with majority unless majority vote contrary to undisputed evidence on decisive fact question.
6. If question of seating Arg Govt delegate reaches vote US delegates should abstain.
7. US Govt delegates are Senator Chavez,¹ Chairman, and Verne Zimmer.² US employers delegate is David Zellerbach.³ US workers delegate is George Meany of AFL.
8. Dept's views not binding on US workers and employers delegates and Senator Chavez has indicated his intention of reaching independent decision on above questions. You may, however, inform all US delegates of foregoing views and of following information.

¹ Senator Dennis Chavez of New Mexico, member of the Education and Labor Committee of the Senate.

² Verne A. Zimmer, Division of Labor Standards of the Department of State.

³ James David Zellerbach, president, Crown Zellerbach Corporation.

9. No Arg employers delegates thus far named. Arg Govt delegates are Ricardo Riguera and Carlos R. Desmaras, President and General Secretary of National Institute of Social Welfare, and both supporters of Perón.⁴ Arg workers delegate is either Anselmo Delfino Malvicini of Unión Ferroviarios or Libertario Ferrari of Unión Obreros del Estado, both of whom are members administrative committee of pro-Perón Confederación General de Trabajadores. Both workers delegates apparently named by CGT at instance of Desmaras without intervention of Arg Secretariat of Labor, and without consultation with other unions.

10. For latest estimates of membership of Arg labor unions see BA Tel 875 Mar 27 repeated to you as Deptel 307 Mar 29.⁵

11. Please keep Dept fully informed.

ACHESON

500.C115 Mexico City/4-646: Airgram

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

MEXICO, April 6, 1946.

[Received April 11—9: 55 a. m.]

A-515. (1) The Workers Group has ejected from its meetings the Workers Delegate and Advisor from the Argentine and has refused to name any Argentine Worker Representative on the various Committees of the Conference.⁶

The Selection Committee (Steering Committee) has unanimously found the credentials of all delegations including the Argentine and Chilean Workers Delegations to be in order and has forwarded them to the Conference. It may be assumed that the Conference in Plenary Session will accept the credentials of all delegations including the Argentine and Chilean Workers Delegation. The Secretary General, the Chairman of the Governing Body and the Selection Committee have made clear that the question of approving credentials does not arise in the absence of formal protests.

(2) The Committee of Labor Relations rejected the amendment offered by the Employers restricting the right of association to social and economic ends, thus excluding political ends. As the question was purely one of association, the United States Delegation voted against the Employers amendment.

⁴ Juan Perón. President-elect of Argentina.

⁵ Not printed.

⁶ A memorandum of April 9, 1946, by T. C. Mann, Acting Chief of the Division of River Plate Affairs, indicates that an agreement was worked out whereby the Argentine workers delegate would not serve on any committee but, on the other hand, his credentials would not be challenged (500.C115 Mexico City).

(3) Vicente Lombardo Toledano,⁷ as Mexican Worker Delegate, spoke for 2 hours in the Plenary Session of April 3, on the Director's report. Among other things he attacked the so-called Clayton Plan which he charges is intended to eliminate customs tariffs, and stated clearly his opposition to it or any similar plans. He also raised the question of racial discrimination and cited the cases of discrimination against Mexicans in the Southern United States and racial discrimination against Latin Americans and negroes in the Panama Canal Zone. The text of this speech with full English translation will be forwarded to the Department as soon as possible. It should be noted that the English translation of Lombardo's speech provided by the Conference is condensed and omits many interesting passages.

(4) In general the technical work of the Conference is behind schedule.

The Embassy will not fail to keep the Department informed of developments.

MESSERSMITH

500.C115 Mexico City/4-1246

Memorandum of Telephone Conversation, by the Chief of the Division of International Labor, Social, and Health Affairs (Mulliken)

[WASHINGTON,] April 12, 1946.

Mr. Ailshie⁸ stated that he was getting off an airgram as soon as possible but wanted to transmit the following information at this time.

The Panamanian question came up last night. There was a very heated debate and Senator Chavez "stuck to his guns" on the general resolution. It was agreed to appoint the United States Delegation, the Panamanian Delegation and a representative of the ILO to get together and see whether they could work something out.

The resolution calls for:

1. Appointment of an ILO correspondent in the Republic of Panama and in the Canal Zone.
2. Set up an investigating committee to go into the Canal Zone.
3. The ILO to intervene with the Executive and Legislative Branches of the United States Government for action with reference to discrimination in the Canal Zone.

Mr. Ailshie hoped it would be possible to work out a general resolution without naming any countries.

Mr. Mulliken inquired as to whether the antagonism of some of the other groups would be incurred if Senator Chavez were to oppose the resolution.

⁷ President of the Confederation of Workers of Latin America.

⁸ William K. Ailshie, Labor Attaché and Second Secretary of Embassy in Mexico.

Mr. Ailshie said the Senator took the position that it was not fair to any one country and therefore he favored a general resolution, not a specific one.

The Panamanian Delegation had the support of the Mexican workers delegation and the Peruvian workers delegation.

Mr. Ailshie stated that Mr. Phelan⁹ and the ILO group had been very cooperative.

500.C115 Mexico City/4-1340

Memorandum of Telephone Conversations, by the Chief of the Division of International Labor, Social, and Health Affairs (Mulliken)

[WASHINGTON,] April 13, 1946.

Mr. Cochran,¹⁰ CCA, telephoned me with reference to his conversation with Mr. Wiesman¹¹ in Mexico City regarding the status of an anti-discrimination resolution introduced by the Panamanian Delegation. We concluded that it would not be feasible to instruct the United States Government delegates to vote against the resolution but that they should be instructed to abstain from voting on it if the Department of Labor concurred.

I telephoned Mr. Sherman, Special Assistant to the Secretary of Labor, and gave him the facts regarding the resolution, and stated that the Department would like to have the Department of Labor join it in issuing instructions to the Government delegates to abstain from voting on the resolution. Mr. Sherman raised the question of Senator Chavez's attitude on matters of racial discrimination and of the Senator's relations with Secretary Schwellenbach.¹² I outlined the implications of the proposed resolution which would afford a basis for other governments requesting a joint official investigation of alleged discrimination in the United States. Mr. Sherman raised the point that Jamaica or Mexico might request such investigations. I also told Mr. Sherman, with reference to the Canal Zone, that I believed United States labor organizations were in the position of supporting discrimination and that as far as the Canal Zone was concerned I believed that an investigation was already under way. Mr. Sherman said that he felt it necessary to discuss the matter with the higher officers in the Department of Labor and that he would call me back.

⁹ Edward J. Phelan, Secretary General of the Third Conference of American States Members of the International Labor Organization.

¹⁰ William P. Cochran, Chief of the Division of Caribbean and Central American Affairs.

¹¹ Bernard Wiesman, Adviser to the Delegates to the Third Conference of American States Members of the International Labor Organization.

¹² Lewis B. Schwellenbach, Secretary of Labor.

Mr. Sherman telephoned me later to say that the official position of the Labor Department was that they did not have enough information upon which to take any action. When I suggested that we might obtain further information he indicated that he thought this would be unwise. It was clear that the Department of Labor, presumably because of the relations between Senator Chavez and the Secretary of Labor, did not wish to join in taking any action on this matter. Mr. Sherman indicated however that the Department of Labor would not object if we sent instruction to abstain from voting on the resolution.

After discussing the matter with Mr. Wise in CCA¹³ a telegram was sent to the Delegation in Mexico City to the effect that the Government Delegates should abstain from voting if the resolution provided for joint commissions.

500.C115 Mexico City/4-1346

Memorandum of Telephone Conversation, by the Chief of the Division of Caribbean and Central American Affairs (Cochran)

[WASHINGTON,] April 13, 1946.

Mr. Wiesman called early Saturday morning with regard to the developments in the ILO Conference at Mexico City, especially with regard to Panamanian charges of discrimination within the Canal Zone. He said that the Panamanians had originally presented a resolution two pages long citing all the alleged discriminations which have taken place for the last 40 years, which ended with a resolution calling for the intervention of the ILO. This, of course, is impracticable, as the Panamanian delegation now understands. Senator Chavez admitted that conditions in the Canal Zone were "terrible" before the statement of the Panamanian group had been translated or Mr. Wiesman knew what we were being charged with.

Under instructions from the Department, our delegation attempted to substitute another resolution couched in general terms, but after a two-hour session, this was found to be unacceptable to Panama. In consequence, the resolution was redrafted, more or less in the following terms:

"After consideration of the interesting exchange of ideas which has occurred within the Resolutions Committee with respect to the documents presented by the Panamanian delegation concerning discrimination in the Canal Zone, based on the gold roll and silver roll, we recommend that wherever allegations are made of discrimination in one country against the nationals of another, such as are involved

¹³ Murray M. Wise, Division of Caribbean and Central American Affairs.

in the present complaint of the Panamanian delegation, the member governments concerned establish joint commissions to study the facts and make recommendations."

Mr. Wiesman pointed out that there was a good deal of sentiment toward strengthening the resolution by specifically naming the governments of the United States and Panama. He felt that if we did not at least go along some such action was inevitable. He consequently asked me to telephone him before 10:30 that same day, should we find the foregoing phraseology unacceptable and wish to make some minor changes. He said that the employers' delegate from the United States was reasonably satisfied with the above wording and would probably vote for it. He said the Labor and workers delegates from this country were opposed and asked that a telegram be sent to reach the delegation by Monday morning, instructing the Government representative how to vote on this question. I told him that I could see no reason why we should support such a resolution. On the other hand, if our voting against it might result in action more embarrassing to us by the ILO Conference, I felt that the least we could do would be to abstain, but promised to convey his message to Mr. Mulliken of ILH, whom Mr. Wiesman had been attempting to reach by telephone since the afternoon before, without success.

I communicated the foregoing to Mr. Mulliken who agreed that the phraseology proposed was probably as little unfavorable as we could expect, and he said that he would send a telegram instructing our delegation how to vote on it.

W. P. C[OCHRAN]

500.C115 Mexico City/4-2046

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

CONFIDENTIAL

MEXICO, D. F., April 20, 1946.

No. 29260

[Received April 26]

SIR: I have the honor to report on the III Conference of American States Members of the International Labor Conference which was held in Mexico City from April 1 to April 17, 1946. . . .

The Argentine Case

The Department's instruction, telegram No. 311 of March 29, 8 p. m., 1946, was shown to the United States Government Delegates, Senator Chavez and Mr. Verne Zimmer, before the Conference opened. Senator Chavez said that we certainly should not raise any question about the Argentine Delegation; that he hoped that no one would raise any question on the subject; and that we should try to keep out of any dis-

cussion of the matter. Also, before the Conference opened, the entire American Delegation, including the representatives of Government, employers and workers, met in the U.S. Delegation Offices and discussed the Argentine case as well as other matters. Senator Chavez stated in this meeting that he would not raise any question about the Argentine. Mr. George Meany, U.S. workers' delegate, explained that he had certain reservations about the seating of the Argentine labor representatives in the Workers Group, and that he had certain commitments to the American labor movement vis-à-vis the Argentine case. Senator Chavez restated in strong terms his view that the United States Government should not raise any question about the Argentine Delegation and indicated his opinion that we should adopt a friendly attitude toward the Argentine.

Nevertheless, at the first meeting of the Selection Committee, Senator Chavez, as U.S. Government member, raised the Argentine question, apparently through a misunderstanding of the procedure, and expressed a strong pro-Argentine attitude.

The Workers Group held a number of meetings on the Argentine case, which were presided over by Mr. Robert Watt, worker member of the Governing Body of the ILO. The Workers Group decided to expel the Argentine Workers Delegation from its meetings, and refused to elect any Argentine Worker Delegate or Adviser to any committee of the Conference. This action of the Workers Group was reported to the Selection Committee on April 5, 1946, together with a statement that the Workers Group had no comment to make regarding the Chilean Workers Delegation.

At this meeting of the Selection Committee, the Secretary General of the Conference, Mr. Edward J. Phelan, who is also the Acting Director of the ILO, and Mr. Guildhaume Myrddin-Evans, Chairman of the Governing Body of the ILO, explained the procedure with respect to credentials and discussed the constitutional powers of the Conference on this subject at length. It was finally agreed by the committee that neither it nor the Conference in plenary session has any authority to approve or disapprove credentials in the absence of a formal protest. The committee therefore unanimously resolved that it had accepted and noted the credentials of all delegations and was forwarding them to the plenary session to be noted and printed in the proceedings of the Conference.

The Argentine Government Delegate, Dr. Ricardo Riguera, thanked the committee in rather effusive terms for approving the credentials of the Argentine Delegation (including the labor representatives) and expatiated on the democracy of the Argentine Republic. This brought from Mr. George Meany, of the Workers Group, a strong statement to the effect that the Argentine Government Delegates should under-

stand clearly that the action of the Workers Group in expelling the Argentine Worker Delegation from its meetings and in refusing to elect them to committees was not an idle or frivolous gesture; that, speaking for American labor, he felt that he had an obligation to the free trade-union movement in the Argentine whose members had been expelled from the country or imprisoned by the Argentine Government; and that he hoped that in the very near future the Argentine Government would permit a real free trade-union movement to function. Dr. Riguera tried to take the floor to reply to Mr. Meany, but, upon motion of Senator Chavez, the meeting was adjourned. The committee had accepted the credentials of all delegations; it had been advised of the action of the Workers Group with regard to the Argentine Workers Delegation; and it had refused to enlarge the committees.

On the following day, April 6, 1946, the plenary session adopted the report of the Selection Committee finding all credentials in order.

The action of the Workers Group in refusing to seat the Argentine Workers Delegation was induced by a double-motivation: first, the almost unanimous desire of the Workers Group to record its belief that the present Argentine labor movement is controlled by the Argentine Government; and, second, the desire of Lombardo Toledano, as president of the Latin-American Confederation of Labor (CTAL), to demonstrate the strength of the CTAL. As the CTAL has publicly committed itself to opposition to the present Argentine regime, Lombardo could not consistently support the Argentine Worker Delegation in the Conference; but, as the Soviet Government has sent a trade mission to the Argentine, he evidently did not wish to go on record as formally indicting the Argentine labor movement. He therefore compromised by agreeing to expel the Argentine workers from the Workers Group and keep them off committees, but to accept their credentials to the Conference. Mr. Meany of the AFofL led a fight to reject the credentials of the Argentine workers, on the ground that if the Workers Group found that they were not representatives of an authentic labor movement, then the Conference as a whole should reject their credentials. Mr. Meany's motion was defeated.

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The Panamanian Resolution on Discrimination in the Canal Zone

The first intimation that the Delegation of Panama intended to raise the question of racial discrimination in the Panama Canal Zone came in the first working meeting of the Committee on Industrial Relations. Mr. Isaias Sánchez Barnett, Under-Secretary of Labor of Panama and Government member of the committee, raised the question of racial discrimination in the Canal Zone in a discussion of freedom of organization. A point of order was made by the Cuban Government Member, and the Chair ruled that Mr. Sánchez' remarks were

not pertinent. Mr. Sánchez quickly brought his remarks to a conclusion, but warned that he would raise the question again. This occurred on April 6, 1946.

On April 7, 1946, Mr. Ailshie of this Embassy, who was an adviser on the Government delegation, talked with Mr. John Willard Carrigan of the Mexican Division of the Department on this subject and asked for further instructions. The Department's telegram No. 348 of April 9, 6 p. m., 1946,¹⁴ instructing the United States Delegation to press discreetly for a general resolution not mentioning the United States or the Canal Zone, was received in the Embassy on April 10 and was immediately brought to the attention of the United States Delegation.

A resolution condemning racial discrimination in the Canal Zone was introduced in the Resolutions Committee by the entire Panamanian Delegation at a meeting on April 10, 1946. The text of the original Panamanian resolution may be found in enclosure No. 3 to despatch No. 29173 of April 17, 1946,¹⁴ as the last two pages of the enclosure, and it is marked C.R./D.3. On the motion of Senator Chavez, consideration of this resolution by the committee was postponed to permit the United States Delegation to study it.

At a meeting of the Resolutions Committee on April 11, the senior Panamanian Government Delegate, Mr. Domingo H. Turner, moved the adoption of the Panamanian resolution and spoke at length on the reasons which motivated the Panamanian delegation. In effect, Mr. Turner's statement constituted a serious indictment of United States policy in the Canal Zone and implied that the United States had not acted in good faith.

Senator Chavez took the floor for the United States Government and stated that, while discrimination exists everywhere and while he has been one of the leaders of the fight against discrimination, he opposed the present resolution on the ground that the ILO has no authority to investigate or intervene in sovereign nations. At this point, Sr. Luis Alvarado, Government Member of the Governing Body of the ILO, took the floor and explained that the ILO lacks authority to conduct such investigations as contemplated by the Panamanian resolution.

Mr. George Meany then took the floor to point out that the resolution implied that every President of the United States since 1903 had had the power to do away with the alleged discrimination but had failed to do so, and to say that he could not and did not believe that this was true.

The committee finally adjourned, after agreeing that a special subcommittee, consisting of the Panamanian Delegation, the United

¹⁴ Not printed.

States Delegation, and a representative of the Secretary General, should meet the following morning and draft a compromise resolution for submission to the next meeting of the Resolutions Committee.

Mr. Ailshie pointed out that the terms of the Panamanian resolution implied that the United States Government had consistently acted in bad faith since 1903; that the resolution therefore constituted an indictment of the United States; and that the proper way for the Government of the Republic of Panama to take up any complaint was through established diplomatic channels. Mr. Ailshie pointed out that the resolution was remarkable in that it failed to mention the treaty of 1936 and exchange of notes and the long series of acts of Congress and of the Chief Executive and of American Ambassadors to Panama designed to resolve this problem. He further pointed out that the resolution merely constituted a collection of allegations and that not one iota of evidence has been presented to the committee. Mr. Ailshie then suggested to Mr. Zimmer that he ask the chief Panamanian Delegate whether he was acting under instructions from his Government in raising this question at the Conference.

Mr. Zimmer asked Mr. Turner whether this would be a proper question, and Mr. Turner replied that he (Turner) was *not* acting under instructions from his Government, but that he was sure that he was reflecting the opinion of his Government and the people of Panama in raising it. He then denied that the Panamanian Delegation intended to question the good faith of the United States Government. He said that Senator Chavez had admitted that racial discrimination exists in the Canal Zone, and he added that everyone knows that it exists. He said that the Panamanian Government has taken this matter up through regular diplomatic channels many times since 1903, but has only obtained promises, not action. Mr. Ailshie pointed out that the present Panamanian Ambassador to Mexico, Dr. Jorge E. Boyd, was Ambassador in Washington in 1939 and that he has stated that the problem had been virtually solved at that time, but that the war emergency had introduced new complicating factors. Mr. Turner admitted that this was true.

Mr. Zimmer then said that he would undertake to lay the facts before the Secretary of Labor of the United States. It was then agreed that all reference to the United States and the Canal Zone should be deleted from the resolution. The ILO representative supported the position of the United States Delegation on this point. Mr. Turner agreed to delete all reference to the United States or the Canal Zone from the resolution, it being understood that the United States agreed to the setting up of a joint commission to study the problem. (At this point Mr. Ailshie pointed out to Mr. Zimmer that

we could not agree to "commissions," as this term has definite legal implications.) Mr. Zimmer proposed that we use the term "joint committees" and add the words "or other suitable agencies." This was agreed upon by the entire sub-committee, and a draft resolution was approved, eliminating all reference to the United States and the Canal Zone and recommending equal pay and treatment for work of equal value.

CONCLUSIONS

It is difficult to evaluate the work of the Conference. In the technical field—vocational training, labor inspection, and industrial relations—it is the opinion of the American Delegation that the Conference achieved some concrete results. The exchange of views between the various government officials responsible for these matters was in itself helpful, and, it may be hoped, will serve as an incentive to all concerned. The participation of representatives of employers and workers in these discussions should engender in them a greater sense of responsibility and a better understanding of the problems involved, as well as a more objective approach to the methods and techniques required for the solution of these problems. The Latin American delegations indicated that they are desirous of exchanging students, government officials, labor leaders and other qualified personnel with the United States as a means to promote mutual understanding, increase the efficiency of the workers, and bring about better living conditions.

In the political and economic fields, the following conclusions are believed to be warranted:

Lombardo Toledano organized and led an attack on United States political and economic leadership in the western hemisphere. His main attack was directed against our liberal trade, commercial, and industrial policy as embodied in the Economic Charter of the Chapultepec Conference.¹⁵ His flank attack, so to speak, was directed against our policy in the Panama Canal Zone. It is believed that he also intended to launch an attack on our other flank, against our Argentine policy, but was unable to do so because his own position was insecure and the policy of the Soviet Union toward Argentina put him in a dilemma.

Lombardo expressed his opposition to what he calls the "Clayton Plan" in his address on the Director's Report. He was answered in no uncertain terms by Senator Chavez and Mr. David Zellerbach in

¹⁵ Resolution LI; see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February–March, 1945* (Washington, 1945), p. 92.

their speeches on the subject. These speeches appear in documents No. 4 and 8 of the Provisional Record.¹⁶ Both Senator Chavez and Mr. Zellerbach supported the principle of free enterprise as opposed to communism or other forms of State control. Lombardo frankly stated that the industrialization of Latin America along the lines advocated by him was the "main theme" of the Conference.

Lombardo carried his fight into the Sub-Committee on Economic Problems, where he proposed two resolutions which, if adopted, would have put the Conference on record in support of his views. Both resolutions were rejected by the sub-committee, the Resolutions Committee, and the Conference in plenary session. The sole resolution on the industrialization of Latin America that came out of this Conference is couched in general terms and simply calls the attention of the Economic and Social Council of the United Nations to the Director's Report and to the proceedings of the Conference. The sole resolution on inflation that came out of the Conference merely requests the Government Delegates to call the attention of their governments to this problem.

While the Economic Charter was not specifically endorsed in the resolution on industrialization, neither was it specifically repudiated, as Lombardo would have liked. Mention of the Chapultepec Conference was inserted in the resolution on industrialization by the Chairman and the ILO representative, not by the United States Member. The United States Member strongly defended the Economic Charter *per se*, but did not insist that it be mentioned in the resolution. When the resolution was finally adopted, the reporter stated that the Economic Charter of Chapultepec had been adopted in principle by the committee.

In the opinion of the United States Delegation, Lombardo Toledano was defeated on the main issue, that is, communism versus free enterprise. Communist political and economic theories and practices received little, if any, support from the Conference, while the principles of free enterprise and individual liberty prevailed. This is borne out by the record.

The attack on United States labor policy in the Canal Zone¹⁷ was intended to diminish our prestige and stir up "anti-Yankee" feeling in Latin America. While the resentment on the part of Panamanians to certain features of our labor policy in the Canal Zone has existed since 1903, it has been skillfully exploited in recent years by the communists, led by Lombardo Toledano, in an effort to weaken Pan-Americanism and enhance the prestige of the Soviet Union, where, it

¹⁶ Not printed.

¹⁷ For documentation on this subject, see pp. 1149 ff.

is asserted, no racial discrimination exists. It is notable that while in recent conferences the Panamanian delegations were satisfied with general resolutions condemning racial discrimination and supporting "equal pay for equal work," in the Mexico City Conference the Panamanian delegation pressed hard for a resolution specifically condemning United States policy in the Canal Zone.

As mentioned above, the resolution finally adopted makes no reference to the United States or to the Canal Zone. In that respect it represents a complete victory for us. However, Mr. Turner, chief Panamanian Government Delegate, was permitted to criticize our policy in his speeches in the Resolutions Committee and in the Plenary Session, and he received from Mr. Zimmer of the United States Delegation a letter stating that the Department of Labor will look into this situation.

It can therefore be concluded that on the main issue of the Conference, namely, Russian vs. American leadership in the western hemisphere, the United States not only maintained its position but strengthened and consolidated it.

So far as Lombardo's personal prestige is concerned, he scored a tactical victory by having the ILO publish a flattering account of the CTAL in Chapter I of the Office report on Industrial Relations, Report IV. This permitted him to publish quotations from the ILO report in his *CTAL News* and in *El Popular*, thus making it appear that the CTAL has the official endorsement of the ILO. While the Conference neither approved nor disapproved Chapter I of the Office report, Lombardo will be able to exploit this unfortunate and unwarranted endorsement of the CTAL.

Lombardo was also able to persuade the Workers Group of the Conference to pass a resolution condemning the Franco Government in Spain. He wanted the Workers Group to request their governments to break diplomatic relations with Spain, but due to the opposition of the American member, Mr. George Meany, it was finally agreed that the resolution should merely express the hope that the United Nations will repudiate the Franco regime. A copy of the resolution adopted by the Workers Group is enclosed herewith.¹⁸

To sum up, Lombardo did not completely dominate the Workers Group as he no doubt hoped to do. For example, during the discussion of the "Argentine question" in the Workers Group, Mr. Robert Watt presided over the meetings, having been elected specially for this purpose to replace Lombardo, who was the regular Chairman of the Workers Group. Moreover, several Latin American labor delegations demonstrated their independence of the CTAL, notably those of Peru and Chile.

¹⁸ Not printed.

It might also be mentioned here that the United States labor delegation took a good deal of the sting out of the charges of racial discrimination brought against the United States by the Panamanian Delegation by having Mr. Willard Townsend (colored) of the CIO address the plenary session on the morning of the day that the Panamanian resolution was scheduled to be voted on by the Resolutions Committee. This created a very favorable impression in the plenary session. Also, the fact that the two CIO advisers, Messrs. Ross and Townsend, were present and that their actuation was in perfect harmony with that of the principal delegate, Mr. Meany of the AFofL, effectively silenced Lombardo Toledano and the communists on many occasions.

To all intents and purposes, the III Conference of American States Members of the ILO was a Pan-American conference—Canada being the only non-member of the Pan-American Union present—and should be judged as such. Furthermore, it was the first important conference which has been held since the war ended.

Viewed in that light, the Embassy feels that the Conference was moderately successful in maintaining inter-American unity. The presence of Canadian representatives added, rather than detracted, to this unity. However, the Embassy feels that our Government delegation would have contributed more to the Conference and to inter-American solidarity if it had been composed of men who had a greater understanding of our foreign policy and if it had functioned under more specific instructions of our Government. This Conference demonstrates that the United States cannot today look upon any international conference as being of only minor importance and as not warranting the appointment of the best available personnel. We must effectively advocate our principles, and particularly our foreign policy, in every international conference everywhere if we hope to discharge our responsibilities in world affairs. Whenever and wherever the United States speaks, its voice should be clear and convincing. Unfortunately, this was not always the case at the recent Mexico City Conference.

Respectfully yours,

For the Ambassador:

W. K. AILSHIE

Second Secretary of Embassy

500C.115 Montreal/10-1546

The Governor of the Panama Canal (Mehaffey) to the Ambassador in Panama (Hines)

BALBOA HEIGHTS, CANAL ZONE, August 20, 1946.

MY DEAR MR. AMBASSADOR: Reference is made to your letter of August 6, 1946, enclosing a copy of a confidential dispatch of July 26¹⁹ from the State Department, requesting that statements be prepared and submitted to the Department that might be considered as replies to the allegations made at Mexico City by the Panamanian delegation attending the ILO conference.

The allegations referred to in the State Department's dispatch are assumed to be those made during the third conference of the American States Members of the International Labor Organization by Mr. Guevara, Workers' delegate, Panama (Provisional Record, Eleventh Sitting, pp. 3-5), Mr. Sánchez, Government delegate, Panama (Provisional Record, Twelfth Sitting, pp. 8-11), and Mr. Turner, Government delegate, Panama (Provisional Record, Seventeenth Sitting, pp. 4-8). I shall comment on the allegations of these delegates in the order in which they were made.

Allegations of Mr. Guevara, Workers' delegate, Panama

The allegations of Mr. Guevara concerning conditions in the Canal Zone, which are found in the ninth to the sixteenth paragraphs of his published remarks, contain so many inaccuracies and misstatements that it is difficult to believe that he has ever made any investigation of the subject. Because of the specific nature of his allegations, it is desirable to comment on them at some length.

The twelfth paragraph of Mr. Guevara's remarks contains a number of specific allegations which will be discussed in their order.

In his reference to the "gold" and "silver" rolls of The Panama Canal, Mr. Guevara has fallen into an error that is common among citizens of Panama who have made no investigation of the subject, by defining the "gold" roll as including only the privileged workers and technicians from the north, while all Panamanian, Latin American and Caribbean workers are relegated to the "silver" roll. As a matter of fact, the distinction between the "gold" and "silver" workers is one of skill and not of race or nationality. By Executive Order of the President of the United States, all employees of The Panama Canal who receive more than \$125 per month or 72 cents per hour are required to be citizens of the United States or of Panama, and the

¹⁹ Neither printed.

employees in this group are referred to, for convenience, as "gold" employees. Citizens of Panama whose skill entitles them to the higher salaries are employed on the gold roll and receive the same pay and the same privileges as the citizens of the United States on that roll. With the single exception that they are not entitled by law to the same retirement benefits as United States citizens. The remaining employees, who occupy positions requiring less skill or education and receive less than \$125 per month or 72 cents per hour, are referred to, for convenience, as "silver" employees, the term "silver" having originated in the early construction days when local labor was paid in silver coin. The "silver" roll is composed of workers of diverse nationalities, including Panamanians, West Indians, Salvadoreans, and other Latin Americans, and, occasionally, citizens of the United States, who receive less pay and more limited leave and retirement privileges than the citizens of Panama and the United States on the "gold" roll.

There is no basis of fact for the allegation that "gold" workers receive for equal work a wage considerably higher than that paid to "silver" workers. The duties of the latter group are those which do not require a high degree of skill and which are carried out under the close supervision of citizens of Panama or the United States on the "gold" roll. The usual basis for this allegation is the fact that in some instances employees on the "silver" and "gold" rolls may have the same designation, but it does not follow that such employees are performing equal work. Thus, a "silver" chauffeur driving a one-ton truck under direct supervision cannot be said to be doing work comparable with that done by a "gold" chauffeur who drives a ten-ton dump truck, or a heavy truck crane, under only general supervision and with a high degree of responsibility for the care and protection of his vehicle. Similarly, a "silver" painter is a semi-skilled artisan who has no responsibility for mixing his paints or for the erection or safety of the scaffolding on which he works, but merely applies paint, under the immediate supervision of a "gold" painter who does no actual painting except when delicate or difficult work is to be done which requires training equivalent to that obtained in an apprenticeship course followed by extended experience as a journeyman painter. The principle of equal pay for equal work is recognized and applied by the Canal administration, and when instances of violation of the principle are called to attention they are corrected promptly.

Separate schools, clubhouses, commissaries, etc., are provided for "silver" employees, but every effort is being made to see that the facilities provided for these employees are reasonably comparable with those provided for "gold" employees. The allegation that

“gold” employees drink ice-water out of sanitary individual cups while “silver” employees must drink out of unsanitary communal cups is untrue; common drinking cups are forbidden in the Canal Zone, and sanitary drinking fountains or individual cups are provided for all employees. The allegation that “gold” commissaries are better provided with food supplies than the “silver” commissaries is likewise untrue; exactly the same foodstuffs, including quick-frozen meats, fruits, etc., are available in the “silver” commissaries as in the “gold” commissaries. It is also untrue that Latin American contract workers are forced to live in unhealthy conditions which encourage the spread of contagious diseases. The barracks in which the contract workers are quartered are constructed of wood “as are more than ninety per cent of all houses for both “gold” and “silver” employees”, but they are newly-constructed and provided with excellent sanitary conveniences, and are rigidly and frequently inspected by the Health Department to insure that all sanitary ordinances are being constantly complied with. These barracks compare favorably in all respects with those ordinarily provided for laborers on construction projects in the United States.

In the thirteenth paragraph of his remarks, Mr. Guevara alleges that no adjustment was made in the wages of “silver” workers when their workweek was reduced from forty-eight to forty hours. This is not true. The rates of pay of “silver” employees were adjusted on April 1, 1946, so as to give them the same take-home pay for forty hours of work as they formerly received for forty-eight hours, and an additional increase was granted effective July 1, 1946, making a total average increase in their hourly pay since April 1, 1946, of approximately 35 per cent.

Mr. Guevara’s final allegation, in the fourteenth paragraph of his remarks, is that Latin American workers in the Canal Zone are forbidden to organize trade unions. This is not true. There has never been any prohibition against the organization of “silver” workers in the Canal Zone or any attempt to discourage their organization. An organization of employees of West Indian origin or descent (the Panama Canal West Indian Employees Association) has been in existence in the Canal Zone for many years, and the Canal administration has recognized and freely dealt with this Association on matters related to wage rates, working conditions, etc. Within the past few months a union of “silver” employees affiliated with the CIO has been organized and now claims a membership of over 10,000 employees. It is believed that the organizers of this union will be glad to testify that the Canal authorities have placed no obstacles in the way of their work but on the contrary have facilitated it. The Panama Canal has no in-

formation concerning the case of David Gonzalez, alleged by Mr. Guevara to have been discharged for attempting to organize his fellow workers. It is possible that he intended to refer to David Constable, who claimed that he was discharged for this reason but whose claim, I am informed, was found by the CIO to be unfounded after full investigation of the circumstances.

Allegations of Mr. Sánchez, Government delegate, Panama

The eleventh to the twenty-first paragraphs of the remarks of Mr. Sánchez deal with conditions in the Canal Zone. With reference to his statements concerning the fact that the Constitution of Panama does not apply to workers who live in Panama but work in the Canal Zone, it seems necessary only to refer to Article III of the Treaty of 1903, by which the Republic of Panama granted to the United States "all the rights, power and authority within the zone mentioned . . . which the United States would possess and exercise if it were the sovereign . . . to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority." Since it would obviously be impracticable to have two governments exercising jurisdiction simultaneously over the Canal Zone, it may be assumed that Mr. Sánchez was not suggesting such a division of authority, but rather that his comments were intended to indicate that without the protection of the Constitution of Panama, workers in the Canal Zone cannot be assured of the right to organize and to receive equal pay for equal work.

Such an allegation is, of course, completely untenable. All workers in the Canal Zone, with insignificant exceptions, are employed either directly or indirectly by agencies of the United States Government and are adequately protected by United States laws. As has been previously stated, the allegations that in the Canal Zone there is no freedom of association and no recognition of the principle of equal pay for equal work or of the principle of equality of treatment in general are without foundation.

Allegations of Mr. Turner, Government delegate, Panama

In the first paragraph of his remarks, Mr. Turner advances the theory that the United States has only a limited jurisdiction over the Canal Zone, and implies that the Republic of Panama, as titular sovereign, has, or should have, authority over administrative and labor relations in the Canal Zone. In answer to this contention, reference is made again to Article III of the Treaty of 1903, granting to the United States all the rights, power and authority within the Canal Zone which it would have if it were the sovereign, to the entire exclusion of the exercise by the Republic of Panama of any such

sovereign rights, power or authority, which article has never been superseded or amended.

In the second paragraph of his remarks, Mr. Turner refers to the existence of the "gold" and "silver" rolls in the Canal Zone, and repeats the allegation that the "gold" roll comprises employees from the United States who enjoy all kinds of privileges, while the "silver" roll comprises employees from Latin American and the Caribbean islands who are subject to discrimination at every turn. The similar allegations made by Mr. Guevara have been discussed above, where it was shown that the distinction between the two rolls is one of skill and not of race or nationality, and that citizens of Panama who possess the necessary skill are employed on the "gold" roll and enjoy exactly the same privileges as citizens of the United States except as to retirement benefits.

In the fourth paragraph of his remarks, Mr. Turner states categorically that in the Canal Zone there is no labor legislation, no legal basis for a trade union movement and no social security laws, and that it is a part of America that is excluded from the realm of social justice. This is a very serious charge against the Government of the United States, but fortunately it is without foundation. As I have previously said, the entire body of workers in the Canal Zone, with insignificant exceptions, are employed directly or indirectly by the Government of the United States, and are protected by United States laws. Certain of these laws, such as the one providing cash relief instead of retirement benefits for non-citizens of the United States who are unfit for further service because of age or disease, are recognized as being not entirely adequate under present-day conditions and studies are being made with a view to determining the changes that should be recommended to Congress for adoption. It can be confidently asserted, however, that the wages and working conditions of employees generally in the Canal Zone, whether they are on the "gold" roll or on the "silver" roll, are equal or superior to those of workers engaged on similar tasks in the Republic of Panama, and greatly superior to those of workers in any other part of the Caribbean area.

GENERAL

To the best of my knowledge, no informed critic of labor policies in the Canal Zone has ever contended that workers in the Republic of Panama are generally better off than "silver" roll employees in the Canal Zone. In fact, it is generally understood and admitted that Canal Zone employment offers many advantages over employment in Panama, as is evidenced by the large number of Panamanian citizens who are employed in the Zone and the continuing volume of applica-

tions for such employment. The real basis for the complaints that have arisen in Panama is the difference between the pay of the citizens of Panama and of the United States on the "gold" roll and the pay of the much greater number of employees of various nationalities on the "silver" roll.

The principal sources from which employees are drawn for the Canal Zone are (1) the United States, (2) the Republic of Panama, and (3) other countries and islands of the Caribbean area. By Executive Order the higher-paid positions in the Canal Zone are reserved for citizens of the United States and Panama. It is well known that the Republic of Panama (like the other countries of the Caribbean area) is predominantly an agricultural and commercial country, and that it has no large-scale manufacturing industries in which its citizens could acquire skills that would fit them for employment on the "gold" roll. There is in Panama no such system of apprentice training as exists in the United States, and the few workers who may have acquired a considerable degree of skill from long experience are likely to have only an imperfect command of English and therefore to be of only limited usefulness in the higher positions in the Canal Zone, where English is used entirely. In view of these conditions and the fact that Panama is a small country, with a population of only about 650,000, it is not surprising that the number of citizens of Panama on the "gold" roll is small in comparison with the number of United States citizens on that roll. Before World War II made its discontinuance necessary, the Panama Canal conducted apprentice-training courses from which a number of Panamanian citizens who had a thorough knowledge of English were graduated and are now performing very satisfactory services on the "gold" roll. When it becomes possible to re-establish the apprenticeship system, additional opportunities will be afforded to Panamanians to obtain this training. It should be recognized, however, that the standards established for employment in the Canal Zone are necessarily and properly high and that only highly-skilled Panamanians who are completely at home in the English language can compete on an equal footing with the skilled workers who have been trained in the vast industries of the United States.

Since the great majority of the skilled employees in the Canal Zone must be drawn from the United States, the wage rates for "gold" roll employment are based on prevailing rates in the United States, but are sufficiently above those rates to attract the best type of applicants; and liberal leave and retirement privileges are granted to insure retaining highly-qualified employees. Although many of the reasons for the liberal wages and privileges do not apply to "gold" employees drawn from the Republic of Panama, the latter are nevertheless given

the same pay and privileges (except retirement benefits, as previously stated), in recognition of the principle of equal pay for equal work.

For employees on the "silver" roll, who are drawn largely from the Caribbean area, wage rates are based upon but are higher than those prevailing in the Caribbean area. A consistent effort has been made to avoid fixing rates which will be so high as to affect seriously the economies of the countries of the Caribbean area, although this effort has not always been successful, as is evidenced by the statements already mentioned of President Arias of Panama and Mr. Guevara concerning the damage done to the agricultural economy of Panama by high wage rates in the Canal Zone. The Panama Canal administration is constantly endeavoring to better the living conditions of the "silver" employees by improving their schools, clubhouses, hospitals, housing, etc., and will continue these improvements as rapidly as appropriations for the purpose can be obtained.

For the sake of brevity, I have avoided discussing exhaustively the various allegations made by the Panamanian delegates, but if additional information is desired concerning any of the matters touched upon, I shall be very glad to furnish it.

I am [etc.]

J. C. MEHAFFEY

500C.115 Montreal/10-1546

Memorandum by Mr. Murray Wise of the Division of Central Caribbean Affairs ²⁰

CONFIDENTIAL

MONTREAL, September 25, 1946.

I propose calling Mr. Wiesman at noon today to relate the following instructions:

(1) It is deemed advisable that the United States delegation at Montreal make *no* written statements to the Panamanian delegation. However, there is no objection to handing the Panamanians a copy of Governor MehaFFEY's statements in reply to the allegations made at Mexico City. The Governor approves (see Embassy's telegram no. 622, September 24 ²¹). In addition to the foregoing the Panamanians can be told:

(2) On June 6 Governor MehaFFEY announced an increase in rates of pay for virtually all "silver" employees. Some 20,000 laborers will benefit from the pay increase which will add approximately \$1,500,000 annually to the payrolls.

(3) According to a circular issued July 23 at Balboa Heights by Governor MehaFFEY, dependents of all but a relatively small percentage of "silver" employees in the Canal Zone will be immediately

²⁰ Addressed to Mr. Willard F. Barber, Assistant Chief of the Division of Caribbean and Central American Affairs, Mr. John Tipton Fishburn, of the Division of International Labor, Social, and Health Affairs, and Mr. Ellis O. Briggs, Director of the Office of American Republic Affairs.

²¹ Not printed.

eligible for hospital treatment. Now that the patient load in Canal Zone hospitals has been reduced, dependents of all "silver" employees hired on or before April 15, 1942, with identification cards numbered 200,000 or lower, are eligible for treatment. Under previous regulation only dependents of employees hired before November 18, 1939, with identification cards numbered 42,000 or lower, were eligible.

(4) The Commanding General, Panama Canal Department, on August 22 issued the following statement: "The War Department prohibits discrimination amongst War Department civilian employees on account of race, creed or color. The classifications for pay and administration purposes in effect in the Panama Canal Department are based upon the skill and qualifications of the employee. When operating out of the continental United States, the War Department requires that local prevailing wage scales shall obtain, which is the case here. No classification other than that indicated above is in effect."

(5) The U.S. Embassy at Panama advises that the question of alleged discrimination is item No. 2 on the agenda for the round table conferences currently under way and is, accordingly, being given constant and serious attention.

(6) Governor Mehaffey has advised that the announcement of the setting up of a "complaint board" is expected soon. It provides for the handling of grievances in four stages; namely, from the employee's immediate supervisor to the Executive Office.

(7) On September 10 Governor Mehaffey announced that the present limited apprenticeship program in the Canal-Railroad organization would soon be in effect when trade training will be open to young men of United States or Panamanian citizenship.

(8) Governor Mehaffey is presently making a study relative to a change in the old system of classifying employees as "gold" and "silver".

While the Department cannot give the foregoing in writing to the Panamanians there would seem to be no objection to stating orally to them that these indications from the Canal Zone show a definite serious attempt to meet certain allegations of discrimination.

N.B.—Keep matter out of press at Montreal, if possible. Explain to Mr. Morse²² "highly political" nature of this question in Panama.

Approved by ARA—

MR. BRIGGS

500C.115 Montreal/10-1546

The Secretary of Labor (Schwellenbach) to the Secretary of State

WASHINGTON, October 15, 1946.

DEAR MR. SECRETARY: As you are undoubtedly aware, at the American Regional Conference of the International Labor Organization held at Mexico City in April 1946 and at the International Labor Confer-

²² David A. Morse, Assistant Secretary of Labor.

ence held in Montreal in September and October 1946, the Panamanian Delegation made allegations that there was discrimination against their nationals by the United States in the Canal Zone.

At the Montreal Conference the problems were fully explored by representatives of this Government and of the Panamanian Government. The discussions on the part of our Government were conducted by David A. Morse, Assistant Secretary of Labor, who gave his personal attention to this matter throughout because of its importance. He had representatives of the State Department at his conferences with the Panamanian representatives and he consulted your Department concerning those phases of the negotiations in which your Department was interested. He also kept fully advised Senator Elbert Thomas of Utah, Chairman of the Senate Committee on Military Affairs, who attended the I.L.O. Conference with Mr. Morse as the other United States Government Delegate and Lt. Colonel Thomas Lane, who attended the I.L.O. Conference as War Department Observer.

The following developments in this matter occurred at Montreal:

1. On September 20, Mr. Morse conferred with the representatives of the Panamanian Government (at their request) at Montreal and asked them to make a full statement of their case. They made two main allegations: (a) that there is economic discrimination between Panamanian workers and American workers who are employed in the Canal Zone in that a higher wage scale is maintained for American workers (known as "gold roll") than for Panamanians (known as "silver roll") who do the same work, and (b) that there is social discrimination against Panamanians which hurts their national pride in that different drinking fountains, movies, group houses, stores, etc., are established for United States citizens.
2. The allegations were discussed at great length. Mr. Morse assured the representatives of Panama that the United States Government is most anxious to adjust any grievances which may exist; that we had been looking into this matter, and that we were still investigating the question of possible discrimination. He informed them that our Government would conclude its investigation shortly and that we would let them know what we found and what we intended to do to correct grievances if we found that grievances existed. The Panamanians asked to have this put in writing. Mr. Morse replied that before giving them any official written statement, it would be necessary for him to consult Washington.
3. The attached "Confidential Memorandum", marked "Attachment No. 1",²³ is a full summary of the foregoing conversation. I will avoid restatement in this letter of the details which are set forth in that memorandum.
4. After that conference Mr. Morse instructed Mr. Wiesman, a representative of your Department, to telephone the Department and request advice.

²³ Not printed.

5. The State Department transmitted a memorandum dated September 25, a copy of which is attached as Attachment No. 2,²⁴ outlining a "proposed statement to Panamanian labor delegation at Montreal". This proposed statement authorized Mr. Morse to deliver to the Panamanian representatives a copy of a letter from J. C. Mehaffey, Governor of the Canal Zone, to the Honorable Frank T. Hines, American Ambassador at Panama. A copy of this letter, dated August 20, 1946, is attached as Attachment No. 3.²⁵ This letter is in the nature of a preliminary report and covers allegations made by the Panamanian Delegation at the American Regional Conference of the I.L.O. held in Mexico City in April 1946. In addition, Mr. Morse was authorized to inform the Panamanians that other constructive action had been taken and was being taken currently as specified in the State Department communication of September 25.

6. Upon receipt of this State Department instruction, Mr. Morse again conferred with the representatives of Panama on September 27. He handed them a copy of the letter from Governor Mehaffey, made oral statements consistent with the State Department's instructions of September 25, and assured the Panamanians of our desire to be constantly alert to any problems which arise in the Canal Zone which may be considered grievances. He also assured the Panamanians that we would inquire into the matter further so that a day to day consideration could be given to the problems which are alleged to exist in the Canal Zone. They were completely satisfied with this explanation and stated that as a result of these discussions they would revise speeches they had intended to make on the floor of the International Labor Conference. For your convenience, I am attaching, as Attachments Nos. 4 and 5,²⁶ respectively, copies of Mr. Wiesman's preliminary report to the State Department, dated September 28, and his memorandum to the State Department, dated October 1, which cover in more detail the discussions of September 27 and their impact upon the Panamanian Government delegate's speech on this subject at the I.L.O.

This is a problem which has been giving our Government some concern for many years and which was brought to a head at the Mexico City Conference this year. At that time Mr. Zimmer, representing the Labor Department, succeeded in keeping the Panamanians from discussing the problem on the Conference floor by assuring them that the matter would be referred to the Secretary of Labor. It is clear that there are some serious political questions involved in this matter. It seems to me that we cannot permit this problem to rest in its present posture.

Mr. Morse has suggested the possibility of steps being taken to settle this problem finally. Simultaneously with transmittal of this letter, I am informing the Secretary of War of all facts relevant to this situ-

²⁴ *Supra.*

²⁵ *Ante*, p. 54.

²⁶ Neither printed.

ation. I am requesting him to designate representatives who may consult with Mr. Morse and your representatives concerning appropriate action to be taken. If you will designate representatives for this purpose, I am sure that Mr. Morse will arrange for an early conference between the representatives of these three Departments regarding a solution to this problem.

Yours very truly,

L. B. SCHWELLENBACH

CARIBBEAN REGIONAL AIR NAVIGATION MEETING

[For information on the Caribbean Regional Air Navigation Meeting of the Provisional International Civil Aviation Organization at Washington, August 26–September 13, 1946 (attended by representatives of the following 20 countries: Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, France, Haiti, Honduras, Mexico, Netherlands, Nicaragua, Panama, Peru, United Kingdom, United States and Venezuela), see Department of State publication No. 3031, International Organization and Conference Series No. I: *Participation of the United States Government in International Conferences, July 1, 1946–June 30, 1947*, page 93.]

**PARTICIPATION OF THE UNITED STATES GOVERNMENT
IN THE SECOND PAN AMERICAN CONGRESS OF MINING
ENGINEERING AND GEOLOGY, RIO DE JANEIRO,
OCTOBER 1, 1946**

563 Rio de Janeiro/9-2446

Memorandum to President Truman by the Acting Secretary of State

[WASHINGTON,] September 23, 1946.

This Government has received an invitation extended by the Government of Brazil to participate in the Second Pan American Congress of Mining Engineering and Geology to be held in Rio de Janeiro, beginning October 1, 1946.

In addition to technical studies regarding the nature, location and production of the mineral resources of the American Republics, the agenda for the subject Congress includes discussion of inter-American policy regarding mining legislation, import-export arrangements, and social and fiscal laws regarding mining. This program affects the foreign economic policy of this Government as well as technical mining engineering and geological matters. I am proposing, therefore, after consultation with the Secretary of the Interior, that a Delegation representing this Department, the Department of the Interior, and the United States Section of the Pan American Institute of Mining Engineering and Geology be sent to this Congress.

I recommend that you designate the individuals named in the list attached hereto¹ as members of the United States Delegation, in capacities as indicated.²

WILL CLAYTON

¹ Not printed.

² The following notation appears in the margin: "Approved. Harry Truman 9/24/46." This approval included the designation of Paul C. Daniels, the Chargé in Brazil, as Chairman of the delegation, and the following as delegates: R. R. Sayers, Bureau of Mines, Edward Steidle, Pennsylvania State College, and W. E. Wrather, Geological Survey.

563 Rio de Janeiro/9-2846

The Acting Secretary of State to the Chairman of the American Delegation to the Second Pan American Congress of Mining Engineering and Geology (Daniels)

RESTRICTED

WASHINGTON, September 28, 1946.

No. 243

SIR: In your capacity as Chairman of the United States Delegation to the Second Pan American Congress of Mining Engineering and Geology to be held at Rio de Janeiro, Brazil, beginning October 1, 1946, I shall appreciate your communicating to the other members of the Delegation the position to be upheld at the forthcoming Congress.

This is an official governmental conference and consequently the delegations will represent the official views of the respective governments. Our Delegation at the Congress must act as a unit in representing the United States and should invariably present a solid front. Any divergent views among its members should be resolved in private meetings of the Delegation, thus leaving no possibility that embarrassing differences of opinion might appear in open discussion. The members of the Delegation will, of course, represent before the Congress the views of the Government of the United States rather than those of the respective individuals or of organizations or groups with which they may be affiliated. This is not intended to bar the expression of personal views which are not inconsistent with these instructions or Delegation policy. In these cases not covered by instructions or Delegation policy, personal views may, of course, be expressed, but these should generally be clearly qualified as personal.

As Chairman, you shall be responsible for adherence to the policy of the United States by all members of the Delegation, and in the event of any division among the members on such matters, your decision shall be final and binding upon the Delegation.

Papers prepared by members of the Delegation for presentation before the Congress which have not been reviewed by the Department, may be approved by you in the light of the instructions contained in this letter. Papers not approved by the Department or by you, if presented, must be clearly identified as expressing the personal as distinct from the official views of the writer.

You are authorized to request any member of the Delegation to attend or speak for you as Chairman, in the event of your absence, or inability to attend sessions of the Congress and in any other instances in which you are unable to exercise the functions of your position.

In accepting the invitation of the Brazilian Government to send an official United States Delegation to this Congress, the Department

was keenly aware of the importance of the meeting with respect to its relation to our general economic foreign policy.²⁸ This government has just released to the public the *Suggested Charter for an International Trade Organization of the United Nations*. This document outlines proposed objectives, guiding principles and administrative procedures for the proposed organization. Among the paramount aims are the reduction of tariffs and other trade barriers, and expansion of the production, exchange and consumption of goods, directed toward creation of an expanding world economy and higher standards of living and economic conditions favorable to maintenance of world peace. The development and exploitation of mineral resources, which will be among the important topics of discussion at the Congress, are related to those aims, particularly as regards tariffs, wage levels, investment of capital, and taxes. It therefore becomes of great importance that the United States Delegation endeavor to have excluded from the resolutions and recommendations of the Congress anything that might prejudice the success of the impending meetings scheduled to secure acceptance of the proposed charter of the World Trade Organization.

To ensure this, it would appear desirable for the United States representatives to propose, if opportunity permits, that the Congress reaffirm the principles outlined in the Economic Charter of the Americas (Resolution LI of the *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, March 1945*). Such action by the Congress would reaffirm these principles as a framework for the subsequent resolutions and recommendations to be evolved during the course of discussions at the conference.

The ten principles of the Economic Charter of the Americas include several which may prove very useful to refute any attempts on the part of other delegations to sponsor resolutions subscribing to the expansion of state monopolies. A review of the record of the First Congress held in Santiago, Chile, January 1942, shows that a strong effort was made by the Argentine Delegation to introduce proposals advocating monopolies on mineral products, nationalization of the mining, power and transportation industries and state control of wages, production and dividends. Advice now reaching the Department of State indicates that Argentina is sending a strong Delegation to this Second Congress and may seek again to introduce the theme of nationalization for Latin American mining. If a resolution ensuing from any such proposals be brought to a vote before the meeting, the Delegation should abstain, enter a reservation, or present a statement accompanying its negative vote, depending on the circumstances.

²⁸ For documentation on various aspects of United States economic foreign policy, see vol. I.

The Delegation which you will head will without doubt be able to contribute materially to the studies of the Congress regarding the technical problems of the mineral industry. In addition to research and operating problems, important topics should be the furtherance of the exchange of scientific and specialized personnel between the American republics and the promotion of the exchange of students and faculty among the universities of the several countries, leading toward a greater understanding between the peoples of the Americas. Among other measures the Delegation could support or even sponsor is, for example, agreement to promote uniform standards of mineral statistics. This would contribute greatly to the usefulness of data interchanged among the various countries. Another valuable contribution would be the compilation of the mining codes of the American republics with the objective of promoting a greater knowledge of these laws for the benefit of interested parties and perhaps tending toward increased general conformity and elimination of undesirable and restrictive provisions in the various codes.

Although it is not considered appropriate for the United States Delegation to initiate the discussion, the Delegation should be prepared to support in the strongest manner, any proposal or resolution directed to the encouragement of the relaxation of restrictive mining regulations in the American republics. Likewise, support should be given to measures looking toward the moderation or removal of exchange controls, undue restrictions on private foreign investment, excessive taxation and other practices not in harmony with the spirit of the Economic Charter of the Americas.

It is possible that emphasis may be placed on the steadily increasing wage scales in Latin American mining operations as a serious threat to continued profitable production from existing mines and to development of new deposits. The answer to this is, of course, far from simple, in view of the unique conditions of mining and the unusual hazards attached to new ventures in this field, and also in view of the fact that different conditions exist in every operation. However, the ultimate objective of this country's economic policy, an expanding world economy to create the atmosphere for enduring world peace, is keyed to higher standards of living which in turn depend on greater productivity which will make possible rising wage levels for all types of labor. The continued high production of United States and Canadian mines in the face of greatly increased wage rates during the last thirty years can be cited as examples indicating that improved production methods permit the payment of higher wages to skilled and efficient labor.

In July of this year the President approved the Stockpiling Act providing for the accumulation of stocks of strategic materials in

which this country is deficient. The Congress also appropriated \$100,000,000 for purchase of these materials to initiate the program. In order to meet anticipated stockpile goals, it will be necessary for the United States to import very large quantities of strategic materials, by far the largest items being minerals and metals. Although the countries of Central and South America together with Canada and Newfoundland in their normal capacity as sources of supply may be called upon to furnish a sizeable proportion of the total requirements, it is not proposed to arrange any special measures for this purpose. Purchases will be made in accordance with the availability of materials of desired quality, not by reference to geographic area. Much has been said in the past and may be repeated in the future, concerning the desirability of hemispheric self-sufficiency both from a resources as well as military security viewpoint. This Government is unqualifiedly opposed to the principle of economic spheres and the Delegation to the present Congress should strive to support the idea of an interchange of manufactured goods and raw materials between all the nations of the world as the only road to creation of the expanding world economy essential to lasting peace.

During the course of the Congress, the subject of the convocation of the Third Congress will be raised. Should the suggestion be made that the United States act as host, you will seek discreetly to avoid the sponsorship of the next Congress by this Government and in expressing appreciation for the suggestion, point out that you are not authorized by your official instructions to extend an invitation on the part of the United States Government. In this connection, it is considered that the expense of holding sessions of the Congress more frequently than once every two years is not justified in the absence of special circumstances.

You will appreciate, I am sure, that the members of the Delegation are not authorized to offer any written or oral statement or to enter into any agreement which might be construed as committing this Government to a definite course of action or which might involve an obligation to expend funds not previously appropriated or allocated. Since this is a technical meeting devoted to problems in the field of engineering and geology, it is considered unlikely that any matters of a political or diplomatic character will arise. The Delegation should attempt to confine the discussion in so far as possible to the technical problems on the agenda. However, should difficult or controversial points arise to which there may appear to be no ready solution, it is recommended that the guidance of the Department be sought by telegraph.

Upon the completion of the Congress, you are requested to submit to the Secretary of State an official report covering the work of the

Delegation and the action taken by the Congress. Enclosed for your convenience is a suggested outline³ for your report which will serve as a convenient checklist of items to be covered and will provide a degree of uniformity with reports of other American delegations, all of which will either be printed separately or summarized in the Department's Conference Series. The official report should be supplemented by a confidential report containing any other items which in your opinion should be made a matter of confidential record.

You undertake your responsibilities with the assurance of my keen interest and wholehearted support. I have every confidence in your ability to reflect credit on the United States in this undertaking.

Very truly yours,

WILLIAM L. CLAYTON

563 Rio de Janeiro/10-2246

The Chairman of the American Delegation to the Second Pan American Congress of Mining Engineering and Geology (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, October 22, 1946.

No. 940

SIR: I have the honor to refer to the Department's Instruction No. 243 of September 28, 1946, addressed to me as Chairman of the Delegation of the United States of America to the Second Pan American Congress of Mining Engineering and Geology, held at Petropolis, Brazil, October 1st through the 15th, 1946. In accordance with the Department's request in the penultimate paragraph of the subject instruction, I am transmitting herewith a confidential report³ summarizing the procedures and accomplishments of the Congress with particular reference to participation by the United States Delegation. Since the Secretariat of the Congress has not yet had opportunity to transcribe and distribute the final resolutions of the Congress and the text of closing statements, it is not possible at this time to prepare the official report on the Congress. As soon as it is possible to obtain pertinent documents of the Congress, these will be forwarded by the Embassy to the Department for inclusion in the report.

Official delegations from Brazil, Argentina, Chile, Peru, Bolivia, Canada, Uruguay, El Salvador, Dominican Republic and the United States were in representation at the Congress. The total attendance of these delegates together with representatives of technical schools and mining corporations totalled about 350 persons. In addition to the official U.S. Delegation listed in Department's telegram No. 1262

³ Not printed.

of September 25,⁴ about twenty other U.S. representatives from such agencies and corporations as the U.S. Bureau of Mines, the U.S. Geological Survey, Ventures, Ltd., the Engineering and Mining Journal, M. A. Hanna Company, the Standard Oil Company (N.J.) and the Denver Equipment Company took active part in the discussions of the Congress.

The Congress was officially convoked on October 1st with formal statements of welcome by Brazilian officials. On the same day, the credentials of the official delegations were checked and the various commissions were established to discuss papers presented to the Congress. The main work of the Congress began on the ensuing day and at the first opportunity a meeting of all United States representatives was called to outline the Department's views with respect to this meeting. The important aspects discussed in the Department's instruction were briefly covered. In summary, the following points were made:

1) The delegation was instructed to achieve unanimity in the expression of any official views. Personal opinions expressed by any of the representatives or delegates were to be clearly indicated as such.

2) All papers presented by members of the delegation should be cleared with the chairman.

3) The chairman requested all representatives to call to his attention any discussions or resolutions which appeared to be contrary to U.S. foreign policy.

4) It was announced that the official delegations of the various countries were to be each accorded three votes and that the chairman would designate the voting members of the delegation at the appropriate time.

5) With respect to the subject of the locale for the next Congress, the chairman pointed out that this delegation could not make any commitments in the name of the United States government but that the U.S. Section of IPIMIGEO was not impeded from extending an invitation on its own responsibility, if such was its desire.

6) The delegates were requested to submit information regarding the work of the Congress to Mr. Brown, Minerals Attaché of the Embassy, and Mr. Wendel of the Department of State for collation and eventual inclusion in an official report on the Congress.

7) The chairman requested that all drafts or resolutions intended for presentation by United States delegates be cleared with him.

8) The delegation was cautioned not to initiate any discussions regarding mining policy in view of the fact that the work of the Congress was basically on technical subjects. However, he stated that he was prepared to propose a reaffirmation of the Economic Charter of the Americas if this appeared necessary to thwart resolutions or proposals prejudicial to the foreign policy objectives of the United States government.

⁴ Not printed.

As the actual work of the Congress commenced, the United States representatives were distributed among the twelve commissions created to review the papers presented to the Congress and to recommend appropriate resolutions based on discussion of these papers.

From the viewpoint of the Department, the 7th Commission dealing with mining legislation and policy and the 8th Commission dealing with mining economy, commerce and trade in minerals were of foremost importance and consequently the progress of discussions at these two commissions was watched closely. Several controversial papers had been referred to these commissions and after some lengthy argumentation it became necessary for the presiding officers to appoint sub-committees to determine whether or not the points of view of the authors should be accepted as the bases for the formulation of the conclusions of the commissions. These sub-committees subsequently reached agreement that all of these papers should be published. However, it was recommended that the reports of the commission include appropriate wording to make clear that although the papers were worthy of study, the conclusions reflected only the opinion of the author, and not necessarily that of the Congress. These recommendations were approved by the commissions which then were prepared to proceed with the preparation of appropriate resolutions. Among the resolutions formulated for approval by the plenary body of the Congress, was the re-affirmation of the Economic Charter of the Americas, particularly emphasizing the relation of the ten principles of the Charter to the mining industry. (Resolution LI of the Final Act of the Inter-American Conference of Chapultepec, 1945). It is not believed that the Congress approved any resolutions prejudicial to United States policy.

In view of the Department's comments with respect to expected action of the Argentine Delegation, I am happy to state that this delegation was extremely co-operative in furthering resolutions consistent with the superior economic commitments of the American Republics. The controversial papers referred to above, were presented by unofficial representatives of other countries and in the evolution of formulae to reconcile the individual viewpoints with international economic policy, the Argentine and also the Brazilian Delegations strongly supported the United States position on these matters.

Although a complete account of the resolutions passed by the Congress will be included in the official report, it appears desirable to enumerate here several of the more important resolutions of particular interest to the United States Delegation in this report. The Congress, *inter alia*, resolved:

- 1) To re-affirm the Economic Charter of the Americas; (introduced (by pre-arrangement) in Commissions 7 and 8 by a United States representative, not a member of the official delegation).

2) To sponsor creation of a Pan American Institute of Mining Law, subsidiary to IPIMIGEO, with headquarters in Argentina; (sponsored by an Argentine delegate).

3) To promote uniform standards of statistics and technical terms; (suggestion informally made to Brazilian delegates and eventually introduced in the final resolutions of Commission 8).

4) To encourage the exchange of information on the mineral industry and of the promotion of cooperative exchanges of professors, geologists and mining engineers among the American countries; (introduced by the United States Delegation on Commission 9).

5) The promulgation of laws clearly outlining the norms affecting profit on and amortization of foreign capital invested in the various countries, intended to encourage foreign capital investments.

The recommendation made by a member of the United States Delegation for the creation of a commission on engineering and geology was taken under consideration by the Executive Council of IPIMIGEO.

The entire United States Delegation was completely aware of the limitations existing with respect to encouragement of the convocation of the Third Congress in the United States. However, from the very beginning, it was noticeable that most of the South American delegates assumed that the United States would be prepared to serve as host to the next Congress, because South American countries had sponsored the first two Congresses. Although the question of the locale of the Third Congress was on the agenda for the final day of the meeting, the subject unexpectedly arose for discussion in a sparsely attended plenary session on October 6th while many representatives were preparing to leave on the excursions. Presumably to table an anticipated invitation by the Argentine Delegation, the Brazilian delegates offered a resolution favoring the United States as the site of the next Congress. Because this resolution is of interest to the Department, I am enclosing a copy of the resolution ⁵ in the form it was approved by the Congress. It is interesting to note that in the final session of the Congress, the Mexican Ambassador to Brazil extended an invitation for the Congress to be held in Mexico City. The Canadian delegate also expressed his hope that Canada could some day act as host to a Congress, subject to the action of his parliament regarding the necessary appropriation.

Referring to the expected Argentine invitation during the recess of the Congress, the President of the Congress received an official letter from the Government of the Department of Mendoza, Argentina, offering financial support in the amount of Fifty Thousand Argentine Pesos, if Mendoza, Argentina, should be selected as the site of the Third Congress.

⁵ Not printed.

Most of the delegates and representatives attending the Congress took advantage of excursions arranged for the week of October 6th to 13th. These excursions gave the visitors and their Brazilian hosts an opportunity to visit many important mining and metallurgical plants and technical institutions of the country, including Morro de Mina manganese operations, the Casa de Pedra iron mine, the Morro Velho gold mine and mill, the diamond fields near Diamantina, the coal fields of Santa Catarina and Rio Grande do Sul, the aluminum refinery at Ouro Preto, the new Volta Redonda Steel Plant, the charcoal-iron blast furnaces in various locations; the industrial cities of Belo Horizonte and São Paulo and the mining schools in Rio de Janeiro, São Paulo and Ouro Preto. It is the unanimous opinion of the United States delegates that these excursions were of the utmost value in promoting friendships with the representatives of all the other countries in attendance as well as furnishing a valuable impression of the character of the country, its economy and its people.

It is my considered opinion that the Congress was an outstanding success, particularly in providing the forum for a friendly exchange of knowledge and viewpoints on technical subjects. I believe also that it tended to promote basic contacts among technicians and mining personnel which will go far to implement the expansion of the mining industry in the Americas. The magnitude and variety of the subjects discussed in the various commissions can be judged by the fact that 172 papers were presented, reviewed and recommended for publication in the annals of the Congress.

It would not be fitting to omit reference to the magnificent hospitality afforded the visiting delegates by their Brazilian hosts. The provision of Two Million Cruzeiros (One Hundred Thousand Dollars) for the sponsorship of the Congress by the Brazilian Government through Decree-law No. 8.748 of January 21, 1946, made possible economical rates for transportation and lodging without which many delegates might have been severely handicapped during their attendance at the meetings and on the excursions. It was quite evident that representatives of the other countries were as greatly impressed with the hospitality of Brazil as were the United States personnel.

Respectfully yours,

PAUL C. DANIELS

THE WITHDRAWAL OF THE PROCLAIMED LIST AND THE
RESOLUTION OF THE EMERGENCY ADVISORY COM-
MITTEE FOR POLITICAL DEFENSE CONCERNING
NAZI INFLUENCES ¹

740.00112A EW/2-1146: Circular telegram

*The Secretary of State to Certain Diplomatic Representatives in the
Eastern Hemisphere and to All Diplomatic Representatives in the
Western Hemisphere*

SECRET

WASHINGTON, February 11, 1946—8 p. m.

Executive Com on Economic Foreign Policy today approved fol-
lowing program for continuation of Proclaimed List.

European Hemisphere

(1) PL shd be withdrawn from any country where it is in danger
of losing its effectiveness without prospect of averting such loss of
effectiveness. At present time List cannot be considered to have lost
its effectiveness in any country in European Hemisphere.

(2) List for Eastern Hemisphere shd not be withdrawn on May 8
but shd be continued as long as it can serve a useful purpose in im-
plementation of program for elimination of German-owned and
controlled firms in European neutrals.

Western Hemisphere

(1) PL shd be completely withdrawn from any of other Am re-
publics as soon as local controls program has been completed.

(2) PL shd be withdrawn from any of other Am republics where
it is in danger of losing its effectiveness without prospect of averting
such loss of effectiveness.

(3) PL shd be completely withdrawn from Western Hemisphere
with possible exception of Argentina, one year after V-E Day, i.e.,
May 8, 1946, provided, if any Western Hemisphere country shd request
continuation of PL for that country beyond that date, such request
would be given due consideration.

(4) Mr. Braden's ² office shd be requested in early part of April
for its recommendation concerning continuation of List for Argentina
beyond May 8, and possible similar action in other countries which
have not satisfactorily carried out replacement program."

London is requested to discuss this immediately with Brit author-
ities re forthcoming SAFEHAVEN ³ negotiations in order to obtain

¹ For further documentation, see the pertinent chapters under each country in
the Table of Contents.

² Spruille Braden, Assistant Secretary of State for American Republic Affairs.

³ For documentation on the SAFEHAVEN program, see *Foreign Relations*, 1945,
vol. II, pp. 852 ff.

agreement to this program for Proclaimed and Statutory Lists. Document which forms basis for Com's recommendation is being transmitted to you air mail and copy being given to Brit Emb here.

BYRNES

740.00112A E.W./3-2946

Press Release Issued by the Department of State, March 29, 1946

It is and will continue to be the avowed policy of this Government to apply a vigorous enforcement program against dealing with persons and firms on the Proclaimed List of Certain Blocked Nationals. Failure to obtain a Treasury license before engaging in trade or communication with such persons and firms constitutes a violation of the Trading with the Enemy Act ⁴ and regulations issued thereunder, and subjects the offender to severe penalties. Recent revisions of the Proclaimed List do not in any way lessen the obligations of persons and firms subject to the jurisdiction of the United States to observe all the regulations relating to the List.

It already has been pointed out that many of the recent deletions from the Proclaimed List were made as a result of the changed security situation and that such deletions did not by any means imply that all deleted firms now are satisfactory representatives for American business. In this connection, American businessmen are cautioned not to establish or resume commercial or financial relations abroad with ex-Proclaimed List nationals before checking with the Commercial Intelligence Branch of the Department of Commerce as to the desirability of such relations. Business connections with former Proclaimed List individuals and firms, except those who have been deleted from the Proclaimed List without prejudice, would have to be a factor considered in cases arising for the protection of American interests abroad. While our Government always will protect the legitimate rights and interests of American business abroad, it would not wish to take any action which would assist those who formerly had worked against our vital national interests and who might do so again if opportunity offered.

The Department of Commerce is prepared to supply information about the local standing of persons and firms, including those previously listed, and to submit detailed information about the suitability of these and other foreign firms and individuals as trade connections from a commercial and mercantile standpoint.

⁴ Of October 6, 1917 (40 Stat. 411), and subsequent amendments.

740.00112A/4-346

Memorandum of Conversation, by Mr. T. R. Martin of the Division of River Plate Affairs

April 3, 1946.

Subject: Withdrawal of Proclaimed List

Participants: Messrs. Frost and McCombe—British Embassy
 Mr. Rubin—ESP⁵ Mr. Birch—ES
 Mr. Surrey—ES⁶ Mr. Gilmore—RPA
 Mr. Baker—ES Mr. Martin—RPA
 Mr. Monsma—ES

The meeting concerning the subject was called at the request of the British in order that they might present their views. These views are: (1) the British desire that the Proclaimed List be withdrawn for all countries simultaneously on May 8; (2) the British are prepared to retain the Proclaimed List for the Eastern Hemisphere but not for the Western Hemisphere until June 30, in view of negotiations presently underway with the European neutrals concerning the vesting of enemy assets; (3) the British are opposed to any further distinction in the withdrawal of the Proclaimed List among the American republics.

In general the British believe that the Proclaimed List as a trading list has served its purpose, and that further continuance of the List anywhere in the world for a trading purpose would be ineffective and for any other purpose inappropriate. The List is regarded as presently impotent and laboring under the enervating burden of rumors with respect to its withdrawal. In the event, however, that the United States Government feels strongly that the List should be continued in the Eastern Hemisphere to support current negotiations with the European neutrals, London will agree to an extension of the terminal date of the List for the Eastern Hemisphere to June 30. June 30 is the terminal date for certain related British controls. The extension, however, would be acceptable only on the understanding that the List for the Eastern Hemisphere would be very definitely withdrawn on June 30. Only impelling circumstances such as the prospect of the immediate signature of an agreement could be regarded as sufficient reason for the continuance of the List for the European neutrals beyond June 30. Only further extension beyond June 30 would have to be of an extremely short duration and the special circumstances most impelling. Both Messrs. McCombe and Frost emphasized that British freezing controls would be continued to support further the European negotiations.

⁵ Office of Economic Security Policy.

⁶ Division of Economic Security Controls.

The British appeared to feel quite strongly that the continuance of the Proclaimed List beyond May 8 for any or all of the American republics would serve no purpose. It was contended that the republics whose controls are based on the Proclaimed List should immediately make such amendments as were necessary to free them of this dependence. Postponement of withdrawal would merely postpone the enactment of the amendments. With respect to replacement the British suggested that other sanctions or agreements such as Pan American resolutions and the ACC Vesting Decree be used rather than the Proclaimed List to exert pressure upon the republics for the completion of their replacement programs. Concerning a possible retention of the List for Argentina alone, the British observed that other countries were quite as negligent as Argentina in the initiation and completion of a replacement program and that the Proclaimed List was no longer an imposing factor in the considerations motivating Argentina or any of the other remiss countries. Argentina would or would not complete her replacement program on the basis of considerations quite apart from the Proclaimed List.

Mr. Rubin stated that it was the position of his Office that the List should be withdrawn on May 8 for all of the republics of the Western Hemisphere except Argentina, and for Europe on June 30. Whether or not Argentina should be an exception would depend upon the decision of Mr. Braden.

It was concluded that the following steps remained to be taken: (1) the missions in the other American republics should be consulted concerning the date of May 8; (2) the date of June 30 should be considered for the European countries; and (3) Mr. Braden should be consulted concerning the possible exception of Argentina from the May 8 program proposed for the Western Hemisphere. With respect to the last point Mr. Rubin requested that Mr. Frost submit a memorandum outlining the British views, and stated that he would then incorporate this information in a memorandum covering the conclusions of the conference. Mr. Rubin would forward this memorandum to Mr. Braden for his decision concerning Argentina.

800.515/4-1546

*Memorandum by the Deputy Director of the Office of Economic Security Policy (Rubin)*⁷

[WASHINGTON,] April 15, 1946.

In the meeting in Mr. Thorp's office on April 12, 1946 it was indicated that the British had expressed a firm opposition to continuation of the Proclaimed List beyond June 30, 1946. Taking as a fact British withdrawal of the Statutory List as of that day, the problem was whether the Proclaimed List should be continued alone and whether the Proclaimed List should be withdrawn from any area of the world prior to June 30, 1946, if the decision were made that it should not be continued alone.

On the question of continuation of the Proclaimed List without the support of the Statutory List, it was agreed that it would be unwise politically and ineffective from the economic and trading point of view. It was indicated that the Department would adhere to its previous stand, that the Proclaimed List would not be continued alone.

On the basis of the representation of ARA, it was also agreed that the List would be withdrawn at one time for both the Western and the Eastern Hemispheres and that withdrawal from Argentina would be made at the same time as for the rest of the world.

The considerations in favor of these decisions are fairly obvious. On the other side it might be pointed out that Ambassador Messersmith⁸ had indicated strongly his belief that the PL should be continued in the Latin American countries for an indefinite period of time, in order to give support to the replacement programs there, and that some of the Latin American countries had themselves requested continuance of the List. It was also noted that public statements had been made to the effect that the List would be withdrawn more quickly from those areas furthest removed from the actual scene of combat than from other areas, and more quickly in those places where replacement programs had been carried forward. It was also pointed out that the current Swiss negotiations may result in at least an agreement to withdraw the Proclaimed List from Switzerland immediately and that actual withdrawal of the List from Switzerland might have to take place sometime prior to June 30, 1946.

Subsequently I was informed that Mr. Braden and Ambassador Messersmith strongly opposed the decision to withdraw the list on June 30, 1946 and had asked that all action on this question be with-

⁷ Addressed to the Assistant Secretary of State for Economic Affairs (Clayton) and to the Deputy to the Assistant Secretary (Thorp).

⁸ George S. Messersmith, Ambassador in Argentina.

held until a further meeting is convened to discuss the matter. Under these circumstances it may be necessary for Mr. Clayton to participate in such a meeting. The pressure on the one side will be to retain the list even in those countries which have best cooperated with us, in order to encourage continuation of the replacement program and to give some outside support to those elements within the local governments which are striving to continue the replacement programs. On the other hand, the Latin American countries must be cut off from this type of support sooner or later and a period of more than one year after hostilities in Europe have ceased would seem to be more or less adequate. On the separate issue of the Argentine, the considerations are very largely political, since the maintenance of a separate list for Argentina, if the rest of the continent has been deleted, will be almost entirely a political gesture. The importation of supplies from cloaks in other countries will be impossible to prevent and the prestige of the list will deteriorate very rapidly.

So far as the European picture is concerned a commitment indefinitely to continue the list would be in line with the decision of the Executive Committee on Economic Foreign Policy. If such a decision were reached it would make negotiations with the neutrals a great deal easier and guarantee that we would not be embarrassed by making a concession to a neutral with which we signed an agreement, which neutral would then find that our concession was no more than an empty gesture since the list was to be deleted universally within a few weeks. However, on this point I have pressed the matter as strongly as possible with British representatives here and with Mr. McCombe, the British Delegate to the Swiss negotiations. The British so far have been adamant on the June 30 date. If they are to be persuaded, a discussion will have to take place on a higher—and indeed very high—level.

710 Consultation (3A)/4-2646: Telegram

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

MONTEVIDEO, April 26, 1946.

[Received 6:15 p. m.]

260. For Dreier⁹ from Boal.¹⁰ Following translation of summary being released to press by CPD April 27, noon.

“EACPD, created by meeting of Ministers of Foreign Affairs of [at] Rio de Janeiro¹¹ and composed of members appointed by Brazil,

⁹ John C. Dreier, Chief of the Division of American Republics Analysis and Liaison.

¹⁰ Pierre de Lagarde Boal, American member of the Emergency Advisory Committee for Political Defense.

¹¹ For documentation on this meeting, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

Chile, Mexico, Peru, United States, Venezuela and Uruguay, the presiding member approved a resolution in its last plenary session which recommends measures to eradicate remaining centers of Axis influence in Western Hemisphere and which has already been submitted to consideration of American Governments. Despite victory of Allied forces, Axis agents and fifth columnists expect, by every means within their reach economic, cultural and political to reconstruct their centers of influence, continue to disseminate their pernicious ideology, and create discontent and disagreement among American republics. Resolution VII of conference of Mexico City¹² already recommended adoption of measures to prevent continued residence in hemisphere of those persons who may endanger American security and charged committee with task of preparing recommendations for purpose. Com. points out in its new resolution that confident hospitality which in past permitted action of Axis agents cost many lives and endangered independence of American republics. Therefore it expresses hope that adoption of measures recommended will prevent recurrence of these events which we have so bitterly experienced. In this resolution Com advocates measures to insure that those individuals, especially Germans and Japanese who remain faithful to Nazi Fascist ideology are no longer able to endanger security of Western Hemisphere. To this end it is recommended that all American republics adopt uniform standards for determining dangerousness from standpoint of continental security of aliens and naturalized persons who engage in pro-Axis activities. Expulsion of former and denaturalization of latter are recommended whenever such dangerousness is shown after careful and exhaustive investigations. With regard to those who according to such standards reveal lesser danger, it is recommended that expulsion be withheld when certain circumstances are present, for instance, having a spouse or children of American nationality or being in such precarious state of health that application of measure would endanger life. In order to give measure of expulsion continental scope it is recommended that no American republic admit any person who has been expelled by another American country for any of reasons indicated in resolution or any dangerous person outside continent who wishes to enter therein. To facilitate uniform action on matter, Com likewise recommends that every American republic transmit to all others names and particulars of those persons whose residence in hemisphere it deems dangerous. Application of Com's resolution will constitute a guarantee to peaceful inhabitants, nationals of Axis states, who have not engaged in any kind of subversive activity, that they will not be disturbed, since they cannot be confused with persons who have participated in such activities. As can be seen, system recommended constitutes an application, in keeping with democratic standards of fundamental principle of continental political defense, that interest of every American republic, when properly understood, requires of each the obligation to protect security of all the others."

[Boal]
DAWSON

¹² For text, see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945), p. 38.

740.00112 A EW/6-546: Circular telegram

The Secretary of State to Diplomatic Representatives in the American Republics

SECRET

WASHINGTON, June 5, 1946—8 a. m.

Dept believes other American Republics should be given advance notice of possible withdrawal of PL so that they can if necessary make adjustments in their local controls. Pls inform Government to which you are accredited for its secret info that this Govts present plan is to completely withdraw PL for all countries on or about June 30.

You shd emphasize such action if taken shd not be interpreted as loss of interest in local controls programs of various countries nor in question of ultimate disposition of Axis assets. Dept feels these programs shd continue on basis of Inter-Amer commitments and best interests of each Amer Republic. Public announcement to this effect will be made when withdrawal occurs.

You shd correlate your discussion of this matter with any recent approaches you have made regarding completion Replacement Program. You might e.g. state we have confidence that Govt will make good its Inter-Amer commitments and complete Replacement Program. You cld further point out that though PL is withdrawn firms not deleted from List on basis of merit or subsequently cleaned up would have great difficulty obtaining Amer agencies (Dept press release 202 Mar 29, cirins Mar 20¹³).

Also stress importance of keeping possible withdrawal secret.

BYRNES

740.00112A EW/6-2246

The Acting Secretary of State to President Truman

WASHINGTON, June 21, 1946.

MY DEAR MR. PRESIDENT: The President's Proclamation Number 2497 of July 17, 1941¹⁴ vested in the Secretary of State, acting in conjunction with the Secretary of the Treasury, the Attorney General and the Secretary of Commerce, the authority to promulgate the "Proclaimed List of Certain Blocked Nationals".

As you know, the Proclaimed List, which was operated in close cooperation with the British, who maintained a similar list called the "Statutory List", provided an important and effective weapon in the economic warfare program of the Allied nations. However, with the conclusion of hostilities, considerable discussion has been held with

¹³ Latter not printed.¹⁴ Department of State *Bulletin*, July 19, 1941, p. 42.

the British, both prior to and since V-E Day, with respect to the withdrawal of this List. Pursuant to these conversations, it had been agreed that the List would be withdrawn one year after V-E Day. It was subsequently agreed to postpone this date until June 30, 1946 in view of the fact that it was believed desirable before withdrawing the American and British Lists to allow time for the inauguration of our discussions with the neutral countries with regard to German external assets located in such countries. As you know, an Accord with the Swiss Government on this subject has been reached and negotiations are being held with the Swedish Government. Therefore, it is believed that the agreement to withdraw the List on June 30, 1946, simultaneous with similar action by the British Government with respect to its List, is desirable.

As you will fully realize, the withdrawal of the List represents an important step forward in the elimination of wartime controls over trade, and is in full harmony with the United States policy of obtaining free international trade. I am therefore enclosing a copy of a proposed Administrative Order¹⁵ to be issued, pursuant to your direction, by the Secretary of State in conjunction with the Secretary of the Treasury, the Secretary of Commerce and the Attorney General which, effective June 30, 1946, withdraws the existing Proclaimed List of Certain Blocked Nationals. Similar action will be taken by the British Government, and an appropriate press release will be issued on that date. This decision to withdraw the List is subject to modification if circumstances intervening between now and June 30 make it necessary to continue the List for a short time for any particular area.

If you approve of this action, I should appreciate it if you would advise me accordingly.¹⁶

Faithfully yours,

DEAN ACHESON

[On July 9, 1946, the Department of State with the concurrence of the Departments of the Treasury, Justice, and Commerce announced the withdrawal of the Proclaimed List of Certain Blocked Nationals. This measure was decided upon after extensive consultation with the British and Canadian Governments, which were taking similar action with respect to the British Statutory List and the Canadian List of Specified Persons. For text of the announcement, together with a memorandum describing the history and scope of the Proclaimed List, see Department of State *Bulletin*, July 21, 1946,

¹⁵ 11 *Federal Register* 7567.

¹⁶ Below the signature of the Acting Secretary of State appears the notation: "Approved 6/22/46 Harry S Truman."

pages 112 ff. For additional information, see George N. Monsma, "Former Proclaimed List Nationals and American Foreign Trade," *ibid.*, May 26, 1946, pages 875 ff.]

710 Consultation (3A)/10-446

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

WASHINGTON, October 31, 1946.

EXCELLENCY: I have the honor to acknowledge your Excellency's communication of October 4, 1946,¹⁷ concerning the need to prevent dangerous Axis elements from entering the Western Hemisphere, especially from neutral countries, together with the attached preliminary list of such persons heretofore in Spanish territory.

The Government of the United States welcomes the initiative taken by the Emergency Advisory Committee for Political Defense concerning this subject, and will be entirely disposed to cooperate in preventive action, in concert with the other American Republics, along the lines of the recommendations made by the Committee.

Accept [etc.]

JAMES F. BYRNES

740.00112A/12-346: Circular airgram

The Acting Secretary of State to Diplomatic Representatives in the American Republics

CONFIDENTIAL

WASHINGTON, December 3, 1946—8:40 a. m.

Embassy at Santiago has received a report that Soviet Attaché has contacted six former Proclaimed List nationals and will contact all in endeavor to sell German goods made in Russian zone of Germany and to elicit their cooperation.

Embassy at Buenos Aires reports former Proclaimed List national asserts he was offered exclusive distribution and selling rights for South America of "Russian Made" pharmaceuticals, chemicals, and dyestuffs by two members of Russian Commercial Mission whom he alleged to be fully cognizant of the former Proclaimed List national's past and to have stated that it is to Russia's advantage to select some one in his peculiar position, with his knowledge of the Argentine chemical industry.

These reports may indicate a trend. Please report whether similar reports have been received by you.

ACHESON

¹⁷ Not printed.

UNITED STATES POLICY WITH RESPECT TO THE PROVISION OF MILITARY ASSISTANCE AND ARMAMENTS TO THE AMERICAN REPUBLICS ¹

810.24/1-446

The Under Secretary of State (Acheson) to the Acting Secretary of War (Royall)

SECRET

WASHINGTON, January 4, 1946.

MY DEAR MR. ROYALL: I refer to my letter of December 19, 1945,² to the Secretary of War ³ concerning the interim allocation of ground and air force equipment which the War Department has proposed for other American republics. As stated in the letter, the Department has considered further with representatives of the War Department the matter of making tactical aircraft available to other American republics at this time.

In the second paragraph of my previous letter I outlined the political reasons which make the Department of State extremely reluctant to approve the allocation of tactical aircraft to other American republics. The Department feels particularly strongly on the question of allocating bombing planes because of their great potential destructiveness if put to improper use.

I should like to emphasize again that the question at issue relates to the long range political objectives of the United States in Latin America. Were bombing planes, provided by this Government, to be used destructively in international disputes, or in the course of internal political disturbances, I am confident the U.S. would lose much of the support and friendship of those people of Latin America who are devoted to the cause of peace and of stable democratic government. In the long run we must in large measure rely upon the support of those groups if our position of leadership among the American republics is to be maintained and strengthened.

The Department recognizes that special conditions prevail with regard to Brazil and Mexico whereby the United States has become

¹ For previous documentation concerning the settlement of lend-lease obligations by the American Republics and the sale to them by the United States of arms and munitions of war, see *Foreign Relations*, 1945, vol. ix, p. 231 ff.

For additional 1946 documentation on the above subject, see pertinent entries in *Index* under individual countries.

² *Foreign Relations*, 1945, vol. ix, p. 261.

³ Robert P. Patterson.

committed to provide such planes to those governments if they desire them. The Department therefore approves the allocation of all the aircraft recommended in the interim air force program for Brazil and Mexico, as submitted by the War Department.

For the other countries included in the War Department's interim allocation, the Department approves the revised allocations agreed to by General Walsh,⁴ of P-47's and all other planes proposed except for AT-11's and B-25's subject to the provisions that no planes be sent at the present time to Argentina, Nicaragua or Paraguay, and that no tactical aircraft, AT-6's or AT-11's be sent for the present to Bolivia, Dominican Republic, Haiti or Honduras.

With respect to B-25's and AT-11's, for the remaining countries, the Department believes that for the political reasons referred to above the transfer of such planes would be undesirable to the interests of the United States. Should you feel that the purposes which the War Department has in mind involve considerations of such high importance that they should override the political considerations to which I refer, the Department will be glad to consider the matter further with representatives of the War Department.

I am sending a copy of this letter to the Secretary of the Navy.⁵

Sincerely yours,

DEAN ACHESON

810.24/1-646

The Acting Secretary of War (Royall) to the Under Secretary of State (Acheson)

SECRET

WASHINGTON, January 6, 1946.

MY DEAR MR. ACHESON: Yesterday General of the Army Henry H. Arnold discussed with the President the furnishing of arms and equipment, including AT-6, AT-11 and B-25 aircraft, to certain of the South American Republics, and General Arnold was advised that aircraft could be immediately furnished in the numbers agreed to in the recent bilateral staff conversations with these Republics.

In accordance with this discussion the War Department proposes to proceed to transfer to all of these certain South American Republics, except Argentina, Nicaragua and Paraguay, AT-6s and AT-11s and possibly B-25s, as well as the other types of planes approved by the State Department.

Since this course of action is contrary to the recommendation contained in your letter of 4 January 1946, I hasten to advise you, in order that you may if you desire arrange further discussions of this

⁴ Maj. Gen. Robert L. Walsh, War Department.

⁵ James Forrestal.

matter before General Arnold leaves for South America on Wednesday, 9 January.

The War Department does not plan without prior discussion with the State Department to depart from the other conditions and matters of policy set out in your letter of 19 December 1945 to the Secretary of War and your letter of 4 January 1946 to me.

Sincerely yours,

KENNETH C. ROYALL

810.24/1-646

The Assistant Secretary of State (Braden) to the Acting Secretary of War (Royall)

SECRET

WASHINGTON, January 9, 1946.

MY DEAR MR. ROYALL: The receipt is acknowledged of your letter of January 6, 1946, to Mr. Acheson concerning the furnishing of certain military aircraft to the other American republics.

In the foregoing connection I had the pleasure of discussing the so-called Adjusted Interim Latin American Aircraft Requirements Program with General of the Army Arnold and Major General Walsh on January 8. At this meeting it was agreed that the State Department approves the Interim Program as set forth on the attached sheet⁶ subject to the understanding that:

(1) No airplanes will be made available for the present to Argentina, Bolivia, Dominican Republic, Haiti, Honduras, Nicaragua or Paraguay.

(2) The furnishing of airplanes to the other thirteen American republics will be subject:

(a) to the concurrence with respect to each country of the American Ambassador concerned, and

(b) to the desires of each country, should it not wish to receive the full number approved by the American Ambassador for that country.

General Arnold also agreed that any "implied commitment" with regard to military airplanes resulting from the staff conversations will have been discharged by furnishing the aircraft comprising the Adjusted Interim Program, and that the United States is under no further obligation with respect to supplying additional military airplanes.

General Arnold agreed that a decision concerning supplying future aircraft should be made subsequent to policy decisions involving the extent and nature of military collaboration between this country and the other American republics.

Sincerely yours,

SPRUILLE BRADEN

⁶ See facing page.

[Enclosure]

ADJUSTED INTERIM LATIN AMERICAN AIRCRAFT REQUIREMENTS

| Country | PBY or OA-10 | B-25 | P-47 | C-47 | C-45 | AT-11 | AT-7 | AT-6 | BT's | PT's | C-43 or C-64 | Total |
|---------------|-----------------|------|------|------|----------|-------|------|------|------|------|--------------------|-------|
| Bolivia | — | — | — | 9 | — | — | — | — | — | — | — | 9 |
| Brazil | — | 64 | 25 | 45 | 25 | 5 | 5 | — | — | — | — | 169 |
| Chile | 2 | 12 | 25 | 10 | — | 5 | 5 | — | — | — | 8 | 67 |
| Colombia | 2 | 8 | 25 | 3 | 2 | 5 | — | 2 | — | 15 | — | 62 |
| Cuba | 1 | 4 | 8 | 1 | — | 2 | — | — | — | — | — | 16 |
| Dom. Republic | — | — | — | — | — | — | — | — | — | — | — | — |
| Ecuador | 2 | — | 15 | 4 | 6 | — | — | — | — | — | — | 27 |
| El Salvador | — | — | — | — | 1 | — | — | 2 | 2 | — | — | 5 |
| Guatemala | — | — | — | 1 | 3 | — | — | 6 | — | 10 | — | 20 |
| Haiti | — | — | — | — | — | — | — | — | — | — | — | — |
| Honduras | — | — | — | — | — | — | — | — | — | 6 | — | 6 |
| Mexico | — | 16 | 25 | 8 | — | 5 | 5 | — | — | — | — | 59 |
| Nicaragua | — | — | — | — | — | — | — | — | — | — | — | — |
| Panama | — | — | — | — | — | — | — | 1 | — | 2 | — | 4 |
| Paraguay | — | — | — | — | — | — | — | — | — | — | — | — |
| Peru | 3 | 8 | 25 | 9 | 2 | 5 | — | — | — | — | — | 52 |
| Uruguay | — | 8 | 15 | 4 | 3 | 5 | — | — | — | — | — | 35 |
| Venezuela | — | 4 | 15 | 10 | 1 | 5 | — | — | — | — | — | 35 |
| TOTAL | 10 | 124 | 178 | 104 | 44 [sic] | 37 | 15 | 11 | 2 | 33 | 8 | 566 |

810.24/1-2246

Memorandum of Meeting, by the Chief of the Division of American Republics Analysis and Liaison (Dreier)

SECRET

[WASHINGTON,] January 22, 1946.

Participants: Mr. Snyder—OWMR ⁷
 Acting Secretary of State Acheson
 Acting Secretary of War Royall
 Assistant Secretary of the Navy Sullivan
 Mr. Symington—S.P.A. ⁸
 Mr. Harold Stein—OWMR
 Mr. Maxwell—LP ⁹
 Mr. Dreier—RL

Mr. Snyder opened the meeting by stating that there were two problems for consideration:

A long range program of providing arms to other American republics, concerning which full agreement had not been reached; and a short range program already agreed upon.

Regarding the latter, the principal question was whether it should be carried out through the Surplus Property program.¹⁰

Acting Secretary Royall briefly summarized the Army's interest in this program as a means of promoting close collaboration with the military forces of the other American republics. Assistant Secretary Sullivan, for the Navy, subscribed to the general objectives but expressed the view that heavy modern weapons such as battleships, cruisers, aircraft carriers, submarines, long-range bombers, should not be given to the Latin American countries because the danger of their misuse would in general be greater than their value to our defense.

Acting Secretary Acheson made a clear distinction between the long range program and the short range program. Concerning the long range program, he said the State Department had concluded that a reexamination of it was necessary in the light of developments since the general policy was approved by the President last summer. He referred to the invention of the atomic bomb, to the question of

⁷ John W. Snyder, Director of the Office of War Mobilization and Reconversion.

⁸ W. Stuart Symington, Administrator, Surplus Property Administration.

⁹ James A. Maxwell, Assistant Chief of the Division of Lend-Lease and Surplus War Property Affairs.

¹⁰ See Public Law 457, October 3, 1944, an act to aid the reconversion from a war to a peace economy through the distribution of Government surplus property and to establish a Surplus Property Board to effectuate the same, and for other purposes, 58 Stat. 765.

whether the strategic value of this program would any longer be worth the cost, and to the political situation in Latin America where unrest increased the likelihood of the misuse of these arms by military forces in overthrowing governments and establishing governments under their military control. With reference to the short range program, however, the Department, Mr. Acheson said, recognized that a moral commitment of a sort had been assumed as a result of the military staff conversations, and that after considerable discussion, particularly on the subject of bombing planes, a schedule of arms and equipment to be sent under the short range program had been agreed to. The attitude of the other American republics was such, he said, as to make it necessary for the United States to send forward the limited amount of equipment contained in the short range program. It was the Department of State's opinion that this could most effectively be done through the Surplus Property program.

Mr. Sullivan explained that the Navy had only a very small amount of spare parts, etc. involved in any short range program since it was not possible to use the surplus property program for the transfer of any vessels aside possibly from small boats.

Mr. Symington expressed the view that the short range program could be handled through the surplus property program. Mr. Stein expressed the opinion that it was possible from a technical legal point of view to carry on the program under the surplus property act but that it was definitely not the kind of transaction envisaged in the act, and that, therefore, consultation with Congress was desirable. Mr. Snyder stated that he believed the program should be discussed with the President and with Congressional leaders in order that an understanding might be reached as to the use of the surplus property program for this specific purpose. Mr. Acheson urged that only the short range program be discussed with Congress in view of the reexamination of the long range program which the State Department felt desirable. Mr. Royall said he felt there could be no objection to a reexamination of the long range program as Mr. Acheson had suggested provided it be done promptly.

Mr. Snyder concluded the meeting by asking that the reexamination of the long range program be started immediately and requested that the War Department draw up a memorandum summarizing the nature, amount and value of equipment involved in the short range program. This memorandum was to be circulated for comment to the State and Navy Departments and SPA and would serve as the information to be given to Congressional leaders when the program was discussed with them.

810.24/1-1946

*The Secretary of State to Brigadier General Kenner F. Hertford,
War Department*

SECRET

WASHINGTON, February 20, 1946.

MY DEAR GENERAL HERTFORD: I refer to the letter of January 9, 1946, from Assistant Secretary Braden to Under Secretary Royall concerning the allocation of certain military aircraft to the other American republics. The letter under reference approved the so-called "adjusted interim allocation" of aircraft to American republics, except that no planes are to be offered for the present to Argentina, Bolivia, Dominican Republic, Haiti, Honduras, Nicaragua and Paraguay, and subject to the concurrence of the American Ambassador concerned as well as to the desire of each country to receive the full number of planes so approved.

This is to inform you that the concurrence of the American Ambassador concerned has been received for the allocations to the following countries: Brazil, Chile, Colombia, Cuba, Ecuador, Guatemala, Mexico and Peru. The American Ambassador to El Salvador has requested elimination from the allocation to that country of the two AT-6's, and the substitution of Basic Trainers for them. The American Ambassador to Panama has agreed that no planes should be allocated to Panama at this time. The American Ambassador to Venezuela has requested that no B-25's or P-47's be made available to Venezuela and that only 3 C-47's and 5 C-45's be offered, at this time.

The desires of the other governments cannot of course be ascertained until negotiations on price and other details are completed. However, we can inform you that Uruguayan representatives in Washington have indicated a desire to substitute 15 AT-6's and 10 AT-11's for the bombers and fighters originally proposed and to acquire an additional 50 PT-19's or PT-27's.

It is our understanding that this letter constitutes final approval for the allocation to other American republics of the number of aircraft listed in the Army Air Force's so-called "533 program" as modified above.

Sincerely yours,

For the Secretary of State:
ELLIS O. BRIGGS
*Director, Office of American
Republic Affairs*

811.516 Export Import Bank/3-446: Circular airgram

The Secretary of State to All Diplomatic Representatives

RESTRICTED

WASHINGTON, March 4, 1946—9:35 a. m.

The National Advisory Council¹² at its meeting on February 13, 1946 adopted the following resolution:

“Export-Import Bank funds should not be used to finance the purchase of surplus property which can be sold on credit terms by the surplus property disposal agencies under their existing powers. The Export-Import Bank and the surplus disposal agencies should take appropriate action to effectuate this policy.”

In light of this decision, which formalizes a policy which has in practice been followed since surplus disposal started, you should make clear, in any discussions that you may have with government officials on the subject, that Export-Import Bank loans will not be available for purchase of surplus property.

BYRNES

810.24/3-1446

Memorandum by the Chief of the Division of Caribbean and Central American Affairs (Cochran)

WASHINGTON, March 14, 1946.

Subject: Arms Program—Guatemala, El Salvador, Cuba, and Costa Rica.

On March 13 and 14, 1946, the Guatemalan, Salvadoran, and Cuban Chargé d’Affaires¹³ and the Costa Rican Ambassador¹⁴ called at my request. Mr. Dreier attended the first meeting, General Wooten,¹⁵ the first three meetings and the appropriate desk officers were present at all four.* I informed the Embassies’ representatives that with respect to inquiries which had previously been received from their Governments and from other American Governments, we had made necessary arrangements to make available to the countries concerned certain military equipment for their armed forces. The equipment is

¹²The National Advisory Council on International Monetary and Financial Problems (Department of the Treasury), composed of the Secretaries of the Treasury, State, and Commerce, and the Chairmen of the Board of Governors of the Federal Reserve System and of the Board of Directors of the Export-Import Bank, was established pursuant to the Bretton Woods Agreement Act, Public Law 171, 79th Cong., approved July 31, 1945.

¹³Enrique Lopez-Herrarte, Felipe Vega-Gomez, and José T. Barón, respectively.

¹⁴Francisco de P. Gutiérrez.

¹⁵Maj. Gen. Ralph H. Wooten, U.S. Army, Latin American Division, Office of Foreign Liquidation Commissioner.

*Mr. Furniss of RL was also in attendance at all four meetings. [Footnote in the original.]

being made available from surpluses of our armed forces and will be offered for sale under the Surplus Property Act, in accordance with their desires as to whether they want all this equipment or part of it.

It was explained that the equipment had been listed on the basis of a military unit as set forth in our tables of organization (with which their military officers were familiar) and that it included all equipment listed in our tables except for some civilian items, including especially motor vehicles, which were in fact not in surplus at the present time. I added that if these items should later be declared surplus, they would be notified. I then gave to each representative a copy of the memorandum listing the equipment available,¹⁶ as set forth hereafter. I added that aircraft would be accompanied by spare parts and equipment for ground crews insofar as they were available in surplus.

I stated that FLC has been designated as the disposal agency for this material and that General Ralph H. Wooten, Room 6176 New War Department Building can provide details on equipment available and is responsible for establishing prices under the provisions of the Surplus Property Act. In consequence, all further discussions should be directly with him.

In no case did the question arise as to future purchases of further armaments; and in no case was the question raised as to the exchange of present equipment for that to be furnished under this program.

EQUIPMENT PROPOSED

Guatemala

| | |
|-------------------------|---------------------------------|
| Military equipment for: | 1 Battalion of Infantry |
| | 1 Battery Light Field Artillery |
| Aircraft: | 4 C-47's |
| | 3 (C-45's) |
| | (AT-11's) Depending on |
| | (AT-7's) availability |
| | 6 AT-6's |
| | 10 PT's |

El Salvador

| | |
|-------------------------|---------------------------------|
| Military equipment for: | 1 Infantry Rifle Company |
| | 1 Battery Light Field Artillery |
| Aircraft: | 1 (C-45) |
| | (AT-11) Depending on |
| | (AT-7) availability |
| | 2 BT's |

¹⁶ Memorandum not printed.

Cuba

| | |
|-------------------------|-------------------------------------|
| Military equipment for: | 1 Battalion of Infantry |
| | 1 Battery of Light Field Artillery |
| Aircraft: | 1 PBY (OA-10) |
| | 4 B-25's |
| | 8 P-47's |
| | 4 C-47's |
| | 2 (AT-11's) |
| | (AT-7's) Depending on availability |
| | (C-45's) |

Costa Rica

| | |
|-------------------------|--------------------------|
| Military equipment for: | 1 Infantry Rifle Company |
|-------------------------|--------------------------|

Subsequently, certain developments took place in each individual case, which are enumerated below:

Guatemala: The question immediately arose as to whether or not this equipment would be made available to Guatemala under the \$1,500,000 Lend Lease credit which the Guatemalans consider still to be available to them. I stated that I was not in a position to give a definite answer on this but that I hoped to be able to do so within a week or ten days.

El Salvador: The Chargé d'Affaires asked whether these transactions would be for cash. General Wooten said that his understanding of the situation was that they were to be for cash and if the question of credit arose, it would have to be cleared with the State¹⁷ and Treasury Departments.

Cuba: Having explained to Dr. Barón the general program which was contemplated, I reminded him that Cuba was one of the few countries which had not paid anything whatsoever on Lend Lease, although the information available indicated that it was in a financial position to do so. I pointed out further that we had sent to the Cuban Embassy seven successive notes enclosing statements of the amount due, without having received any reply. I then commented that it was difficult to see how Cuba could afford to buy new equipment since it had not paid for the equipment which it had already received under Lend Lease, and that for the present, we were

¹⁷ The Director of the Office of American Republic Affairs (Briggs) commented in a memorandum of December 2, 1946, as follows:

"We are unanimously of the opinion that credit should not be extended, except perhaps in the case of certain vessels included in the Navy interim program, since all the other equipment is highly expendable and would be used up long before the debts would be liquidated.

"The amount involved in the interim program is in the neighborhood of 75 million dollars, of which 25 million dollars will be for re-conditioning vessels which the Navy de-commissioned in its general demobilization program. What with the lend-lease and other accounts outstanding, few of the Latin American republics can or should involve themselves in new expenditures of this magnitude." (810.24/12-246)

not disposed to make the equipment available as long as Cuba was in complete default on its Lend Lease. I said that we could not defend any other attitude on our part before the Congress and people of the United States. Dr. Barón commented that he had on one occasion, as Chargé d'Affaires, sent to his Government one of our notes regarding repayment for Lend Lease obligations but that he had had no reply. He intimated that he would telegraph to Ambassador Belt, who is still in Cuba and who is expected back tomorrow, the substance of the conversation.

Costa Rica: The same comments with regard to Lend Lease obligations which were made in the case of Cuba were repeated to the Costa Rican Ambassador. The Ambassador appeared to understand our position and that these comments involved no lack of desire to collaborate with Costa Rica. He asked if this furnishing of armaments was connected with the recent agreement which he had signed with Secretary Byrnes and I assured him that it had no connection with the Military Mission but rather with the Staff Conversations held about a year ago. He said that he thought Costa Rica would be better off without an army. I said that we had no desire whatsoever to suggest or support a Costa Rican army against the wishes of the Costa Rican Government and people but that since his Government had, in the Staff Conversations, indicated its interest in receiving certain armaments, we wanted to handle the matter just as we were with the other countries of the hemisphere.

WILLIAM P. COCHRAN, JR.

800.00 Summaries/3-2146: Circular telegram

*The Secretary of State to Certain Diplomatic Representatives*¹⁸

SECRET

WASHINGTON, March 21, 1946—10 a. m.

Certain of American Republics informed by Dept¹⁹ of amount of military equipment that will be available to them from US surplus stocks. Amount will vary according to a predetermined formula. Brazil will be able to obtain ground equipment sufficient to arm one division of infantry. Smaller countries will be restricted to lesser amounts. Aircraft being offered include transports, primary basic and advanced trainers and a few tactical planes. Basic purpose of program is to standardize military equipment insofar as possible for hemisphere defense. At present Argentina, Dominican Republic, Haiti, Honduras, Nicaragua are excluded. Panama also excluded because she has no army only police force.

BYRNES

¹⁸ The diplomatic representatives at Caserta, Lisbon, London, Madrid, Moscow, Paris, and Stockholm.

¹⁹ See memorandum of March 14, *supra*.

810.34/3-3046

The Secretary of State to the Secretary of the Navy (Forrestal)

SECRET

WASHINGTON, April 9, 1946.

MY DEAR MR. SECRETARY: I refer to your letter of March 30, 1946 to which is attached a list of naval vessels²⁰ which the Navy Department proposes to transfer to the other American republics. It is noted that the vessels comprise minor combat, auxiliary, and miscellaneous craft which are in excess of the Navy's needs, and that these vessels conform to the number and types requested by the other American republics during the recently concluded exploratory bilateral military staff conversations, as revised by the Joint Army-Navy Advisory Board.

The Department requests that no vessels be offered at the present time to the Dominican Republic, Haiti, and Nicaragua.²¹ There is no objection to the sale to the other American republics specified of the vessels listed in the attachment to your letter.

Sincerely yours,

For the Secretary of State:

DEAN ACHESON
Under Secretary

800.24/5-346

*The Acting Secretary of State to the Secretary of the Navy
(Forrestal)*

CONFIDENTIAL

WASHINGTON, July 1, 1946.

MY DEAR MR. SECRETARY: Reference is made to your letter of May 3, 1946, and to the Secretary of State's reply of June 6, 1946,²² concerning naval equipment which it is desired to sell to certain other American republics under the terms of the Surplus Property Act.

Since this correspondence the Navy Department has sent to the Department of State for approval lists, by countries, of equipment falling within the categories outlined in your letter of May 3. These

²⁰ Neither printed.

²¹ Secretary Forrestal was informed in the Department's letter of April 18, as follows: "To this list of republics to which it is undesirable to furnish naval vessels at this time should be added Cuba for the reason that, despite the strong financial condition of that government and great prosperity on the island, Cuba has made no payments, although repeated requests have been presented, on her Lend-Lease settlement." (810.34/3-3046)

Secretary Byrnes repeated in his letter of June 6 to Secretary Forrestal the recommendation that no naval material be made available to Cuba until a payment had been made on its lend-lease account, and added: "With regard to the provision of ammunition, it is believed that such ammunition should be limited to one year's normal training or practice allotment for the various weapons sold as has been agreed upon with the War Department in the case of ground equipment." (800.24/5-346)

²² Neither printed.

lists have been reviewed by representatives of the State and Navy Department, and it is understood that the lists received to date cover the scope of the Navy's interim program for naval equipment.

On the basis of the discussions between representatives of our two departments, the Department of State is glad to approve the Navy's interim program of equipment for the naval establishments of other American republics as follows:

(1) The list of weapons which is attached hereto²³ and is taken from the individual country lists referred to above.

(2) One year's training allocation of ammunition for the weapons mentioned above, and the same for any other weapons of American calibre now possessed by the navies of other American republics.

(3) Such additional equipment other than arms, ammunition and implements of war as may be requested by the representatives of the other American republics, which will be limited to the purpose of repairing and maintaining the existing naval forces without any appreciable increases in the naval strength of the individual countries.

The above program is subject to certain exceptions at the present time: it is requested that no equipment be offered for the present by the Navy Department to the Governments of Argentina, the Dominican Republic, Haiti, Honduras, and Nicaragua. Furthermore, as requested in the Secretary of State's letter of June 6, it is requested that no naval material be made available to Cuba until the Cuban Government makes a payment on its Lend-Lease account.

A copy of this letter is being sent to the Field Commissioner for Military Programs, Office of the Foreign Liquidation Commissioner, for his information and guidance.²⁴

Sincerely yours,

DEAN ACHESON

811.2310/8-2146: Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in Certain American Republics*²⁵

CONFIDENTIAL

WASHINGTON, August 21, 1946—9 a. m.

Please refer to previous communications concerning the interim arms program under which military and other equipment are being made available through Surplus Property channels to certain other American republics, and particularly to recent communications from

²³ Not printed.

²⁴ In a letter of April 18, 1946, the Secretary of State had delegated authority to the Foreign Liquidation Commissioner to dispose of surplus military property in the United States to other American Governments, and, in turn, the Commissioner had delegated such authority to Maj. Gen. Ralph H. Wooten and had designated him as Field Commissioner for Military Programs (810.24/4-2446).

²⁵ The diplomatic representatives at Rio de Janeiro, Bogotá, Santiago, Guatemala, Lima, Montevideo, and Caracas.

the Department concerning plans of the United States Army Air Forces to ferry to various other American republics aircraft being purchased under the interim program.

During the visit to Colombia and Peru of General H. H. Arnold, formerly Commanding General of the US Army Air Forces, plans for ferrying interim allocation aircraft to those countries were made by General Arnold with the respective governments. Subsequently arrangements were made in Washington by the USAAF with the Military Attachés of Brazil, Chile, Guatemala and Uruguay and with the Ambassador of Venezuela for ferrying interim allocation aircraft to those countries. In making these arrangements, it was made clear to the representatives of other governments that the aircraft would remain the property of the US Government until the representatives of the other governments had concluded negotiations with the Office of the Foreign Liquidation Commissioner in Washington, D.C. for the purchase of aircraft at prices established by the Foreign Liquidation Commission and the subsequent transfer of title. The War Department also agreed, at the request of the other governments, to permit training crews to remain with the aircraft after arrival in order to train nationals of the receiving countries in the operation and maintenance of the various types of aircraft to be delivered.

[Here follows detailed information concerning personnel, dates, etc.]

ACHESON

810.34/8-2046

*The Acting Secretary of State to the Secretary of the Navy
(Forrestal)*

WASHINGTON, October 11, 1946.

MY DEAR MR. SECRETARY: I share your thought that the Interim Program, as a part of our policy to promote the Inter-American defense of the Western Hemisphere, has assumed added significance by virtue of the failure of the 79th Congress to pass H. R. 6326.²⁶

Since receiving your letter of 20 August 1946,²⁷ I am informed that certain progress has been made with the Maritime Commission as a result of your letter to the Commission's Chairman. I am also informed that the Naval Division, Office of the Field Commissioner for Military Programs, has made considerable progress with the Maritime

²⁶ The Inter-American military cooperation bill.

²⁷ Not printed; Secretary Forrestal wrote about several obstacles impeding the progress of the Navy's interim program (810.34/8-2046).

Commission and that they are jointly preparing to offer a number of vessels over 1500 gross tons to other American Governments at prices that are quite close to the Interim Program formula. I am further informed that a large number of vessels upon which the Commission has established or is about to establish fixed prices can be sold, and plans are presently being formulated to accomplish this.

It would seem that the prospect of early acceleration of the Program is much brighter since greater cooperation has been developed between the Maritime Commission, the Navy Department, and the Department of State.

Discussions with representatives of the other American Governments have emphasized that notwithstanding the unsatisfactory condition of vessels due to material demobilization, only fully militarized, operable vessels will meet the requirements of the purchasing countries. To meet these requirements a most liberal and concerted effort should be made to improve the condition of vessels. It is felt that this contribution can only come from the Navy. Accordingly, the Department of State prefers to negotiate transfers on an "as is" basis and recommends that the matter of replenishment of allowances or spares and reconditioning be a direct transaction between the prospective purchaser and the Navy Department.

Delivery dates are dependent upon completion of indoctrinal programs, as stated in your letter. Since indoctrination is a matter under your own cognizance, work schedules and dates should be matters of direct agreement between the prospective purchaser and the Navy Department.

Your letter suggests that prospective purchasers be limited to inspection of operational craft when establishing their requirements, if any, of that type. This is a matter of your own cognizance as these determinations are made during the period in which the Navy Department is establishing what is to be included in the Interim Program. When the requirements are approved for inclusion in the Program, bow numbers are assigned by the Navy Department. Inspections conducted by the Office of the Field Commissioner for Military Programs are made to determine the condition of a specific vessel for the purpose of pricing it. These inspections must be made, of necessity, on the specific vessels the Navy Department has allocated to the prospective purchaser.

I will appreciate receiving a copy of such instructions as you may issue to the Naval establishment.

Sincerely yours,

DEAN ACHESON

810.348/10-1146: Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in Certain American Republics*²⁸

CONFIDENTIAL

WASHINGTON, October 11, 1946—8:40 a. m.

The following naval aircraft have been approved by the Department and by the Navy Department for inclusion in the interim arms programs for the countries indicated, subject to availability through surplus property channels.

| No. | Type | Country |
|-----|---------------------------------------|-----------|
| 20 | OS2U ("Kingfisher"—scout observation) | Uruguay |
| 2 | JRF ("Goose"—utility transport) | |
| 6 | N3N (primary trainer) | Mexico |
| 3 | PV-2 ("Harpoon"—medium patrol bomber) | Peru |
| 3 | PV-2 ("Harpoon"—medium patrol bomber) | Chile |
| 2 | JRF ("Goose"—utility transport) | Brazil |
| 1 | JRF ("Goose"—utility transport) | Venezuela |

The aircraft listed above represent the maximum number of naval aircraft which the Navy will be able to make available for the present program. It is very likely that of the above allocations the Navy Department may be able to make available for the present program only the OS2U's for Uruguay, the PV-2's for Peru and the PV-2's for Chile. In view of the uncertain supply situation, it is requested that discussions of this program be confined to Washington, and that the Embassy take no action to notify the respective govts in the premises.

ACHESON

814.796/9-1646

The Acting Secretary of State to the Ambassador in Guatemala (Kyle)

SECRET

WASHINGTON, October 22, 1946.

No. 557

The Acting Secretary of State refers to the Embassy's airgram no. 404 of September 16, 1946²⁹ stating that the Embassy's files contain little or no helpful information in regard to the original negotiations concerning the Airport Development Program and that it would therefore be helpful if the Department would endeavor to ascertain the position of the War Department with regard to the continued maintenance of the field and, if possible, to inform the Embassy with regard to the position it should take in discussing this

²⁸ The diplomatic representatives in Uruguay, Mexico, Peru, Chile, Brazil, and Venezuela.

²⁹ Not printed.

matter with officials of the Guatemalan Government, or in endeavoring to clarify the question with the Commanding Officer of the Army Air Base.

As of possible interest to the Officer in Charge, the following information concerning the early development of the Airport Development Program is quoted below from a memorandum prepared in the Department on September 13, 1945:^{29a}

"The War Department in 1940 came to the conclusion that it was essential to the security of the United States to have available for use by American military aircraft, in the event of hostilities, suitable airports and air bases in various locations in this Hemisphere. At that time the United States was at peace as were the countries in Latin America and it was not considered advisable or possible to negotiate directly with those governments for the provision of these facilities. The War Department finally decided to have this work done through a procedure which involved the use of Pan American Airways and its subsidiaries and connecting companies as a cloak. A contract was concluded between the War Department and a corporation known as the Pan American Airports Company which had been organized by the Pan American Airways System. Additional contracts were concurrently concluded between the Airports Corporation and the Pan American companies. Under the terms of these contracts various airfields were to be improved or built with funds supplied by the United States but the projects were to be handled as though they were entirely the program of the carriers. All arrangements between the carriers and the foreign governments concerned which might be necessary were to be made by the carriers ostensibly acting on their own behalf. This basic contract was concluded in November of 1940. It has been supplemented by at least ten additional agreements and it finally expired in June of 1944. The subsequent contract was signed by these parties coinciding with the date of expiration of the original contract, the new agreement being known as the Maintenance Contract. This contract provided that certain provisions of the original contract should continue in effect. Its principal provisions were to have certain airfields, including those built under the ADP program and others which had been built by the Army itself, maintained and operated by Pan American at the expense of the United States. The contract provides for the addition or deletion of the fields at the pleasure of the War Department.

"After the entry of the United States into the war and the similar action of other governments in Latin America, considerable discussion took place as to whether the contracts should be made public or at least made known officially to the governments of the countries involved. In this connection it should be noted that the original contract was classified 'Secret' and the Maintenance Contract was not only classified 'Secret' but contains a provision that prior to a declassification of the contract, Pan American shall be given thirty days' notice and an opportunity to present its views on the subject to the appropriate govern-

^{29a} Not printed.

ment agencies.³⁰ There were two principal bars to declassifying the agreements, the first being the reluctance of officials of the State Department to have the agreements declassified prior to the negotiation of particular military rights for the United States in certain foreign countries and secondly a fear of the War Department that disclosure of the contract would result in widespread public criticism because of the fact that Pan American Airways is in a position as a result of the contract to acquire exclusive or at least special benefits beyond those granted other United States carriers as a result of the expenditure of United States public funds.

"In the latter connection it should be pointed out that the original contract signed in 1940 contained no provisions as to the ultimate commercial utilization of the airfields in question. It was not until 1942 that a supplementary agreement was signed, which agreement the War Department has described as the best it could do at the time but which is neither clear nor satisfactory. This supplementary agreement provided that Pan American Airways and affiliated companies would permit for a period of ninety-nine years free use of the airfields by aircraft of the Armed Forces of the United States or by civil aircraft operated under contract to the United States Government.³¹ It further provided that for the duration of the war similar privileges would be extended to any United States carrier as defined in the Civil Aeronautics Act which was certificated by this Government to operate a service requiring the use of the airfield in question and which was authorized by the government of the country in which the airfield is located to operate such a service. In the case of both military and civil aircraft, no landing fees were to be charged except such fees as might be required by the government of the country in question. Pan American, of course, limited its agreement in this connection to the extent to which it was possible for it to perform but also agreed to exercise its good offices to secure whatever governmental clearances might be necessary to give effect to the provisions of the agreement. The agreement further provided that within six months after the war ended, there should be an arbitration proceeding to determine the extent to which it was equitable to continue the provisions of the agreement with respect to landings of civil aircraft without fee. Pan American's position in this connection seems to be that it would have no objection to a continuance of this provision in the case of an airfield constructed wholly with United States funds but that it did not believe

³⁰ In circular telegram of January 17, 1946, 2:30 p. m., not printed, the Acting Secretary of State informed diplomatic representatives in certain American Republics as follows: ". . . the Secretary of War in a letter of November 16 served the necessary thirty days' notice on Pan American World Airways, upon the expiration of which the Government would feel free to declassify the contracts or any portion thereof. . . . Pan American expressed its opposition to any declassification of the contracts or revelation of their contents. However, this Government is now free to declassify these contracts or any portion thereof at any time that such action should appear to be in the national interest." (810.7962/1-1746)

³¹ In a letter of February 19, 1946, to the Secretary of State, the Secretary of War (Patterson) stated: ". . . this Government does not desire to extend the Maintenance-Operation Contract beyond its current expiration date of April 30, 1946, and further, that this Government does not desire to exercise the option for a 99-year agreement, as provided in Article I of the contract under reference." (810.7962/2-1946) Secretary Patterson was informed in a letter of February 26, that the Secretary of State concurred in these proposals (810.7962/2-1946).

it just to continue the practice in the case of airfields which were originally exclusive Pan American property and which had been improved or enlarged solely to meet the needs of the United States Armed Forces.”

According to a report received from the War Department in February 1946,³² one ADP airport (Guatemala City) and one non-ADP airport (Puerto Barrios) were being maintained in Guatemala by War Department funds pursuant to the provisions of the Maintenance Contract at a monthly cost of \$19,500 and \$2,875, respectively. (It should be pointed out that War Department funds were expended for the construction of installations and facilities at the Guatemala City airfield under two different arrangements, i.e. (1) through ADP the field itself was improved and maintained, and (2) by direct arrangement with the Guatemalan Government the War Department constructed additional installations and facilities there in the category of barracks, hangars, etc. The latter facilities were also maintained by Pan American Airways, Inc. under ADP as a measure for conserving military personnel.)

On February 28, 1946 the War Department formally notified Pan American Airways, Inc.³³ that the United States Government had decided to terminate the maintenance of air bases in the other American Republics under the Maintenance Contract, and not to exercise the ninety-nine year option provided for in the ADP contracts. The War Department requested Pan American Airways, Inc. to confer with the Chief of Engineers and prepare detailed disposal recommendations for both real and personal property at each field for consideration by interested governmental agencies. As reported in the Department's airgram no. 227 of August 30, 1946,³⁴ the Chief of Engineers and Pan American Airways, Inc. are now engaged in preparing joint recommendations for disposal of all property at air bases constructed or improved under the Airport Development Program, including the bases in Guatemala, and these recommendations will be forwarded to the Department for comment and concurrence.

Pan American Airways, Inc. replied under date of April 25, 1946 that in view of the foregoing notification, the company proposed to give up immediately after such termination all maintenance and operation not required by its commercial operations. This would mean, the company explained, that some airports would be abandoned completely and that the extent of maintenance and operation would be curtailed at others.

³² Reference is to the letter of February 19 (see footnote above) which enclosed a list of airfields in Latin America currently being partially maintained by War Department funds through the Airport Development Program.

³³ Copy of letter of February 28 transmitted to Secretary Byrnes by Secretary Patterson on the same date, not printed.

³⁴ Not printed.

The foregoing information will make it clear that in the view of the War Department no military requirement exists for the continued maintenance of the field at Guatemala City and that this Government has no responsibility to continue such maintenance. The War Department is presently engaged in expediting the completion of its recommendation regarding the disposal of the United States interest in the field. As indicated above, this recommendation will be forwarded to the Department for review. In the view of the Department it is a matter of national interest that aviation facilities developed during the war be disposed of in a manner which will promote the world-wide air commerce of the United States.

The Embassy has previously reported that it is a matter of public knowledge that the airport at Guatemala City was constructed and maintained with public funds of the United States. In discussing with the Guatemalan authorities the question of the continued maintenance of the field, the Officer in Charge will wish to dispel the "feeling of the Guatemalan authorities that the United States Government still maintains or is in some way obligated to maintain the field." The Officer in Charge also should ascertain and report to the Department what steps are being taken by the Guatemalan Government or the interested airlines to assure continued maintenance and operation of the field and what technical assistance may be required in this connection.

810.7962/11-146

The Secretary of War (Patterson) to the Secretary of State

SECRET

WASHINGTON, November 1, 1946.

DEAR MR. SECRETARY: There is no further War Department requirement for the following airfields that have been constructed and improved under the provisions of the Airport Development Program by Pan American Airways Incorporated:

| <i>Country</i> | <i>Locality</i> | <i>Airport</i> |
|--------------------|-----------------|-------------------------|
| Colombia | Barranquilla | Soledad Airport |
| Guatemala | Guatemala City | La Aurora Airport |
| Guatemala | Puerto Barrios | Puerto Barrios Airport |
| Haiti | Port au Prince | Bowen Field |
| Mexico | Carmen | Carmen Airfield |
| Mexico | Chetumal | Chetumal Airport |
| Mexico | Isla de Cozumel | Cozumel Airport |
| Mexico | Merida | Campo Juanes Airport |
| Mexico | Tampico | Rihl Field |
| Mexico | Tapachula | Chiapas Field |
| Mexico | Ixtepec-Oaxaca | Tehuantepec Airport |
| Mexico | Vera Cruz | Las Bajadas Airfield |
| Dominican Republic | Ciudad Trujillo | General Andrews Airport |
| Nicaragua | Managua | Las Mercedes Airport |
| Paraguay | Asunción | Asunción Airport |

The District Engineer, United States Engineer Office, Miami, Florida, has forwarded recommendations for the disposition of these facilities. These recommendations are inclosed³⁵ for review by your Department and your comments and recommendations concerning the contemplated disposal. The Department of State is connected with these disposals through the interest of the Foreign Liquidation Commission in the disposal of surplus property in foreign countries and the possible political implications because of prior agreements with the countries in which the airports are located, and the continued secrecy of the Airport Development Program.

The Kilgore³⁶ Committee is cognizant of the steps heretofore taken in connection with the Airport Development Program. It is suggested that your Department advise the Kilgore Committee regarding steps taken to dispose of the interest of the United States in these airports.

The return of the inclosed disposal plans with your comments and recommendations will be appreciated.

Sincerely yours,

ROBERT P. PATTERSON

810.34/11-2246

*Memorandum by the Acting Chief of the Division of Special Inter-American Affairs (Dreier)*³⁷

CONFIDENTIAL

[WASHINGTON,] November 22, 1946.

Following up the remarks which Under Secretary of the Navy Sullivan made to Acting Secretary Acheson on November 13, a meeting was held in General Connolly's office yesterday, November 21, with Mr. Chester Lane,³⁸ Admiral Noble, Captain Dennison, myself and others present to clarify the problems of the Navy's interim program for the transfer of vessels to the other American republics.

Briefly, the situation is that the Navy, after offering about 200 vessels to the other American countries, found that the vessels had been caught in the whirlwind of demobilization and were for the most part in inoperable condition, as well as stripped of much of their equipment,

³⁵ Not printed.

³⁶ Senator Harley M. Kilgore, Democrat of West Virginia.

³⁷ Addressed to the Assistant Secretary of State (Braden), the Director of the Office of American Republic Affairs (Briggs), and the Under Secretaries of State (Acheson and Clayton).

³⁸ Deputy Foreign Liquidation Commissioners, Gen. Donald H. Connolly and Chester Lane.

including armament. Moreover, much of the equipment which has been removed from these vessels is not in surplus, and therefore cannot be transferred, except by presidential authority under the Act of June 15, 1940,³⁹ at 100% reimbursement. The Latin Americans obviously do not wish to buy inoperable hulls, nor does the Navy or this Department wish to sell them inoperable vessels which will only give a black eye to our whole program.

In order to extricate themselves from this problem, it will be necessary for the Navy and FLC to arrange for some method of financing the reconditioning of the vessels (the total cost of which will be regained from the purchasing countries), and to get certain authorization from the President for the Navy to employ additional shipyard personnel and to transfer non-surplus items back on the ships under the Act of 1940. Before approaching the Budget Bureau and the White House on this matter, both the Navy and the FLC said they felt it was important to get reassurances from the State Department that completion of this interim program was consistent with the Department's policy, particularly since everyone was aware of doubts which the State Department entertained in regard to the long-range program and HR 6326. I informed the meeting that the interim program had been approved by the State Department, and that this Government was committed to make good on its word inasmuch as we had informed the other countries that the ships would be available for their purchase provided satisfactory terms could be arranged. I was asked to get official confirmation of this viewpoint and have therefore drafted the underlying memorandum for Mr. Acheson's signature.

Admiral Noble requested also that the Department make known its position in regard to HR 6326, but I informed him that I did not believe this question could or need be settled in connection with the interim program in view of the urgency of the latter.

It is recommended that the underlying memorandum⁴⁰ be sent to General Connolly, with a copy to Captain Dennison of the Navy under cover of my letter.

JOHN C. DREIER

³⁹ For joint resolution approved June 15, 1940 to authorize the Secretaries of War and of the Navy to assist the governments of American Republics to increase their military and naval establishments, and for other purposes, see 54 Stat. 396.

⁴⁰ Not found in Department files.

810.20 Defense/1-2247

Memorandum by the Assistant Secretary of State (Braden) to the Secretary of State

SECRET

[WASHINGTON,] December 16, 1946.

In order to meet, insofar as possible, the desires of the War and Navy Departments,⁴¹ it is believed that a moderate program of military cooperation, providing for the maintenance of American military missions in foreign countries, and for training of foreign officers in the United States, should constitute an acceptable alternative. Arms transfers to Latin America should, however, be drastically limited.

It is recommended that such a program be developed with the War and Navy Departments to replace the program envisaged in HR 6326.⁴²

SPRUILLE BRADEN

810.20 Defense/1-2247

Memorandum by the Assistant Secretary of State (Braden) to the Secretary of State

[WASHINGTON,] December 16, 1946.

HR 6326—LATIN AMERICAN ARMS PROGRAM

The conditions under which the Department agreed to support HR 6326 last spring have changed. The entire program should be reconsidered in the light of these changes, which include the following:

(1) It has been demonstrated that even the so-called interim program, which according to FLC can only be executed if credit is extended, is beyond the economic capacity of the Latin American countries, and if carried through will substantially increase the armaments of Latin America.

(2) Stocks of surplus military equipment, the availability of which is essential to the exchange feature of the bill, are no longer adequate.

(3) Responsible opposition to the arms program both here and in Latin America is increasing.

(4) The United States has taken a leading role in seeking the adoption by the United Nations of a disarmament program.

⁴¹ The Secretaries of the Navy (Forrestal) and of War (Patterson) in letters of November 12 and December 5, 1946, respectively, expressed their interest in the two bills to provide for Inter-American military cooperation (H.R. 6326; S. 2153) and the detailing of United States military and naval missions to foreign governments (H.R. 5433; S. 1847), which were introduced in the 79th Congress but not enacted. They recommended that these bills be submitted to the 80th Congress.

⁴² See the memorandum *infra*; the new program was referred for further study to the State-War-Navy Coordinating Committee.

HR 6326 was proposed to Congress on the express understanding that it would not lead to an increase in the armaments of Latin America, nor impose any heavy financial burden on the Latin American countries. The developments mentioned above make it clear that the program envisaged in the bill cannot now conform to that understanding.

The Department has consistently maintained that any considerable increase in Latin American armaments—which it is now clear would be the inevitable result of the program—would be highly undesirable because it would:

(1) Unless subsidized by the United States, impose a heavy burden for unproductive purposes on the weak economies of Latin America, thus retarding social progress and perpetuating low standards of living, health, and education—all conditions dangerous to hemisphere security.

(2) Perpetuate the grip of reactionary military groups in Latin America.

It has now been estimated that completion of the so-called interim program would cost Latin America upwards of 75 million dollars. The program envisaged under HR 6326 approaches *one billion dollars*—an arms sale of unparalleled magnitude in time of peace and infinitely beyond the economic resources of Latin America. One billion dollars is:

Fifty times the total funds expended by this Government in the cooperative program with Latin America in the fields of agriculture, science, civil aviation, education, et cetera, since 1940.

Twelve times the total funds made available by the Government of the United States and the other American republics for the health, sanitation, and agricultural programs of the Institute of Inter-American Affairs from 1943 to 1948.

Ten times the total payments due this government for lend-lease transfers to Latin America during the entire period of the war.

Three times the total disbursements of the Export-Import Bank in loans to Latin America during the twelve years of the Bank's operations.

The program envisaged in HR 6326 would:

(1) Increase indefensibly the total arms potential of Latin America.

(2) Promote an arms race.

(3) Strengthen those Latin American forces which are antagonistic to the purposes and interests of the United States.

(4) Increase the danger of Communism by (a) perpetuating conditions favorable to its spread and (b) running the risk that Communists, already infiltrating Latin American armies, would seize the arms.

(5) Aggravate the destructive effects of future revolutionary upheavals in Latin America.

It is the conviction not only of the undersigned, but also of my principal associates—including the Director and Deputy Director of the Office of American Republic Affairs ⁴³—that to proceed with this program would be disastrous to our inter-American relations. In addition, the bill is vigorously opposed by the three outstanding authorities on Latin American affairs recently selected by Assistant Secretary Russell ⁴⁴ to assist the Department in the formulation of over-all Latin American policy.

SPRUILLE BRADEN

⁴³ Deputy Director Edward G. Trueblood.

⁴⁴ Donald S. Russell, Assistant Secretary of State for Administration.

THE WHEAT-RUBBER PROBLEM OF ARGENTINA,
BRAZIL, AND THE UNITED STATES

832.61311/12-1445

The Department of State to the Brazilian Embassy

MEMORANDUM

The Department of State refers to the memorandum of December 14, 1945¹ of the Office of the Commercial Counselor of the Brazilian Embassy relating to the problem of supplying truck tires to Argentina to make possible resumption of wheat exports to Brazil in the amounts needed by that country, a matter which a member of the Department has since discussed orally with representatives of the Brazilian Embassy.

The Department wishes to inform the Embassy that this Government is keenly aware of the need of doing everything possible to maximize shipments of grain from Argentina in the first half of 1946 in order to relieve the serious world-wide shortage of bread grains. Steps have been taken to make up to 30,000 tires available from the United States for use on trucks in Argentina to carry wheat to export positions. Application for export licenses to cover this export is now being made to the United States Department of Commerce. It is the understanding of this Government that the number of tires indicated in the figure above is sufficient to ensure, in so far as motor transport enters into the pattern of movement, that surplus Argentine wheat is made available at export points. Arrangements are to be effected whereby distribution and use of these tires for the express purpose indicated shall take place under the observation of representatives of the United States Government.

Discussions are now in progress in the Combined Food Board Cereals Committee, on which Argentina now has a member, looking to the extension of programming of wheat shipments as now made from the United States and Canada to include Argentina and Australia. By this means it is hoped that a pattern for world movement of wheat may be worked out which will meet with general approval.

¹Not printed: it indicated Brazilian willingness to deliver 15,000 tires to Argentina, and urged the United States to support its request to Argentina to restore its previous level of wheat shipments to Brazil (832.61311/12-1445).

Account would be taken in such a program of the amount and the source (presumably Argentina) of wheat to be moved in any given period to Brazil.

WASHINGTON, January 25, 1946.

832.24/1-3046 : Telegram

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

RESTRICTED

WASHINGTON, February 4, 1946—7 p. m.

177. ReEmbs 213 Jan 30.² Dept has no objection to Braz sending 10,000 tires to Arg, providing none are taken from Braz production up to and through Jan 31 in accordance with oral pledges made at time of cancellation of tire and tube agreement.³

Believe both impossible and unwise suspend embarking tires for Arg. First shipment totalling 4,000 tires left US for Arg on Feb 2 and balance to be shipped over period of 90 days.

As stated in Depts 126 of Jan 25,² is understood Braz would be included in any international allocation plan drawn up with Arg cooperation and that to extent Arg not indicated as source for all of wheat considered by CFB to be share of Braz in light of world deficit, other sources would be indicated. Since effecting of a coordinated pattern for shipments from export countries may take considerable time, is proper Arg make arrangements with Braz to assure continuation of shipments from that country, which is logical source. Braz needs could not, as implied in Embs 213, have already been "definitely provided for by Combined Board" apart from cooperation of Arg in making available her wheat for export. This true because of great world shortage (see Depcirairgram Dec. 26²). Furthermore any CFB allocation which might be recommended would not exclude necessity for bilateral arrangements between the exporting and importing countries implementing allocations indicated. The sooner therefore Braz reaches an understanding with Arg in this matter the sooner will she have received the assurances with regard to fulfillment of her import needs which she so much desires.

CFB will only make "definite allocations of Argentine wheat" (reEmbs 231 Feb. 1, 1946²) if and when international allocation set up. Prerequisite for any such allocation or joint programming is cooperation of Arg in working out amounts and destinations of

² Not printed.

³ For a summary of the agreement, see *Foreign Relations*, 1942, vol. v, p. 719, footnote 87; with regard to its termination, see *ibid.*, 1945, vol. ix, telegram 3437, November 16, 1945, from Rio de Janeiro, p. 712.

wheat to be exported from that country within a given period. Any wheat quota arranged for by Braz with Arg in exchange for tires would be deductible from the total for Braz.

It is not contemplated that Braz stated requirement can be fully met, particularly for first half 1946. A total of 460,000 tons for first half has been tentatively proposed, most of it to come from Arg. This figure is not at all definitive and is subject to further reduction if the prospective world wheat supply position worsens. This amount could however be taken now as indicating an absolute maximum for the half year.

BYRNES

832.24/2-1246

Memorandum of Telephone Conversation, by the Acting Chief of the Division of Brazilian Affairs (Braddock)

[WASHINGTON,] February 12, 1946.

Mr. Campos⁴ asked whether, in exchange for 30,000 tires which the United States had agreed to ship to Argentina, we had requested a specific commitment that a certain amount of wheat should be exported from Argentina to Brazil. I replied that no such commitment had been asked for, and reviewed for him our position on this whole question as it had been communicated recently in instructions to the Embassy in Rio. Mr. Campos expressed once again the annoyance that his government felt because the United States had: (1) failed to consult with Brazil concerning this deal, as it should have under the Tri-Partite Agreement;⁵ (2) interfered with and spoiled Brazil's separate negotiations with Argentina for a normal supply of wheat. He stated further that the Brazilian Government was not satisfied with the tentative allocation that had been mentioned for Brazil of 460,000 tons of wheat for the first half of 1946, which was understood to be under consideration by the Wheat Committee of the Combined Food Board. He said that Brazil's normal consumption of wheat is much less per capita than that of the United States, France, and many other countries, and that this consumption simply did not permit of reduction in the same proportion as that which could be borne by countries like the United States which normally consumed a lot of wheat in luxury uses. He said that the Brazilian Government felt that its legitimate requirements had been subordinated by the United States to those of other users.

⁴ Roberto Campos, Second Secretary of the Brazilian Embassy.

⁵ For bracketed note on this agreement, see *Foreign Relations*, 1945, vol. ix, p. 707.

I expressed regret again at our failure to consult with Brazil, called attention to the fact that it was largely because of Brazil's appeal to us for help in getting wheat last December that we had undertaken the tire negotiations with Argentina, stressed the existence of famine conditions in Europe and the sacrifice which the United States was preparing to make in its consumption to help meet the situation, and suggested to Mr. Campos that if Brazil were dissatisfied with any allocation that might be made to it by the Wheat Committee of the Combined Food Board, it should carry its appeal directly to that Committee. Mr. Campos intimated that Brazil was not much in sympathy with the existence or operation of the Combined Food Board in any case, and made it clear that his government was annoyed at not having been offered the opportunity, as one of the large wheat consuming countries of the world, to be represented on the Wheat Committee.

Mr. Campos was not satisfied with my explanations, and it is clear that our tire-wheat deal with Argentina still rankles with the Brazilians. We should, in my judgment, be extremely careful not to fall into the same error again of violating or evading any agreement we have with Brazil.

832.24/2-1646

The Brazilian Chargé (Lobo) to the Secretary of State

WASHINGTON, February 16, 1946.

EXCELLENCY: I have the honor to inform you that this Embassy has been advised by the Ministry of Foreign Relations that the negotiations to ensure an adequate supply of Argentine wheat for Brazil are now at a standstill.

2. Although the conclusion of an agreement was expected until a few days ago, it appears that the recent announcement in regard to shipment of American tires to that country has produced an unfavorable effect on the position of the Brazilian Government in the matter of these negotiations, in view of the fact that the exportation of tires was made without the consultation called for by the tripartite agreement, the United States Government having declined furthermore the suggestion to delay the actual shipment for a few days, and considering also the absence of any clause conditioning the supply of tires to specific commitments for the export of wheat.

3. It is felt in Brazil that as a result of the transaction, the Argentine Government, left free to strike the best bargain among prospective buyers, has shown considerable less interest in carrying out the negotiations.

4. Because of these developments the Brazilian Government is unable to confirm the viewpoint according to which the failure to consult with the Brazilian Government in advance of the transaction could be justified on the ground that such action aimed precisely at enhancing the opportunities for Brazil and other countries to obtain larger imports of wheat. The Brazilian Government does not thereby consider that there is anything objectionable per se in the exportation of tires or of any road equipment that may contribute to relieve a world shortage of a basic foodstuff; but it feels that the same transaction might have been better timed with its negotiations, without hindrance to the aim of relieving world shortage, while involving conditions more directly helpful to the countries interested in the supply of Argentine wheat.

5. The maintenance of a sufficient level of wheat imports is a matter of grave concern to the Brazilian Government. The normal consumption of wheat bread in Brazil (26.5 kilograms per capita yearly) can be regarded as a minimum dietary requirement, which, contrarily to that of other countries that enjoy higher nutrition standards, cannot be further compressed without reducing large masses of population dangerously close to the subsistence level. This fact, in our view, should be given special weight in the determination and measurement of minimum import quotas.

6. The use of substitute foods has been made particularly difficult by the liquidation of our manioc flour (*farinha de rapa*) industry, subsequently to the Brazilian-Argentine agreement signed in 1940, which aimed at eliminating manioc and rice mixtures in the bread consumed in Brazil and of chicory and sugar in the coffee consumed in Argentina, both of which practices curtailed artificially consumption and imports, restricted the international division of labour and created a permanent source of commercial friction between the two countries. If we are to reestablish the large scale utilization of manioc flour, it would be necessary to guarantee a long lease on life to the manioc industry, through the erection of trade barriers and extension of subsidies, measures which would be particularly unfortunate at a time when a generous drive for relaxation of trade barriers is being conducted.

7. Other possible substitutes, such as rye and barley, are not produced in any significant amounts and the utilization of corn would only aggravate its shortage for cattle feeding. The alternative of an all-out effort to increase local wheat production, besides being essentially a long-run solution, would result in an uneconomical diversion of resources, and in the strengthening of the tendency towards nationalistic self-sufficiency, which would not consult either the interests of the wheat producing countries or our own.

8. It thus appears that in the Brazilian case there is no possibility, in the short run, either of compressing consumption or of lessening the dependence upon imports.

9. It would be, therefore, of great help if Your Excellency could advise us whether the Brazilian Government can be assured of the cooperation of the Government of the United States as regards the establishment and implementation of quotas for the supply of wheat to Brazil, particularly in view of the fact that normal requirements in that country exceed minimum standards of nutrition by a very thin margin.

I have the honor to renew to Your Excellency the assurances of my highest consideration.

FERNANDO LOBO

832.24/2-2746

The Brazilian Chargé (Lobo) to the Secretary of State

WASHINGTON, February 27, 1946.

EXCELLENCY: I have been directed by my Government to request an emergency shipment of wheat to relieve a most serious food crisis in Brazil. The situation of wheat stocks has been steadily deteriorating and has now reached a critical point. Wheat imports which were maintained at an average level of 100,000 tons for the first half of 1945 showed a 60% drop in the last quarter of the year. By December only 15,321 tons were imported from Argentina, of which 6,889 tons were received through the port of Rio de Janeiro and 8,432 through Santos. In January 7,854 tons came in through Rio de Janeiro and 15,638 tons through Santos. During February no shipments were received. The imminent crisis was averted in January through the shipment of 16,000 tons of wheat from this country, during December, and shipments of wheat flour during December and January.

2. The lack of wheat imports during February has precipitated the crisis. A dispatch under date of yesterday informs that all the mills of Brazil are paralyzed, except for the Moinho Fluminense in Rio de Janeiro, which has drastically reduced its output. The last information on total wheat stocks in Brazil as of February 21st, indicated the figure of 51,000 tons, which by now will have been considerably reduced. No flour stocks exist in the interior of any State, although there are small stocks, mostly of American flour, recently received in the southern capitals. The city of São Paulo held, as of yesterday, 120,000 bags and the Federal District 110,000 bags, which will ensure but a few days supply for the two cities, under strict rationing, and cannot be made available for the interior.

3. A growing social unrest is occurring in the cities, whose population is heavily dependent on bread. The scarcity of bread, which now can be had only three times a week in the capitals, and is practically unavailable in the interior, constitutes one of the major factors in the current wave of labor unrest in Brazil.

4. It is obvious that this situation is extremely dangerous and that immediate steps should be taken to alleviate the crisis. Since we have been unable to obtain shipments from Argentina, it is requested that advance shipments be made, from the Combined Food Board pool, against the Brazilian allocation, which is now under consideration. It is our understanding that a month's supply, under the tentative allocation scheme, would amount to 66 to 76,000 tons, and it is requested that such quantity be immediately shipped to Brazil, as corresponding to our February import quota which has not so far been implemented. The question of the total amount to be allocated, is, as we understand it, still open for discussion. The Brazilian requirements have been set at the figure of 600,000 tons for the first six months of the year, or one third above the tentative allocation so far contemplated by the Combined Food Board. It is felt that this reduction of supplies, as compared to the minimum requirements of a basic food item, imposes on Brazil a much larger proportionate sacrifice than that of other countries currently and actively cooperating for the rehabilitation of devastated areas.

5. Whatever the final agreement may be on the half-year allocation, the immediate problem is to secure emergency shipments, which are now imperative to reopen the mills and afford relief to a most serious situation.

6. In making this appeal to the United States Government, the Brazilian Government is fully confident that the gravity of the crisis which prompted this emergency request will be fully appreciated.

7. In view of the urgency of the matter, I would appreciate being informed as soon as possible of any action taken for communication to my Government.

I have the honor to renew to your Excellency the assurances of my highest consideration.

FERNANDO LOBO

832.61311/3-146 : Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

RESTRICTED

WASHINGTON, March 1, 1946—8 p. m.

296. In reply to urgent request presented by Braz Emb yesterday for emergency shipments of wheat from US to Brazil in March to be deducted from Brazil's eventual wheat allocation, Dept informed Emb this morning as follows:

Dept took up strongly question of emergency shipment of wheat from US for Brazil in general wheat meeting yesterday afternoon. Argentine representative there stated that only the day before he had urgently recommended to his Govt that Argentina send emergency shipment of wheat to Brazil. While US Govt wishes to help, situation is such that before any steps are taken to secure wheat here we must know whether Argentine Govt is going to act on above mentioned request. Dept suggests that Braz Emb here get in touch immediately with Braz Emb in Buenos Aires to press Argentine Govt for favorable action on recommendation sent by Argentine representative here.⁷

BYRNES

835.6176/3-1646 : Telegram

*The Secretary of State to the Chargé in Brazil (Daniels)*⁸

CONFIDENTIAL

WASHINGTON, March 19, 1946—7 p. m.

383. For ur info natural rubber situation and US policies re international distribution natural rubber during transition period are as follows. 1, Contd international allocation by Combined Rubber Committee with US participating. 2, allocation by CRC to all mfg countries to be equitable in quantity and price. 3, contd public purchase by US. 4, US continue temporarily as purchaser in Far East for itself and for all other American republics. 5, continuation of US as source of all natural rubber for all other importing American republics. 6, resale price by US beginning with second quarter allocations to be non-profit and based on cost in Far East plus incidental charges. 7, US to continue purchases under existing American republic agreements. If requested, US will amend agreements to permit reduced internal prices in producing countries. US does not expect to extend agreements in other American republics or make new agreements. 8, contd US limitation of imports of manufactured rubber products to those which conform with CPA order R-1. This order limits natural rubber content of products made in US. 9, US willing to terminate or continue Tripartite Agreement. As long as agreement in effect, Brazil, Argentina, and US obligated to consult and agree upon Argentine receipts, but approval of CRC allocation expected be perfunctory as long as Argentina fulfills commitments and responsibilities.

⁷ In a note of March 14, 1946, the Brazilian Embassy reported that negotiations with Argentine authorities were stalled and renewed the request for emergency shipments (832.61311/3-1446).

⁸ Sent to the Embassy in Buenos Aires for information only.

Early in first quarter 1946 CRC allocated to Argentina 578 long tons natural rubber from US and 150 tons butyl from Canada for same quarter, subject to Brazilian concurrence under Tripartite Agreement.

Emb instructed seek concurrence of Brazil to joint Brazil-US proposal to Argentina that if it will take effective measures at once to make wheat available for export to meet its commitments and to fulfill needs of countries whose supply it regards as its primary responsibility as represented in Combined Food Board Cereals Committee, US and Brazil will (1) agree to shipment of first quarter allocation mentioned previously, and (2) introduce and support in the Combined Rubber Committee an allocation of 1,250 tons natural rubber for second quarter. This would permit Argentina to manufacture rubber products in second quarter at pre-war rate with the 50 percent natural rubber content, the same as for all other countries except US and Canada which have limited themselves to 35 percent.

Urgent action and reply requested because quarter almost ended and Dept under considerable pressure and criticism. Emb at Rio requested to consult Brazilian Govt on any matters in this telegram which, in Emb's judgment, require such a course under the Tripartite Agreement.

BYRNES

832.24/3-2146 : Telegram

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

BUENOS AIRES, March 21, 1946.

[Received March 22—1:15 a. m.]

820. Press release dated March 14 Argentine Commerce Department emphasizes that critical inland transportation problem arising from scarcity of tires seriously interferes with movement grains to ports, that arrangements with UNRRA provide for substitution of 3,500 tons corn now at ports for equal amount of wheat and that 15,000 tons wheat will be exchanged for sugar and tires from Brazil. First shipment of 7,800 tons wheat to Brazil scheduled March 18 via *Rio Chubut* which expects return with 6,000 tons sugar and 3,000 truck tires. Press comments indicate 10,000 tires involved in barter arrangement allotted as follows: Firestone 2,900; Goodyear 2,220; Brazil 1,800; Pirelli 3,330; Dunlop 950; Atlas 600; US Rubber 200.

CABOT

832.61311/3-2546

The Department of State to the Brazilian Embassy

MEMORANDUM

With reference to the *Aide-Mémoire* left by the Ambassador of Brazil with the Assistant Secretary of State on March 25,⁹ in which the Brazilian Government requests the consent of the United States Government to the release of certain quantities of crude rubber in Santos and the State of Pará to be used by Brazil as the basis for a trade with Argentina for wheat, the Ambassador is informed as follows:

The Combined Rubber Committee early in the first quarter of 1946 allocated to Argentina, subject to Brazil's concurrence under the Tripartite Agreement, 578 long tons of natural rubber from the United States and 150 tons of butyl rubber from Canada for that quarter.

The United States Embassy in Rio de Janeiro was instructed on March 19¹⁰ to approach the Brazilian Government for its concurrence in a joint Brazil-United States proposal to Argentina that if Argentina would take effective measures at once to make wheat available for shipment to fulfill its present commitments and to meet the requirements of countries whose supply it regards as its primary responsibility, the United States and Brazil would agree to the shipment of the aforementioned first quarter allocation of rubber and the former would introduce and support in the Combined Rubber Committee a second quarter allocation for Argentina of 1250 tons of natural rubber.

The prompt obtaining of wheat for Brazil is a primary objective of the proposal outlined in the preceding paragraph. If agreed to by Brazil and accepted by Argentina this proposal should accomplish the purpose sought in the Embassy's *Aide-Mémoire* under reference and relieve the serious food crisis in Brazil.

WASHINGTON, March 26, 1946.

811.20 Defense (M) Argentina/3-2746

Memorandum of Conversation, by the Acting Chief of the Division of Brazilian Affairs (Braddock)

[WASHINGTON,] March 27, 1946.

Mr. García¹¹ called on me this morning at the request of his Ambassador to discuss further the subject of our memorandum reply of March 26 concerning the possibility of getting wheat from Argentina for Brazil in return for rubber to be supplied Argentina.

⁹ Not printed.

¹⁰ Department's telegram 383, March 19, 7 p.m., p. 118.

¹¹ Celso Raul García, Second Secretary of the Brazilian Embassy.

I explained to Mr. García that we thought that our proposal would result in getting for Brazil the wheat she needed and that as we were waiting for an answer on this proposal, it seemed preferable not to take up directly the Brazilian proposal in order not to confuse the issue.

With regard to the Brazilian proposal, I went on to say that if the question had simply been one involving Brazil, the United States and Argentina, there would have been no question at all but that the United States would have readily assented to Brazil's suggestion, but that unfortunately this question could not be dissociated from the whole problem of rubber supply and distribution. Taking up the thread of the discussion that had begun the day before in Mr. Braden's office with the Ambassador, I explained to Mr. García why it would be difficult, under actual circumstances, for the United States to agree to the Brazilian proposal. I stated that if Brazil were to be free to sell its rubber to Argentina, it would be exceedingly difficult for the United States to restrain the Far Eastern producers from doing likewise and that in the interest of maintaining the Far Eastern price at a reasonable level we were anxious that the South American consuming countries not enter the world rubber market as our competitors. A very few cents increase in the price of Far Eastern rubber would mean a heavy expense to this country.

I went on to argue that it would be of no economic benefit to Brazil if she were to provide this rubber to Argentina instead of the United States since (1) if Argentina chose to put the transaction on a strictly value-for-value trading basis, Brazil could not possibly find enough rubber to sell Argentina in return for the wheat she needed; (2) Brazil could hardly hope to establish a permanent market in the Argentine for its rubber unless a way were found to cut the Brazilian cost of production approximately in half to meet the cost of the Far Eastern producer; and (3) under Brazil's agreement with United States, she was assured of being able to sell all of her exportable surplus until June 30, 1947 to this country at a price far higher than she could hope to obtain elsewhere.

Mr. García stated that he understood this reasoning and considered that the proposal we had made should solve in a satisfactory manner the wheat crisis. He admitted that he saw no special advantage to Brazil in making the rubber shipments herself. He said that he felt that there might be some advantage if the rubber the United States was to supply to Argentina under the proposal came from the stocks which the Rubber Development Corporation was holding in Brazil since this would perhaps improve Brazil's trading position in submitting the proposal to the Argentine Government as a means of getting wheat. He mentioned that it was not clear from our memoran-

dum where the rubber which the United States would sell to Argentina under the CRC allocation would come from, and I offered to make inquiry on this point and let him know.

Mr. García then asked whether the wheat that Brazil might be able to obtain under this proposal would be charged against its allocation by the Combined Food Board and I stated that undoubtedly it would be so charged. He asked whether the United States would ship wheat in case Argentina would not or could not fill its part of the CFB allocation to Brazil and I replied that it was my understanding that if this should happen the CFB would take steps to transfer the unfilled part of the allocation to another source which might well be the United States.

I pointed out to Mr. García the veto power which Brazil had over the present proposal by virtue of the Tripartite Agreement which obligated United States to consult Brazil regarding shipments of rubber and tires to the Argentine (this point had already been brought up in the meeting with Mr. Braden) and called his attention to the fact that Brazil was free, if it wished, to make as a condition of its joining the United States on this proposal that specific quantities of wheat be shipped to Brazil by Argentina.

Mr. García stated that he had been surprised to read in the Ambassador's *aide-mémoire*¹² on this question the statement that the wheat problem "as the American Government itself has indicated, cannot be solved with the United States and it will be necessary to have recourse to Argentina", and he asked if any such indication had in fact been given by the United States. I answered that to my knowledge there had been no such indication at all and that the United States continued ready to give every assistance it could toward working out the difficult wheat problem.

Mr. García finally brought up the matter of flour licenses and wanted to know whether any measures had been taken to permit the resumption of flour shipments to Brazil. I informed him that I had received information that the Department of Agriculture had agreed to the licensing of 15,000 tons of flour to Brazil but that I was not yet sure to what period this quantity applied. He stated that it would help materially if this information could be transmitted to his Government and requested me to find out if possible the period affected and to let him know.

¹² Handed to the Assistant Secretary of State by the Brazilian Ambassador on March 25, 1946; not printed.

832.24/4-146 : Telegram

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

SECRET

BUENOS AIRES, April 1, 1946—8 p. m.

[Received April 1—6:50 p. m.]

923. ReEmbtel 829, Mar. 22.¹³ Reports received from Brazil indicate that profitable clandestine trade hinders Braz's concurrence to proposed natural rubber shipments. Problem is increasingly difficult for Embassy since first quarter has passed with no announcement yet given re allocation for either first or second quarter. Believe it imperative that immediate concurrence of Braz be obtained or that tripartite agreement be officially abandoned to permit thereby action by US in supplying Argentina's essential natural rubber requirements.

Repeated to Rio.

CABOT

832.24/4-246 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, April 2, 1946—3 p. m.

[Received 4:57 p. m.]

612. Communist *Tribuna Popular* March 31 contains vicious article characterizing "Washington agreements" as responsible for inability of Brazil to obtain wheat from Argentina. Article states that normalization of Argentina-Brazilian commerce would end the economic encirclement of the country by monopolistic North American colonizing capitalism and states that powerful interests of Wall Street would care little if the Brazilian populace was left without bread. Article insists that only by exporting rubber and its manufactures to Argentina can wheat problem be solved. Similar criticism of crude rubber agreement hampering procurement needed wheat supplies has come from other sources including Brazilian officials.

In view of the harm which is being done by attacks on rubber agreements¹⁴ which are by no means confined to Communist circles, Dept may wish to consider advisability of making gesture of offering to cancel the basic rubber agreement of 1942 if such action is desired by Brazil. It is not believed that Brazil would request cancellation since the wiser counsels of those in FonOff who are fully aware of benefits to Brazil of rubber agreement would probably prevail. Thus we would silence at no cost to ourselves the critics who are blaming

¹³ Not printed.¹⁴ For information on rubber agreements, see *Foreign Relations*, 1942, vol. v, pp. 691 ff.

our exclusive rubber purchase for the wheat shortage. Argentina presumably would not pay 60 cents per pound for Brazilian rubber in any event. If Brazil requested cancellation, small amounts available for export could not have a seriously disruptive effect on prices, and we would be relieved of obligation of buying Brazilian rubber at price far above world level.

Additionally such an offer would give Brazil option of accepting same status as other Latin American rubber producing countries whose agreements with US will expire in 1946.

Brazilian Govt has not yet replied to Embassy memo based on Dept's recent tel on rubber policy.

In light of foregoing considerations request telegraphic authority to hand memo to FonOff expressing willingness of US Govt to cancel crude rubber agreement immediately or at such time prior to June 30, 1947, as may be considered convenient by Brazilian Govt, if Brazil desires such cancellation to assist in meeting problem of obtaining wheat from Argentina.¹⁵

Repeated to Buenos Aires.

DANIELS

832.6584/4-346

Memorandum by the Acting Chief of the Division of Brazilian Affairs (Braddock) to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] April 3, 1946.

Ever since February 27 of this year Brazil has been beseeching the United States to send it emergency shipments of wheat to help alleviate an acute food crisis, as their efforts to get wheat supplies from their normal provider, Argentina, had met with seemingly unsurmountable obstacles.

The overwhelming demands that are being made on us to feed starving populations of Europe have pushed the Brazilian need into the background and no effective action has been taken on their request.

Yet the Brazilian need is a must and should be emphasized on a par with the needs of Europe. It is not too much to say that so important to Brazil is a minimum supply of wheat that for us to deny our help in getting it puts our whole relations with Brazil, traditionally intimate and cooperative, in jeopardy. Even now we are

¹⁵ The Chargé reported in telegram 628, April 3, 1946, 7 p. m., that the Brazilian Foreign Minister did not wish to cancel the rubber agreement and recommended that the Department approve the request to ship 1,500 tons of rubber to Argentina as an emergency measure (832.24/4-346).

being widely attacked in Brazil for our unwillingness to assist the Brazilians in their crisis. The Communists are viciously exploiting this situation to do us harm. I have exhausted my resources in trying to get action. Will you try again?

DANIEL M. BRADDOCK

832.24/4-446: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, April 4, 1946—7 p. m.

[Received April 5—8:21 a. m.]

635. FonOff unwilling to take any stand regarding export American tires (urtel 436, April 2¹⁶) to Argentina or regarding basic rubber policy (urtel 383 March 19) until after conversations with mission from Argentina headed by Minister of Economy due to arrive here fifth. Brazilian arrangements to ship 10,000 tires to Argentina by end of April if carried through should reduce need for American tires and if 1500 tons Brazilian rubber (Embtel 628, April 3¹⁶) should be shipped to Argentina at once, need for American tires would become still less urgent. Indications are that Brazil will endeavor to make optimum use of tripartite agreement May 2, 1945 to extract maximum amount of wheat from Argentina.

Sent to Department; repeated to Buenos Aires.

DANIELS

832.24/4-346: Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, April 5, 1946—7 p. m.

459. Embtel 628, Apr. 3.¹⁷ Braz Emb yesterday afternoon presented a further proposal regarding rubber and wheat as follows: Brazil to utilize 578 tons Brazilian crude rubber to fill Argentina's first quarter CRC allocation and 1250 tons for Argentina's second quarter allocation, deducting these quantities from deliveries Brazil required to make to RDC under Washington Agreement; Tripartite Agreement to continue in effect.

Emb is being informed in reply that US Govt would consent to sale of this rubber to Argentina under two conditions: (1) That prices not exceed those at which US will supply rubber allocations of all countries in South America, namely 60 cents per pound for first quarter allocations and approximately 22½ cents per pound second quarter

¹⁶ Not printed.

¹⁷ See footnote 15, p. 124.

allocations; (2) that Brazil agree to prompt termination of Tripartite Agreement.

US Govt could not be party to arrangement whereby Argentina would be misled as to price at which she as well as other American republics will be able to buy rubber during second quarter. Termination of Tripartite Agreement is viewed here as essential if allocations made by CRC to Argentina now and in future are to be effective.

US Govt would obviously be willing to release Brazil from basic Rubber Agreement of 1942 if such action desired by Brazil (Embtel 612 Apr 2) and you may in your discretion use this offer to combat current press attacks on US which hold this agreement as responsible for Brazil's inability to obtain wheat from Argentina. Repeated to Buenos Aires for confidential information of Emb.

BYRNES

800.5018/4-846

*The Acting Chief of the Division of Brazilian Affairs (Braddock)
to the Chargé in Brazil (Daniels)*

SECRET

[WASHINGTON,] April 8, 1946.

DEAR PAUL: The wheat-rubber discussions have now been going on for some time and not much prospect of a really satisfactory solution is yet in sight. The terrific tightness of wheat is the major obstacle. The United States is far behind on its commitments to Europe, and the men who are responsible for determining where our wheat shall go just don't have nearly enough supplies with which to do the job. Late comers and particularly those who do not normally depend on the United States for their wheat have practically no chance to get anything here. Mr. Braden has gone to bat in the most vigorous way to try to get emergency shipments of wheat or flour for Brazil, and just can't get to first base. Rubber does not seem to offer too good a means for coaxing wheat out of Argentina and the Brazilians, in their desperation to get wheat, have apparently not understood how weak their rubber bargaining position is. It is impossible for any one to hold back the tide of Far Eastern rubber that is now coming on the market. All countries, including Argentina, will be getting more rubber and at much less price than they have been for years.

For our part we are committed for the second quarter, at least, to meeting the CRC allocations of the American republics at the same price that we ourselves have to pay for Far Eastern rubber.

To continue to sell them at 60 cents a pound when they know we are buying in the East at approximately 22 cents would bring down on our heads a storm of justified criticism; moreover, it would make it impossible for us to keep these republics out of direct participation in the Far Eastern market as our competitors. This we want to avoid since their demands, though small, could easily result in forcing up the price at which we can buy rubber for our own needs. It is possible that the Argentines are still unaware of our policy to furnish all the American republics, beginning with the second quarter, with the amount of their rubber allocations at the cost to us of Far Eastern rubber, but if Brazil were to trade on this ignorance, it could only have an unfortunate reaction when the Argentines learned that they had been taken in. In such case Brazil might really have something to worry about regarding her future wheat supply. Moreover, as pointed out in our telegram to you of April 5, no. 459, the United States could not be a party, even a silent one, to such a misrepresentation.

Some of this appears in the note which we sent to the Brazilian Embassy in reply to their last rubber-wheat proposal, referred to in the telegram in question, and other aspects we have discussed very frankly with García of the Brazilian Embassy. I have told him also, in urging Brazil's agreement to cancellation of the Tripartite Agreement, that this agreement could not possibly be used as a permanent lever for prying wheat out of Argentina, since if there were no other means of making the Argentina rubber allocation effective, the CRC could simply change the source of the allocation. The Far Eastern producers are not in the least bound by the Tripartite Agreement.

On the other side of the picture, there is no doubt at all that if, on the one hand, Argentina is entitled to her rubber allocation, Brazil is no less entitled to her allocation* of wheat, and it is incumbent on us and on the members of the Combined Food Board to do our utmost to see that Brazil's wheat allocations are filled.

It seemed to me that you might be glad to have a little more of the Department's thinking on these questions than is possible to convey in telegrams bearing on this or that specific proposal.

Sincerely yours,

DANIEL M. BRADDOCK

*Allocation still tentative; no allocations have been finally determined and can't be until Argentina and her possibilities are factors that can be counted on. [Footnote in the original.]

832.24/4-946 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RIO DE JANEIRO, April 9, 1946—4 p. m.

[Received 7:53 p. m.]

662. ReEmbstel 628, April 3, 7 p. m.¹⁸ This morning Gracie¹⁹ informed me of FonMin's urgent and reiterated desire that Brazil be permitted to ship as soon as possible to Argentina 1,500 to 2,000 tons crude rubber to facilitate immediate shipment urgently needed wheat from Argentina to Brazil. Embassy reiterates recommendation transmitted its telegram 628 and hopes prompt authorization will be telegraphed permitting such shipment rubber without further negotiations or conditions. Effect would be most favorable in Brazil and presumably Argentina.

Gracie reiterated desire of Brazilian Govt to maintain 1942 agreement indicating proposed export rubber to Argentina would be exception and outside terms that agreement. He added that Brazilian Govt accepted proposals contained in Embassy's memo March 26 embodying substance Dept's recent telegram on rubber policy. Major point he stressed was simply immediate agreement on part of US that shipment of 1,500-2,000 tons crude rubber be permitted without prejudice to other agreements.

Argentine Minister of Commerce and Industry, Sauri plans to return to Buenos Aires tomorrow Gracie said. No specific agreement has been reached between him and Brazilian Govt other than mutual expression of good will to furnish wheat and rubber respectively. If no such arrangement is consummated and if both Brazil and Argentina publicly express their desire to conclude such transaction or regrets that it was impossible US will be holding the bag in so far as public opinion is concerned.

Repeated to Buenos Aires.

DANIELS

¹⁸ See footnote 15, p. 124.

¹⁹ Samuel de Souza-Leão Gracie, Secretary General of the Brazilian Foreign Office.

832.24/4-946 : Telegram

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

SECRET

BUENOS AIRES, April 9, 1946—5 p. m.
[Received 6:26 p. m.]

1017. ReDeptel 463, April 5.²⁰ It is reliably reported that Brazil is attempting to negotiate a 5-year contract for Argentina's natural rubber requirements on basis of 30 cents per pound in exchange for wheat. American tire companies naturally disturbed since this would result in excessive cost to them of raw materials. In view of excessive prices Argentina has been forced to pay for natural rubber, an agreement at 30 cents would appear as important victory for Col. Sauri as result of his trip to Rio.

It is very obvious that if Argentina could be assured its essential requirements of natural rubber at approximately world prices, it would welcome and even suggest cancellation of tripartite agreement. Since Dept has not authorized Embassy to inform Argentina of our willingness to guarantee specified first and second quarter allocations at prices mentioned in Deptel 463, Argentina naturally has no knowledge of US attempt to obtain fair treatment for it in present critical situation. Actually US is credited with obstructing all of Argentina's efforts to solve critical rubber situation and our silence merely furthers current belief. This is reflected in all official conversations. I believe Brazil is making full capital of situation and not only using present natural rubber situation as club to obtain wheat, but also to emphasize Brazil's sincere effort to aid Argentina.

I strongly recommend that Embassy be immediately authorized to inform Argentine Govt that:

(1) A minimum supply of 550 tons quarterly of natural rubber will be made available to Argentina.

(2) The 60-cent price will prevail for first quarter allocation and subsequent prices will be based on prevailing world prices.

(3) US is willing to cancel tripartite agreement as soon as agreement of others is obtained.

CABOT

832.24/4-1246 : Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, April 12, 1946—7 p. m.

489. The prolonged and thus far fruitless discussions with respect wheat for Brazil and rubber for Argentina are causing growing feeling of irritation between all three countries. Moreover an irresistible

²⁰ Not printed.

pressure is mounting against US Govt on part of members of Combined Rubber Committee and recipient countries for rubber allocations to permit the Committee to proceed in making its allocations effective. US Govt which is most desirous of seeing that Brazil's needs for wheat and Argentina's for rubber are met is unwilling longer to accept criticism for situation which it did not create and for which it does not feel responsible. It could not in any case hold back execution of rubber allocations for more than a few days longer. CRC will meet again on Apr 18 at which time it is fully expected that unless situation has been otherwise resolved Great Britain and Netherlands will take matters into their own hands and reassign the Argentine allocations so as to nullify any restraining effect of Tripartite Agreement.

Brazilian Govt has been informed why none of its proposals to US could be fully accepted. US has no authority to change either size or source of any allocations of CRC nor modify the conditions established by CRC for use of the rubber allocated. The decisions taken by CRC in this regard envisage fair and equal treatment for all and US Govt is in accord with them. If solution of Brazil's problem were as simple as our merely releasing to Brazil for disposal by her a part of the rubber pledged to US under purchase agreement of Mar 3, 1942,²¹ US would gladly have done so. Unfortunately situation is far more complex and involves whole fabric of rubber allocation system which US views as essential at this time.

If it will contribute to successful bilateral negotiation between Brazil and Argentina and negotiation can be brought to final conclusion by Apr 17, US would agree to letting Brazil use first and second quarter allocations as *quid pro quo* with Argentina on condition that 60 cents per pound first quarter and approximately 22½ cents second quarter (exact figure to be cost of Far Eastern rubber landed in Argentina on basis of 22½ cents New York) would be observed by Brazil. A bookkeeping transaction through Rubber Development Corp would be necessary so that technically US would appear as filler of allocation but actual filler for purpose of bilateral negotiation would be Brazil. RDC would buy from Brazil at regular agreement price of 60 cents. Loss on resale of second quarter allocation would thus be borne by US not Brazil. A point that might be used to advantage by Brazil in this negotiation would be the following. Second quarter allocations have been estimated but not finally determined by CRC. Brazil would endeavor to get for Argentina largest second quarter

²¹ For text, see telegram 640, March 13, 1942, 7 p.m., to Rio de Janeiro, *Foreign Relations*, 1942, vol. v, p. 692.

allocation possible. (Probable figure on basis of present information would be 1250 tons; however allocations are based on current industrial capacity using ratio of 50 percent natural 50 percent synthetic, and somewhat higher allocation could be requested if need conclusively established).

Only alternative to foregoing suggestion in view of Dept would be frank tripartite discussion with Argentina, which could probably be best carried out at Rio. Your views on locale are requested. US approach in this discussion would be along following line: Continued shortage of many commodities including both rubber and wheat makes necessary international allocation of these products to assure equitable distribution world supplies. Under allocations fixed by Combined Rubber Committee adequate provision has been made for immediate and growing needs of Argentine industry, amounting to 578 tons crude rubber first quarter, about 1250 tons second quarter; moreover beginning second quarter Argentina would receive benefit of world price for Far Eastern rubber, being approximately $22\frac{1}{2}$ cents per pound for second quarter. Brazil's need for wheat is no less compelling than Argentina's for rubber and Brazil's wheat allocation for first and second quarter of 1946 has been tentatively fixed by Wheat Subcommittee of Combined Food Board at 400,000 tons. Argentina as traditional supplier of Brazilian wheat is named as source for most of the allocation. It is to interest of all countries that allocations worked out fairly for good of all be respected and implemented by countries directly involved. US as source for rubber allocations to Argentina intends fully to discharge its responsibility and see that Argentina's allocations are met. We in turn are confident that Argentina will promptly and faithfully fill wheat allocations to Brazil and other countries for which it may be indicated as source by Combined Food Board. Failure in execution of allocation program for one commodity would inevitably cause loss of respect for and tend to break down operation of allocations of all other commodities. Without our directly linking the wheat and rubber allocations, the inference should not be lost on Argentina that to continue to benefit under the rubber allocation she would have to perform under the wheat allocation.

At an opportune point in aforementioned discussion US representative should suggest that Tripartite Agreement be terminated by mutual consent as no longer in harmony with situation.

See Gracie at once on foregoing suggestion and report promptly reaction of Brazilian Govt.

Repeated to Embassy Buenos Aires.

BYRNES

832.24/4-1546: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, April 15, 1946—8 p. m.

[Received 9:15 p. m.]

708. ReDepstel 489, April 12, 7 p. m. Rubber and wheat situation discussed with Gracie today. Gracie reiterated request reported in Embtel No. 662 of April 9, 4 p. m. He said that as matters now appeared Brazil would receive far less than the amount of wheat it required, and that with permission to export an additional 1500 tons rubber to Argentina, outside the terms of existing agreements, there would be an opportunity to obtain additional wheat supplies from Argentina. He said he did not want to "quarrel" with the US on this point but that was Brazil's desire and that he regretted it did not seem possible to meet it.

Gracie referred to shortage of tires in Brazil as added reason for permitting additional exports crude rubber to Argentina in view of difficulty in making tire shipments.

Regarding wheat-flour shipments, he pointed out that flour was not adequate substitute for wheat because of high price and also lack of bi-products from milling needed for cattle fodder.

In view of Brazil's desire to maintain 1942 rubber agreement and tripartite agreement and acceptance CRC allocations (seeking only exceptional permission for 1500 tons shipment to Argentina referred to above) Gracie perceived no need for further tripartite discussions.²²

Repeated to Buenos Aires.

DANIELS

832.24/2-1646

The Secretary of State to the Brazilian Ambassador (Martins)

[WASHINGTON,] April 18, 1946.

EXCELLENCY: I have the honor to refer to your Embassy's note of February 16, 1946 calling attention to circumstances which appear to aggravate difficulties encountered by the Brazilian Government in negotiations with Argentina looking to ensuring adequate imports of wheat and pointing to considerations which suggest the impossibility of compressing consumption by reducing utilization of bread or of lessening dependence upon imports by use of substitute grains.

The matter of the possible weakening of Brazil's bargaining position in its negotiations with Argentina to secure wheat as the result of

²² In telegram 515, April 18, 1946, 2 p. m., the Secretary of State indicated to the Chargé his belief that tripartite discussions offered the best prospects for breaking the deadlock and that Brazil would wish to participate (832.24/4-1546).

shipment of truck tires to the Argentine from the United States is understood to have been the subject of earlier exchanges of the Department with the Brazilian Embassy. The present communication addresses itself to the matter of Brazilian import requirements and available supplies.

The effort being made by the Combined Food Board Cereals Committee to reduce universally import requirements of wheat to a minimum is dictated by the inescapable fact that available export supplies of this important commodity in the first half of 1946 are sufficient to cover only 60 percent of world requirements. The inevitable resultant drastic reductions in consumption in United Nations member countries in Europe, where bread makes up from one-half to two-thirds of the entire calorie intake, has resulted in a total consumption for the average non-farm consumer in many countries of only 1,900 calories and in some of very considerably less. Further drastic reductions now appear inescapable for the critical months immediately ahead in spite of reduction of the basic rations in the American and British occupied zones of Germany to 1,275 and 1,000 calories respectively, with perhaps only 200 or 300 calories in addition from supplementary non-rationed foods.

As a consequence, all grain-importing countries are being urged to make the fullest use of other grains than wheat for human consumption both as an adulterant in bread and in other food preparations. In consonance with this effort, a resolution of the Cereals Committee of the Combined Food Board recommends that secondary grains moving in international trade be used only for human food and that Committee counts imports of such grains against bread-grain requirements. In the case of Brazil, it is suggested that the import requirement in wheat may be somewhat reduced by more extended use of corn both as a part of the bread grist and in other food preparations. This would appear to be a possibility in view of this season's excellent Brazilian corn crop which is reported to be considerably in excess of normal domestic requirements.

As is already known to you, the rate of import of 400,000 tons of wheat per half year, or about 65,000 tons a month, has tentatively been considered by the Cereals Committee as a reasonable allocation to Brazil as against the stated requirement of 600,000 tons. It has fortunately been possible for the United States to ship 110,000 tons of wheat largely in the form of flour to Brazil during the first quarter of this year. The equivalent of 40,000 tons is also reported to have been furnished by Canada. It is understood, furthermore, that some wheat has moved to Brazil from Argentina during that period, although the exact amount has not been ascertained. Additionally, it is expected that some quantities of flour will be allocated from the United States for use in northern Brazil during the second quarter.

The representative of Argentina on the Cereals Committee of the Combined Food Board has consistently indicated Argentina's wish to be regarded as the source for the quantities still to be shipped to Brazil during the six months period, in addition to the quantities mentioned above, and since Brazil has historically received most of its wheat from that source, it is felt that this request cannot be ignored. It is the more essential to take account of it and to plan international distribution of wheat on this basis, in view of the fact that present commitments for shipment to other areas do not admit of the assumption by the United States of the primary responsibility for supplying Brazil. Furthermore, the wheat now in sight to meet the schedule of shipments of wheat already made for April covers less than half of the total amount called for.

It is accordingly our hope that arrangements will be effected whereby Argentina will in fact effectually assume the responsibility which she declares to be hers for supplying the needed wheat to Brazil. We are hopeful that internal transportation in Argentina has in so far been restored that greatly increased shipments of wheat from that country can soon take place. It is noted that the total movement during March is reported to have been considerably increased over January and February.

Accept [etc.]

For the Secretary of State:
WILLIAM L. CLAYTON

832.24/4-2246: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, April 22, 1946—7 p. m.
[Received 9:20 p. m.]

743. At suggestion of Gracie, Secretary General Foreign Office, tripartite discussions held today between Foreign Office, Argentine Embassy and this Embassy on wheat-rubber negotiations. Foreign Office proposes exchange of notes between Embassy and Foreign Office and at same time between Argentine Embassy and Foreign Office confirming existing understanding as follows:

1. Argentina to supply Brazil for balance of current year 500,000 tons of wheat;
2. Brazil and US to guarantee Argentina immediate delivery 578 tons crude rubber at price of 60 cents and 150 tons butyl synthetic as quota for first quarter this year;
3. Brazil and US promise their full support before rubber committee in order that Argentina may be granted for second quarter a quota of 1250 tons of rubber at price of 22½ cents.

Embassy understands proposed exchange of notes injects no new element into situation as already approved by Dept. Final text of

proposed notes not yet drafted. Is Embassy authorized to proceed with exchange immediately or does Dept first wish to approve final text? ²³

DANIELS

832.24/4-2246 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

WASHINGTON, April 25, 1946—3 p. m.

551. Embtel 743, Apr. 22. In view of tripartite discussions Arg, Braz, and US pending believe time opportune to raise question of cancellation Tripartite Agreement.

Dept feels subject should be raised in such way not to embarrass present discussion, but with successful conclusion of rubber, wheat agreement Arg and Braz might be asked whether any reason exists for further continuation of the Tripartite Agreement. If not, it should be abrogated.

Continuation of agreement requires raising further question whether Braz has objection to US treating Arg on same basis as other countries with respect to new tires.

ACHESON

832.5018/4-2646 : Telegram

The Consul General in São Paulo (Cross) to the Secretary of State

RESTRICTED

SÃO PAULO, April 26, 1946—5 p. m.

[Received April 26—3:17 p. m.]

132. Small scale disturbances are recurring, over 50 occurred yesterday. Last night several hundred persons surged through the center of the city attacking a bakery and demonstrating in front of the army headquarters. The movements primarily involve the bread situation, appear to be spontaneous and without open Communist leadership but the opportunity for causing serious trouble is offering a temptation to Communists that they can hardly fail to take advantage of. The authorities are greatly worried and losing prestige.

Actually the bread situation involves rather a change of dietary habit than a serious hardship. Bread using maize flour and of good quality is being produced in ample quantity but the population is finding it difficult to adjust itself to the new texture and flavor.

Repeated to Embassy.

CROSS

²³ The Acting Secretary of State in telegram 546, April 24, 1946, 5 p. m., not printed, approved this arrangement with a modification concerning prices (832.24/4-2246).

832.61311/5-2146

The Brazilian Embassy to the Department of State

MEMORANDUM

This Embassy was informed that the Department of Agriculture will allocate to Brazil, during May and June, only 130,000 bags or approximately 8,000 metric tons of wheat flour. Our minimum requirements amount to 30,000 metric tons from May 15 to June 30. We did not receive any substantial quantity of wheat from Argentina and the situation in Brazil is at present critical as far as wheat and wheat flour supplies are concerned.

2. This Embassy was also informed that that quantity of 130,000 bags would be allocated to the Northern part of Brazil. It would meet our needs much more satisfactorily if it were put at the disposal of the "Comissão Nacional do Trigo" in Rio de Janeiro, which will distribute it according to the present and real situation in the country.²⁴

WASHINGTON, May 21, 1946.

800.48/5-2246: Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Officers
in the American Republics*²⁵

[Extracts²⁶]

RESTRICTED

WASHINGTON, May 22, 1946—6 p. m.

At President Truman's request former President Hoover is making a quick tour of Latin America to discuss the various problems of mutual concern facing us in the world-wide famine. Purpose is to discuss ways and means of closer collaboration among the American nations to achieve the greatest possible export of wheat, wheat flour, fats, and other essential foods to areas of most urgent need in order to fulfill our common responsibility to alleviate suffering and starvation. Mission consists of Hoover, Ex-Ambassador Hugh Gibson, Ex-Commerce Julius Klein, D. A. FitzGerald of Agri, Press Attaché Frank Mason, Maurice Pate of International Red Cross, Capt Westmoreland Military Aide, Capt Rey Medical Aide, and Hugo Meier, Secretary. . . . At each point where length of stop permits Mr. Hoover will wish to confer promptly with Embassy officials concerning

²⁴ In telegram 727, May 31, 1946, the Chargé was advised that wheat shipments to Southern Brazil were discontinued in expectation that Argentina would fill the need (832.61311/5-2446).

²⁵ Sent to the Embassies at Bogotá, Buenos Aires, Caracas, Habana, Lima, Mexico, Montevideo, Panamá, Quito, Rio de Janeiro, and Santiago, and to the Consulates at Pará and Port-of-Spain.

²⁶ Omitted portions concern travel facilities and schedules.

statistics and other pertinent data you may be able to gather from official and other authoritative sources including monthly imports and exports since last July 1 of wheat, wheat flour, corn, other coarse grains, rice, fats and oils, indicating source of imports and destination of exports, also stocks on hand and domestic production. Where possible please secure best estimate on monthly exports and imports to October 1. . . .

BYRNES

832.24/5-2446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RIO DE JANEIRO, May 24, 1946—6 p. m.

[Received 9:10 p. m.]

972. Exchange notes on rubber, wheat still unconsummated. Argentine representatives contend unable to sign until receipt new instructions necessitated by resignation Sauri. Although expected daily these have not been received.

Brazilian Ambassador Buenos Aires²⁷ has been instructed by Foreign Office to urge Argentine Government to act promptly in this matter.

Foreign Office has made plain that it does not wish to discuss abrogation tripartite agreement at present juncture. (Department's telegrams 551, April 25 and 632, May 14).²⁸ Treatment Argentina same basis other countries for tire licensing has been raised and is under consideration by Foreign Office; unofficial indications are there probably will be no objection but Foreign Office unlikely to so state until after exchange wheat, rubber notes has been effected.

Repeated to Buenos Aires.

DANIELS

832.61311/5-2146

The Department of State to the Brazilian Embassy

MEMORANDUM

Reference is made to the Brazilian Embassy's memorandum of May 21, 1946 calling attention to the fact that Brazil will require a minimum of 30,000 metric tons of wheat for the remainder of the second quarter, and requesting that all grain and flour shipped for

²⁷ João Baptista Lusardo.

²⁸ Latter not printed.

Brazilian account from the United States be placed at the disposal of the Comissão Nacional do Trigo, in order that the Comissão may distribute it within the country as circumstances require.

The requirements placed against the United States have been so heavy in recent months that supplies in this country are extremely short. Many local bakeries have been obliged either to close down or to operate on a part-time basis, and despite the numerous control measures instituted by this Government in an effort to maximize exports, shipments of relief wheat to famine areas are greatly in arrears. Under the circumstances, allotments to countries which are in a position to draw upon other sources of supply have had to be kept at a minimum.

Since the quantities of wheat flour programmed for Brazil out of the United States, 136,000 hundredweight, will not in any event meet more than a small proportion of total Brazilian requirements, this flour was scheduled for North Brazilian destinations in an effort to conserve shipping and minimize cross hauls. The Brazilian Embassy may be assured that its supply position will be kept under constant review and that every effort will be made to see that Brazil receives equitable treatment.

WASHINGTON, June 12, 1946.

832.6584/6-1546

The Ambassador in Brazil (Pawley) to the Chief of the Division of Brazilian Affairs (Braddock)

RESTRICTED

RIO DE JANEIRO, June 15, 1946.

DEAR MR. BRADDOCK: Thank you for your very kind letter of June 10, 1946,²⁹ in which you in the Division of Brazilian Affairs express confidence in the contribution which you feel that I may make to United States relations with Brazil.

I arrived on Monday³⁰ as per schedule. I had the pleasure the next day of calling on the Foreign Minister³¹ informally and the same afternoon Ambassador Boal³² and I had tea with the Foreign Minister at his office. I presented credentials on June 13 at 3:00 p. m. and returned to call on the President with Mr. Hoover at 4:00. We spent at least two hours discussing the world famine problem, and I feel that this conference was most satisfactory and helpful.

²⁹ Not printed.

³⁰ June 10.

³¹ João Neves da Fontura.

³² Pierre de Lagarde Boal, United States Member, Emergency Advisory Committee for Political Defense.

Mr. Hoover, the members of his party, and I had a meeting yesterday with the Foreign Minister and the principal members of his staff interested in Brazilian food supply and the members of his economic section. We find that Brazil has less than two weeks' wheat supply on hand and the difficulties existing with reference to Brazil furnishing the Argentine with rubber and the \$3.50 per bushel which Argentina is endeavoring to charge Brazil for wheat have caused considerable worry in Government circles.

Mr. Hoover and I have gone deeply into this subject and as a result last night we talked to Secretary of Agriculture Anderson³³ and to Mr. Bill Batt.³⁴ Secretary Anderson was most encouraging with reference to assisting Brazil after September with a supply of wheat, and Mr. Batt agreed to look into the rubber problem immediately in the hopes of breaking the present deadlock which appears to be as follows:

The tripartite agreement between the United States, Brazil and Argentina calling for the sale to Argentina of some 1,700 tons of rubber and for Argentina to supply a substantial quantity of wheat has not been signed by Argentina because it appears that we, the United States, cannot guarantee the supply of rubber but can only agree to recommend that the rubber be allocated, whereas Argentina would be making a definite commitment to Brazil for wheat. We learned that of the approximately 1,700 tons of rubber, 577 tons have been definitely allocated by the Combined Rubber Committee but the balance has not been allocated. This price problem is one in which both Argentina and Brazil alike are somewhat to blame. The United States Government because of the war entered into a contract to purchase rubber at 60 cents a pound and that contract carries on into 1947. Naturally Brazil is extremely anxious to maintain this contract at this favorable price, in spite of the fact that they know that we resell this rubber for approximately 23 cents. Brazil, therefore, wants Argentina to take the rubber at 60 cents, and as Argentina is unwilling to do this, would like for us to take the rubber at 60 cents and supply the rubber through the Combined Rubber Committee in Washington at a price of approximately 23 cents. The Argentine Government, on the other hand, feels that it is being held up by Brazil on the rubber price. In fact, President Perón told Mr. Hoover that this was the case and that therefore they were demanding the higher price for wheat. It appears that the Argentine Government is purchasing the Argentine wheat from the growers at approximately 20 pesos a ton and are selling it to Brazil and elsewhere at 35 pesos a ton, and this embitters the Brazilians. Mr. Hoover has suggested to Mr. Batt that 2,000 or possibly 4,000 tons of rubber *in Brazil* be released from the United States contract for Brazil

³³ Clinton P. Anderson.

³⁴ William L. Batt, United States Member, Combined Boards, Civilian Production Administration.

to trade or sell to Argentina on any basis that Brazil can secure. I am afraid this would not accomplish the results desired.

I know that you in the Brazilian Division are thoroughly familiar with my attitude with respect to the United States "holding the bag". I have no desire that the United States continue to be Santa Claus. But wherever we have a bona fide contract, even though it be unfavorable to us, we must carry it out to the letter. At the same time we must be positive that we make no similar contracts in the future. It is my sincere desire and intention to be of maximum service and assistance to the Brazilian Government and to the Brazilian people, but I am sure that they will like and respect us more if that assistance be on a basis of mutual help and mutual consideration.

I am writing at some length on this subject because I am anxious for you to help us to as great an extent as possible. Brazil's critical period is between now and September. The world food supply will greatly increase then and we wish to help Brazil get by this period without danger to its people or to its Government. Please write me any views you may have on this subject at once.

With kind regards to all of the members of the Brazilian Division, I am

Sincerely yours,

WILLIAM D. PAWLEY

832.24/6-1546 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, June 15, 1946—2 p. m.

US URGENT

799. Combined Rubber Committee allocated to Argentina 578 long tons natural rubber for first quarter 1946 and 1250 tons for second quarter. US prepared to ship total quantity immediately either from US ports or from Rubber Development Corporation supplies located in Brazil. Under terms of tripartite rubber agreement US unable to ship this rubber until Brazil permits.

Brazil had verbal agreement with Argentina whereby Argentina would ship 50,000 tons wheat per month for remainder of 1946 to Brazil and in return Brazil would permit US to ship allocated rubber to Argentina. Department understands Argentina failed to sign exchange of notes to this effect. Consequently Brazil requested US to stop shipment of rubber. Small amount was already enroute and ships were loading in New York. US ceased loading and deferred further shipment pending Brazilian concurrence as required tripartite agreement.

Dept has repeatedly proposed to Brazil that working arrangements be reached under tripartite agreement which would regularize ship-

ment rubber and rubber products to Argentina or to terminate tripartite agreement. Brazil has been unwilling to discuss either point until wheat deal consummated with Argentina. Embassy requested to continue to press for solution this problem in accordance with previous Departmental instructions.

Tripartite agreement serves no useful purpose in existing circumstances and is a continuous source of irritation.

Cancellation of tripartite agreement or permission from Brazil for US to ship rubber and rubber products to Argentina will result in immediate shipment of such products.

We have for some time questioned appropriateness of use Brazil has made of tripartite agreement and questioned effectiveness this device for procuring wheat. We have, however, felt obliged to operate under its terms so long as Brazil insists.

ACHESON

832.24/6-2146: Telegram

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

SECRET

BUENOS AIRES, June 21, 1946—3 p. m.

[Received 5:47 p. m.]

1671. Embassy's telegram 1512, June 3.³⁵ Local tire companies have informed Embassy their supply situation critical and if immediate shipments synthetic and natural rubber not made factories will be forced close by September 1. Argentine Government official reports wheat shipments made accordance commitments with Brazil. Brazilians in Buenos Aires are reported to be attributing delays in tire shipments to opposition of US.

Although shipments of 30,000 tires in large measure relieved grain transport problem, Government and tire companies consider that 60,000 passenger car and 12,000 truck tires in addition to domestic production capacity required correct existing transport problems. If possible Embassy recommends allocation these additional units for shipment last 6 months, and in granting export licenses recommend Goodyear and Firestone be given their proportional share.

Deerwester's statement (Department's telegram 814, June 14³⁶) doubtlessly based undistributed balances of 30,000 units. This situation rapidly clearing up. Truck statement absolutely unfounded.

MESSERSMITH

³⁵ Not printed.

³⁶ Not printed; in it the Department requested the Embassy's comment on a report in the *Chicago Sun* that Argentina had 14,000 tires in storage (840.50-UNBRA/5-2946).

832.61311/6-2546

*The Chief of the Division of Brazilian Affairs (Braddock) to the
Ambassador in Brazil (Pawley)*

CONFIDENTIAL

WASHINGTON, June 25, 1946.

DEAR MR. AMBASSADOR: I have discussed your letter of June 15, received yesterday, with the Department's rubber and wheat people. The position, as we see it, is that Argentina is willing to ship wheat in accordance with the arrangement worked out in Rio provided it receives the rubber promised under the same agreement. Of the rubber it can be assured. The first quarter allocation of 578 tons is already under way, part of it actually on the water, and the second quarter allocation will be shipped just as soon as we get information here that Brazil is agreeable to its being sent. We believe it would be to Brazil's interest to authorize the second quarter shipment made without delay, since a third quarter allocation of 2300 tons to be supplied by Great Britain has now been approved by the Combined Rubber Committee and it would be desirable to have the second quarter rubber arrive before that of the third quarter.

May I help clear up this situation in your mind by calling attention to two or three small factual errors that we discovered in your letter. The price of 35 pesos per 100 kilos (not per ton), works out at about \$2.85 per bushel (not \$3.50), and though high is the same price at which Argentina is offering wheat to other countries. We believe that there has been no question of Brazil's wanting to offer rubber to Argentina at 60 cents, since it is not Brazil but the United States that is providing the first and second quarter allocations to that country. In short, the price disagreement seems to us more illusory than real at the present time, and we hope that a steady supply of wheat will be resumed when it is known that the rubber for Argentina is on the way.

The United States certainly intends to maintain its rubber purchase contract with Brazil until the expiration date in mid-1947. This was a wartime agreement thought necessary to get out a critically needed raw material. We entered into it not through any philanthropic reasons. It is equally certain, in my opinion, that the United States will not entertain any suggestion by the Brazilian Government that we extend this purchase contract once it has expired, and the Brazilians should not be given any encouragement to believe that we will.

At the top of Page 2 of your letter you say that "Secretary Anderson was most encouraging with reference to assisting Brazil after September with a supply of wheat". I do not know how the Secretary phrased his statement, but from the completely negative result

of our insistent efforts to get emergency shipments of wheat for Brazil earlier this year, I am inclined to believe that Brazil should not look to this country for help in meeting its wheat requirements any time soon. The feeling here is rather that it is up to Brazil to arrange for her wheat needs to be met by her traditional supplier, Argentina.

You will have noted that with Argentina's third quarter allocation of rubber assigned to Great Britain to fill, our old Tripartite Agreement ceases to have any further effect as regards crude rubber. Yet it continues to obstruct our trade in tires with the Argentine, and if we are not to see that market go entirely to tire producers of other countries, we must get rid of that agreement just as soon as possible. Please continue your efforts to have that agreement cancelled.

In closing this letter, I would like to inform you of an error in a recent Departmental telegram to you on this subject which has resulted in embarrassment to the Brazilian Embassy here, and to ask that you do what you can to put the records straight with the Foreign Office. The Department's telegram 799 of June 15 contained the statement "consequently Brazil requested U.S. to stop shipment of rubber". There was no request here to stop shipment, but it had been the Department's understanding that until the agreement was signed, Brazil would not wish the rubber to be shipped, and that unless we had specific authority from the Brazilians, we could not make any shipment without violating the old Tripartite Agreement.

Sincerely yours,

DANIEL M. BRADDOCK

832.24/6-2846: Telegram

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

SECRET

WASHINGTON, July 11, 1946—7 p. m.

923. Embtel 1733 June 28.³⁷ Restrictions on shipments first quarter allocation of 578 tons natural rubber already lifted. Dept has repeatedly requested Braz to concur in shipment of 1250 tons second quarter allocation awaiting shipment.

CRC has allocated 2300 tons natural from UK plus 200 tons butyl from Canada for Arg for third quarter. This action proposed and supported by US. These shipments not subject to concurrence Braz under tripartite agreement. Hence should soon allow Arg domestic production to operate near capacity. (Re Embtel 1671 June 21)

³⁷ Not printed.

Question of 60,000 passenger and 12,000 truck tires from US depends on cancellation of tripartite agreement or concurrence Braz in shipment. Estimate of supply for Arg will be established when concurrence obtained if supply permits. OIT prefers not to withhold large contingency reserve to cover possible Arg quota if tripartite agreement is going to prevent licensing during most of third quarter.

Sent to Buenos Aires, rptd to Rio.

ACHESON

832.24/7-2346

The Ambassador in Brazil (Pawley) to the Assistant Secretary of State for Economic Affairs (Clayton)

SECRET

RIO DE JANEIRO, July 23, 1946.

[Received August 5.]

DEAR MR. SECRETARY: Yesterday I obtained from a very reliable source information to the effect that the Argentine Ambassador here,³⁸ after a conference with the Foreign Minister, telegraphed his Government that the second quarter allocation of rubber had not been shipped because of difficulties created by the United States Government.

Immediately upon receipt of the Department's telegram no. 799, June 15, 2 p. m., I conferred with the Foreign Minister stating that the allocation for the second quarter had been made and that he was at liberty to obtain the second quarter shipment from the United States or the rubber could be allocated from Brazilian stocks. The Foreign Minister immediately conferred with the Argentine Ambassador, and it was my understanding that arrangements were reached between them for shipment of this rubber from Brazil. However, we heard nothing further until yesterday.

In various conferences between the Foreign Minister and the Argentine Ambassador during the past weeks, the Argentine Government committed itself verbally to shipment of 50,000 tons of wheat per month through December. The Foreign Minister informed me that the offer was made in glowing terms and with protestations of friendship, and that Argentina expected nothing in return.

The Foreign Minister tells me, however, that before the meeting was over he was informed that Argentina was desperately in need of tires. Therefore, the Foreign Minister felt compelled to offer assistance and committed Brazil to furnish 10,000 tires.

Yesterday the Foreign Minister informed me that the Argentine Ambassador had called on him to say that the Argentine Govern-

³⁸ Gen. Nicolas C. Accame.

ment cannot furnish more than 30,000 tons of wheat a month, although the Foreign Minister has already had shipped between 6,000 and 7,000 tires. (In addition, we are informed that large quantities of tires are being smuggled over the border.)

When the conference was over, the Argentine Ambassador telegraphed his Foreign Office to the effect that the Brazilian Foreign Minister had stated that the second quarter of rubber had not gone forward because of difficulties imposed by the United States. He further informed his Foreign Office that the Brazilian Foreign Minister was adamant that the Argentine Government live up to its commitment of 50,000 tons of wheat per month.

In my telephone conversation with you several weeks ago, I recommended that Brazil be authorized to sell direct to Argentina through the Combined Rubber Committee the rubber Argentina is seeking, and that Brazil negotiate the best price that can be obtained from Argentina in exchange for a commitment in writing from Argentina to furnish a minimum of 50,000 tons of wheat per month.

Through this process we would be relieved of paying 60 cents for Brazilian rubber that would ultimately reach Argentina after paying freight to the United States and back. Although the Brazilian Government is naturally anxious that we continue to take their rubber at 60 cents and make it available to Argentina at 23½ cents in order that Brazil obtain Argentine wheat, I have pointed out the inequity of the United States being in the middle of this type of transaction and taking this substantial loss for no apparent good reason. The Foreign Minister and others present agreed with my point of view and felt that the Brazilian Government would handle it that way if the United States Government was unwilling to buy at 60 cents and sell it in their behalf at 23½ cents.

I pointed out that the United States Government was subsidizing Brazilian coffee on a very substantial basis³⁹ and at very great cost to the United States Government, and that it was only reasonable that Brazil should make her rubber available to Argentina at the best price she could get.

I would greatly appreciate your views on this matter.

I agree with your telegram that the tripartite agreement is not effective. We believe that it should be canceled, as we are convinced here that this device for procuring wheat has not been effective.

Sincerely yours,

WILLIAM D. PAWLEY

³⁹ For documentation on the coffee program, see pp. 504 ff.

832.24/8-846: Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, August 8, 1946—8 p. m.

1065. Re B.A.'s tel 1959, Aug. 3.⁴¹ Dept interprets tripartite agreement as not requiring consultation with Braz on each tire shipment to Arg. Clearing each request with Braz delays necessary shipments and hampers US normal commercial relationship with Arg. Dept and OIT getting irresistible pressure from private trade and Congress on tire restrictions affecting only Arg.

Tripartite agreement was never intended to withhold rubber and tires from Arg. Originated to supply Arg. essential rubber needs thereby preventing smuggling.

US repeatedly has requested Braz's concurrence in cancelling tripartite agreement. Emb Rio requested to continue pressing Brazil for (1) immediate approval for licensing tires to Arg. on same basis as other American Republics (2) concurrence in cancelling tripartite agreement soonest with waiver 90-day termination clause.

If such arrangements cannot be finalized within fortnight Dept would consider as matter expediency (subject US supply position and approval OIT) requesting Braz's approval for tires mentioned B.A.'s tel 1959. If requested by Braz., US willing permit Braz supply part these tires.

Dept not opposed Arg Govt independent approach to Braz for cancellation tripartite agreement and shipment tires requested tel 1959. Sent to Rio de Janeiro; repeated to Buenos Aires.

ACHESON

832.24/8-2346: Telegram

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

SECRET

RIO DE JANEIRO, August 23, 1946—8 p. m.

[Received 10:20 p. m.]

1495. Urtel 1959, August 3, noon.⁴¹ I have approached Ambassador Gracie twice with reference 60,000 passenger car tires and 12,000 truck tires. Will see him again today on this subject. Believe it undesirable this time to suggest Argentine Ambassador here approach Foreign Office because Brazilian Foreign Office very much upset with Argentine Govt regarding Argentina's failure to fulfill its commitment with reference delivery of wheat.

(Deptel 1065, August 8, 8 p. m.).

Sent to Buenos Aires; repeated to Dept.

PAWLEY

⁴¹ Not printed.

832.24/7-2346

*The Under Secretary of State for Economic Affairs (Clayton) to the
Ambassador in Brazil (Pawley)*

SECRET

WASHINGTON, August 23, 1946.

MY DEAR MR. AMBASSADOR: With further reference to your letter of July 23, which was acknowledged August 6⁴² in my absence by Mr. Hamilton, I agree very definitely with you that the tripartite agreement should be cancelled as quickly as possible. Under existing conditions, the agreement serves no constructive purpose, and there is naturally a strong desire in the trade and in government to be relieved of the restrictions and delays on the shipment of rubber and rubber products from the United States to Argentina.

Under cover of his letter dated July 30,⁴² which apparently crossed with your letter of July 23, Mr. O'Toole⁴³ transmitted to you a memorandum of July 22 reviewing the rubber problem as it relates to the Argentina-Brazil wheat negotiations. Your attention is invited further to telegrams No. 923 of July 11, 1946 and No. 1065 of August 8 which also set forth the Department's views on this matter.

Contrary to the assertion of the Brazilian Foreign Minister that the second quarter allocation of rubber had not been shipped because of difficulties created by the United States Government, the United States at all times was ready and willing to ship the rubber and only awaited concurrence in accordance with Brazil's misconstruction of the tripartite agreement.

The Department and the other agencies concerned arranged for the shipment of the first and second quarter rubber quotas to Argentina in anticipation of the signing of a wheat-rubber agreement between Brazil and Argentina. Upon notification that the agreement had not yet been finalized, the Department requested that the shipments be delayed.

The Brazilian Embassy in Washington advised the Department that since Argentina was sending wheat to Brazil in advance of an agreement, it would be all right to ship the first quarter's allocation of rubber to Argentina; however the Embassy requested that the second quarter rubber be withheld until the negotiations were concluded. Finally about the middle of July the Brazilian Embassy in Washington notified the Department of its approval for shipping the second quarter rubber to Argentina.

The United States is unwilling to purchase rubber from Brazil on the basis of 60 cents per pound, with differentials for lower grades, for resale to Argentina at a lower figure. Also it would not reim-

⁴² Not printed.

⁴³ Richard F. O'Toole, Division of Brazilian Affairs.

burse Brazil by the difference between 60 cents and any lower price at which Brazil might agree to sell rubber to Argentina.

A discussion of any other terms which the United States would approve for a sale of rubber by Brazil to Argentina is academic for the following reasons:

1. Argentina has full opportunity to purchase in the Far East at 23½ cents per pound all rubber allocated to it by the Combined Rubber Committee. Therefore, Argentina would purchase rubber from Brazil at a higher price only: (a) If rubber obtained from Brazil were not to apply against the CRC allocation, or (b) as an emergency measure pending arrival of rubber allocated from the Far East.

2. As a member of the Combined Rubber Committee and in fairness to all countries receiving allocations through that Committee, the United States would insist that all rubber shipped to Argentina from Brazil be charged against the Argentine quota. Therefore, there would be no net increase in the quantity of rubber received by Argentina and no incentive to that country to offer more than the price at which rubber could be obtained from the Far East. Since Brazil obviously would not be interested in less than the 60 cents per pound obtainable from the United States, it is unlikely that Brazil and Argentina could agree on a contract.

3. As an emergency measure, Argentina probably could obtain permission from the Combined Rubber Committee for an advance of rubber against quantities expected from the Far East. However, the United States, as a member of CRC, would insist that any such advance be applied against Argentina's allocation. Furthermore, the United Kingdom, also a member of the CRC, probably would indicate a preference that the advance be made from London rather than from Brazil.

If, despite this British preference, rubber were allocated to Argentina from Brazil rather than from London, the United States would insist that the Combined Rubber Committee decrease the Argentine quota and increase the United States quota by an equivalent quantity. The reason is that the original United States allocation was made with the assumption that the United States would receive an estimated quantity of rubber from Brazil. Additional supplies from another source would be required by the United States to compensate for any rubber diverted to Argentina. Since Argentina would have no net increase in the quantity of rubber received, it would be likely to offer Brazil a premium price only if rubber could not be received from any other source in time to prevent a stoppage of the Argentine rubber industry.

For the reasons pointed out above it is believed improbable that Argentina and Brazil will reach an agreement for Brazilian rubber.

However, should such an agreement be reached, it should be made subject to approval by the Department and the Rubber Development Corporation and to concurrence by Combined Rubber Committee. Under present conditions this approval and concurrence probably would be given.

Sincerely yours,

W. L. CLAYTON

832.24/8-2746 : Telegram

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

CONFIDENTIAL

BUENOS AIRES, August 27, 1946—7 p. m.

[Received 7:40 p. m.]

2080. Embtel 1959 August 3 and Deptel 1057 August 8.⁴⁴ Embassy recommends pending Argentine request rubber tires be approved for immediate shipment without awaiting Brazilian concurrence. Should Brazil resent action reference may be made to Argentine urgent need for items and Brazilian Ambassador's remarks here to press August 24 blaming inability of Brazil to supply Argentina with rubber on Brazilian-US agreement which called for all Brazilian surplus and placing US in bad light concerning matter.

MESSERSMITH

832.24/9-546 : Telegram

The Acting Secretary of State to the Ambassador in Argentina (Messersmith)

RESTRICTED

WASHINGTON, September 5, 1946—7 p. m.

1163. Dept released following to press September 5: "The Department of State has been informed by the American Embassy in Rio de Janeiro that Brazil is willing to approve cancellation of the Tripartite Agreement governing the export of rubber and rubber products to Argentina from the United States and Brazil. Brazil agrees, in advance of a formal exchange of notes⁴⁵ among the three countries cancelling the agreement, that the United States may export tires to Argentina." Release also included brief background on agreement. Release did not mention quantities but Dept separately requested OIT until further notice not to license more than following quantities new and factory reject tires for export Argentina: 12,000 truck, 60,000

⁴⁴ Neither printed.

⁴⁵ The Embassy in Buenos Aires was advised in telegram 1226, September 26, 1946, 7 p. m., that Brazil and the United States had exchanged notes cancelling the Tripartite Agreement (832.24/9-2646). Argentina joined in this action on October 1, 1946, according to telegram 2284, October 9, 1946, 5 p. m., from Buenos Aires (832.24/10-946).

passenger. Dept did not take position as to whether these quantities represent Argentina's tire requirements. Of three notes mentioned Deptel 1146 Aug 31 ⁴⁶ important notes US Argentina and US Brazil be exchanged soonest. Emb requested report now when signing expected. Timing of Brazil Arg note obviously outside control US and other two notes are not to be delayed awaiting its signing.

CLAYTON

832.61311/9-1746

*Memorandum of Conversation, by the Chief of the Division of
Brazilian Affairs (Braddock)*

[Extract]

[WASHINGTON,] September 17, 1946.

Participants: Carlos Martins, Ambassador of Brazil
Lt. Dantaz of the Servico de Abastecimento
A—Br—Mr. Braden
BA—Mr. Braddock

Wheat. The Ambassador presented Lt. Dantas, an emissary of General Portela, Chief of the Servico de Abastecimento in Rio, who had been sent to this country for the purpose of arranging if possible for immediate emergency shipments of wheat to Brazil. The Ambassador stated that the lack of foodstuffs in Brazil, particularly in the large population centers, was approaching the tragic and that unless some relief could be provided very soon there was danger of a popular uprising against the Government. He pointed out that the Communists would not fail to take advantage of such a situation. He requested that immediate steps be taken to provide for shipment of 20,000 tons of wheat from the United States to Brazil, and that the Brazilian Government be allowed to announce at the earliest possible moment that these shipments were on the way. These emergency shipments would ease the present critical tension, but the long-range wheat supply problem, in which Brazil also desired our help, would persist.

Mr. Braden stated that the failure of Argentina to supply wheat to her normal customers in the Hemisphere had resulted in similar emergency appeals from certain other countries, and said that the State Department would of course do its utmost to get the 20,000 tons for Brazil.

⁴⁶ Not printed.

832.61311/9-2046

*Memorandum by Mr. Richard F. O'Toole of the Division of
Brazilian Affairs*

[WASHINGTON,] September 20, 1946.

WHEAT AND FLOUR FOR BRAZIL

U. S. Deliveries and Commitments, 1946
(Source IR—Durand Smith)

| | <i>Long Tons of Wheat or Wheat Equivalent</i> |
|-------------------------------------|---|
| January–June 1946 | 121,900 |
| July–August 1946 (Authorized) | 20,000 |
| September–October 1946 (Authorized) | 52,000 |
| | 193,900 |
| Total | 193,900 |

No commitment for later periods has yet been made.

Argentine Deliveries and Commitments—1946
(Source IR—Durand Smith)

| | <i>Long Tons of Wheat or Wheat Equivalent</i> |
|--------------------|---|
| January–March 1946 | 7,700 |
| April “ | 2,330 |
| May “ | 11,700 |
| June “ | 49,300 |
| | 71,030 |
| Total | 71,030 |

July–August figures incomplete and no information on future commitments.

Stock Position and Requirements of Brazil, on Minimum Requirements Basis.

Brazil has no stocks of wheat or flour beyond current arrivals which are far below minimum requirements. Prior to the commencement of the current wheat shortage Brazil imported about 90 percent of her requirements from Argentina, and a relatively small amount of flour from the United States for consumption in her northern cities.

Brazilian imports on flour and wheat for the first six months of 1946, compared with figures for the same period of 1945, point up, in striking form, the drastic reduction in her current supply:—

| | <i>Imports of Wheat and Wheat Equivalent in Long Tons</i> | <i>Monthly Average</i> |
|---|---|----------------------------|
| 1945, January–June | 690,534 | 115,090 |
| 1946, “ “ | 192,930 | 32,153 |
| 1946 Reduction in Monthly Average, 72.06 percent. | | |

Rio's telegram 1233 of 7/9/36[46]⁴⁸ states that Brazilian imports of flour and wheat for the first half of 1946 are off 60 percent from the same period of 1945.

Brazil's wheat production for the crop harvested in December 1945 and January 1946 was estimated at 90,000 metric tons (80,358 long tons) compared with an average of 123,000 metric tons for the years 1938-1943.

Up to October 1945, when Argentina cut off wheat shipments to Brazil, the latter's monthly imports of Argentine wheat were 100,000 tons.

832.61311/10-446 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

WASHINGTON, October 4, 1946—7 p. m.

1296. Arrangements made for fourth quarter allocation 120,000 long tons wheat and wheat equivalent for Brazil in addition to 8,000 long tons wheat and 52,000 tons flour (wheat equivalent) previously allocated for Sep-Oct. Arrange suitable publicity.

ACHESON

832.61311/10-846 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, October 8, 1946—6 p. m.

[Received 6:38 p. m.]

1731. Wheat and flour allocations designated Department's telegram No. 1296, October 4, 1946 inadequate to meet emergency. Accumulative effect continued bread shortages plus increased meat and milk shortages accelerated by dry season makes October, November and December critical months. Reference Embassy's 1729, October 7, 1946,⁴⁸ 70,000 metric tons wheat per month from United States or Canada considered minimum required to meet impending situation. There is no evidence any wheat forthcoming from Argentina next months to relieve situation. Publicity being withheld pending your reply.

DANIELS

⁴⁸ Not printed.

832.61311/10-946 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

WASHINGTON, October 9, 1946—7 p. m.

1313. Embtel 1731 Oct 8. We are actively exploring with Agriculture possibility increasing Oct to Dec allocations wheat and flour for Brazil to 70,000 tons per month but no assurances this possible. US made special effort behalf Brazil in allocating 120,000 tons for last quarter bringing total quantities for shipment that period to 180,000 as communicated to you in Deptel 1296 Oct 4. Those allocations generous in light of world demands on US wheat supply and more than Brazil could reasonably have expected. Dept of opinion that publicity regarding allocations already made would increase goodwill toward US and would also be helpful to Braz Govt in quieting popular unrest resulting from food shortage. Amb Pawley⁴⁹ agrees.

ACHESON

832.61311/10-1446 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

RESTRICTED

WASHINGTON, October 15, 1946—5 p. m.

U.S. URGENT

1345. Urtel 1760, Oct 14, 1946.⁵⁰ Dept expects issue brief press release covering fourth quarter wheat allocation for four American Republics including Brazil's 120,000 tons. Hence immediate publicity recommended by Ambassador Pawley imperative. Persistent efforts obtain further 30,000 tons this quarter will continue but too early for decision in connection which remind you Maritime strike preventing shipment allocations already confirmed Deptel 1296, Oct 4, 1946.

ACHESON

⁴⁹ The Ambassador was in Washington for consultation from September 1 to December 12, 1946.

⁵⁰ Not printed.

INTEREST OF THE UNITED STATES IN THE PROBLEMS OF THE INTER-AMERICAN COFFEE BOARD ¹

811.5017/2-146 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

RESTRICTED

BOGOTÁ, February 1, 1946—2 p. m.
[Received February 2—12: 07 a. m.]

103. Press reports from US during the past few weeks on coffee situation have indicated that subsidy will probably be discontinued as soon as the six million bags have been purchased and shipped and that there will probably be no immediate rise or abandonment by OPA of present coffee ceiling prices. The resentment and dissatisfaction that is developing in Colombia over this prospect is so widespread and is so thoroughly permeating Colombian attitudes and thinking that if realized, it cannot fail to have a very disturbing effect on Colombian-American relations.

I believe that it has now become essential for maintenance of good relations that there should be a prompt modification in the coffee price policy of OPA. The old arguments are no longer valid here. The Colombian public was previously made to understand that coffee ceilings had to be maintained to prevent general and ruinous inflation in US, that once the roof was lifted there would be no way to hold the inflationary spiral. Yet for weeks the press has been feeding its readers with accounts of authorized or projected price and wage increases in US until they have become convinced that coffee is one of few products that OPA inflexibly refuses to release. In view of other known price advances, no reason can be seen here why coffee prices cannot be increased also without necessarily endangering OPA's entire program.

The continuation of an inflexible policy as applied to an imported produce such as green coffee will increasingly be considered here as an abuse of good-neighbor policy and of the particularly close and friendly relations between Colombia and US. Colombia is in great need of materials, equipment and machinery from US but is now faced with unpleasant prospect of paying more for these purchases while being denied a better price for its principal export product. This

¹ Continued from *Foreign Relations*, 1945, vol. ix, pp. 351-364. For discussions with Brazil in 1946 regarding coffee, see *post*, pp. 504 ff.

situation is rapidly becoming intolerable to business men and coffee producers alike.

The interests of US in expanding export markets and world trade and in eliminating trade barriers are certainly being prejudiced by, and appear to be entirely inconsistent with, the continuation of previously established price ceilings on coffee especially now that relaxation is occurring on so many other items.

It may be expected that if present subsidies are withdrawn and there is no increase or removal of ceilings that much of the good will that has developed in Colombia for US will be lost and that this market for US export merchandise will become more vulnerable to competition from other exporting countries.

As seen from here, it would be preferable if ceilings were now removed entirely providing producing countries would not artificially obstruct exports or sales to the US. Otherwise, either the continuation of subsidies or an increase in the present ceilings is imperative.

Repeated to Rio de Janeiro.

WILEY

811.5017/2-2846

Memorandum of Conversation, by the Associate Chief of the International Resources Division (Cale)

[WASHINGTON,] February 28, 1946.

Participants: Mr. Chester Bowles, Director, Office of Economic Stabilization
 Mr. Walter Salant, Office of Economic Stabilization
 Mr. Brainerd Currie, Office of Economic Stabilization
 Dr. Emilio Toro, Colombian Delegate, Inter-American Coffee Board
 Dr. Enrique López-Herrarte, Guatemalan Delegate, Inter-American Coffee Board
 Mr. Cale, IR

Mr. Cale stated that coffee production in the other American Republics is customarily characterized by very low wages and that the position of the coffee producer and the coffee laborer has deteriorated considerably since coffee price ceilings were established in December 1941 by the Office of Price Administration. He also said the cost of living in the coffee producing countries had increased to a very substantial extent since coffee price ceilings were frozen in 1941. In response to a question from Mr. Bowles as to the extent to which cost of living had increased, Mr. Cale replied that according to a recent

study made in Bogotá, Colombia, living costs have increased from 100 in 1941 to 170 in June 1945 and that they had continued to rise since the later date. Dr. Toro added that the latest cost of living index figure for Bogotá which he had received was 196. Mr. Cale stated that with such increases of cost of production and cost of living since coffee price ceilings were frozen it is easy to understand that the coffee producers are up against a very difficult situation.

Mr. Cale called attention to the fact that no price action at all in respect to coffee had been taken up until last November, at which time a subsidy of 3 cents per pound was placed in effect for the period ending March 31, 1946. He said that virtually all the coffee under this subsidy had now been purchased for approximately a month and that sales since that time had been at an almost complete standstill. In response to a question from Mr. Currie as to whether or not any coffee had recently been purchased at non-subsidized prices, Mr. Cale, Dr. Toro and Dr. López replied in the negative and expressed the view that no coffee would be so purchased. Mr. Cale stated that in view of the foregoing it was obvious that prompt price action with respect to coffee is necessary not only in the interest of coffee producing countries, but of maintaining supplies in this country. He referred to the supply situation in the United States at the time the subsidy was announced last November and said he believed it would be generally conceded that it would be extremely unwise to permit such a situation to develop again. Mr. Bowles concurred.

Mr. Cale said that of the various possible lines of action that might be taken with respect to prices, the coffee producing countries would prefer to see coffee price ceilings suspended. He pointed out that under this solution price would be determined by the normal forces of supply and demand. In this connection he stated that he felt, on the basis of the best estimates he had been able to obtain, that the amount of coffee produced in the world during the next twelve month period will exceed world requirements at present prices by perhaps 2 to 2½ million bags and that there is, therefore, no world shortage of coffee. He said that there was some shortage of mild coffee and that he believed if ceiling prices were removed they would increase to some extent over present subsidized levels in the producing countries but that he was not at all sure prices of Brazilian coffee would rise to any extent over present levels and that such increase as occurred in the prices of mild coffee would largely be in the nature of adjustments of the prices of the various types of coffee to each other.

Mr. Cale stated that because of greatly increased production costs in the producing countries ceiling prices in this country based on the cost of producing coffee at the present time would require a very substantial increase above present levels. He said that the Colombian

study to which he had referred earlier indicated that coffee in a number of provinces in Colombia is now being produced at a loss. Dr. Toro called attention to the fact that this loss was being sustained notwithstanding the exceedingly low level of wages now being paid in Colombia. He said that the average family in Colombia consists of seven persons and that average family income for coffee producers amounts to between 12 and 14 dollars per month. Mr. Cale stated that with such low wages and such increased costs of production it would perhaps be impossible to set a coffee price ceiling in this country which would seem reasonable to the coffee producers. On the other hand, he said the statistical situation with respect to coffee is such, as he had indicated above, that no sustained substantial increase in average coffee prices would be likely to occur if coffee ceilings were suspended. From the viewpoint of Inter-American relations, therefore, the most desirable solution of the coffee price problem appeared to be suspension of the ceilings. Mr. Bowles inquired how it was going to be possible for him to suspend coffee price ceilings and impose a ceiling on the price of American cotton. He stated that the Office of Price Administration had already announced its intention of placing a ceiling price on cotton although he was not certain that the Agency would be able to go through with the action in the face of Congressional opposition. He also pointed out that there is considerable sentiment for the removal of ceiling prices for agricultural products generally. For this reason, he said, it will not be possible for him to suspend price ceilings on coffee if he expects to continue to control the price of domestically produced agricultural commodities.

Mr. Cale replied that in this event the coffee producing countries would like to see the ceilings on coffee fixed in accordance with the principles used in pricing domestically produced agricultural commodities. In this connection he pointed out that prices generally in the coffee producing countries have not been as well controlled as in the United States and that the costs of coffee production have, therefore, undoubtedly been increased to a greater extent than the cost of producing agricultural products in the United States. One of the difficulties, he said, that members of the Coffee Board have faced in explaining United States policy concerning coffee prices to the coffee growers has been the fact that coffee has not been priced in accordance with the principles followed in pricing commodities produced in the United States. Dr. López and Dr. Toro stated that the political consequences of continuing to set ceilings on coffee in an arbitrary manner are likely to be bad and urged that coffee be accorded treatment similar to that given to United States agricultural commodities. Mr. Bowles pointed out that this would involve a considerable increase in coffee prices.

He said that recently, in testifying before Congress on the bill to renew the price control act, he had indicated in no unmistakable terms that the line would be held on foods and rents. This action he justified on the ground that it is necessary to convince Congress and the people that a large measure of stability will be maintained under the price control program. He said that any action in respect of coffee would have to be taken against this background.

Dr. López stated that he felt that the only factor given consideration in the establishment of the subsidy was the necessity to obtain supplies. He said no consideration was given to increased costs of production in the coffee producing countries or to transportation difficulties which such countries are now facing. The subsidy, he stated, has placed these countries in a very difficult squeeze, especially in view of their shortage of transportation facilities and the opportunity which the limited subsidy period has given owners and operators of such equipment to raise their rates to coffee shippers.

Drs. López and Toro also pointed out that the recent increase in freight rates on products going to the coffee producing countries had adversely affected the countries by increasing their costs of producing coffee. Mr. Bowles expressed the opinion that such action should have been cleared by his office before it went into effect.

Mr. Bowles said that at the time the subsidy was established, he felt the food situation would become much easier in a very few months and it would therefore be possible to remove a large number of agricultural products from price control by the present time. Instead the food situation has gotten tighter and it is critically necessary to maintain price ceilings on agricultural commodities. He pointed out that ceilings had been removed on oranges since the crop was one of the largest in history and it was therefore felt that there was no danger of a price increase. Actually, prices went up to a very marked degree and the ceilings had to be reimposed. On the basis of the present supply of cotton there appears to be no reason why cotton prices should continue to increase, but they are doing so nevertheless. Speculation appears to be in the air. As long as the public thinks prices are going up, and as long as traders are willing to bet on further increases, it will be necessary to retain controls even though the supply situation in respect to individual commodities may not appear to be tight. Coffee will have to continue to be subjected to controls just as will other important agricultural commodities.

Mr. Cale stated that the coffee producers would favor a price increase to an equivalent subsidy on coffee. Mr. Bowles replied that American farmers are in the same position and indicated that a subsidy is more likely than a price increase, in view of the stand he has taken

to the effect that the food price line will be held. Mr. Bowles indicated that the coffee price problem had not recently been taken up with his office by either the Department of Agriculture or the Office of Price Administration, and indicated that he would like to have recommendations not only from these agencies but from the State Department as well before taking action. Mr. Cale said that the State Department had written to the Office of Price Administration concerning the matter several weeks ago and that a copy of that letter had been sent to the Stabilization Administrator. Mr. Bowles stated that since the question has been raised he will get to work on it promptly. Members of the Committee thanked him for giving them an opportunity to present the case of the coffee producing countries to him.

As the meeting was breaking up Mr. Bowles expressed the view that it was very important to the coffee producing countries that the stabilization program in the United States should not "blow up". Drs. Toro and López agreed that the coffee producing countries had a large stake in the maintenance of economic stability in the United States.

561.333D3/3-1146 : Circular telegram

*The Secretary of State to Diplomatic Representatives in Certain American Republics*²

RESTRICTED
U.S. URGENT

WASHINGTON, March 11, 1946—8 p. m.

Baker, OPA deputy administrator, met March 11 with Inter-American Coffee Board. He stated no decision yet reached on coffee price matter but said he was authorized to suggest following proposal: continuation subsidy 3 cents a pound for 6 to 8 million bags to be imported here by June 30.

Coffee Board was asked for its reactions and will meet again March 14 to transmit opinions to OPA. No final decision will be made on coffee until after Coffee Board's views are known.

Coffee delegates appeared ready to go along with proposal as stop-gap measure but are most anxious for more permanent type solution coffee price problem to be worked out before June 30.

Baker made clear that there is no present thought of elimination of coffee ceiling prices.

This info not distributed to press here but Embassy should feel free to use it in any appropriate manner.

BYRNES

²Not sent to Argentina, Bolivia, Chile, Panama, Paraguay, and Uruguay.

561.333D3/3-1946: Circular telegram

*The Secretary of State to Diplomatic Representatives in Certain American Republics*³

RESTRICTED

WASHINGTON, March 19, 1946—9 a. m.

U.S. URGENT

Continuation of coffee subsidy of 3 cents a pound will be announced by Bowles evening March 19. New subsidy, effective immediately, will be paid by RFC to importers on maximum of 7,500,000 bags of green coffee to be entered through customs into continental US by June 30, 1946. This is in addition to 6,000,000 bags of subsidy announced November 17, 1945. This means that buying price ceilings on green coffee in foreign countries by American importers will be continued at 3 cents a pound above the levels set by OPA in December 1941. No increase will take place in either green or roasted coffee ceilings in this country. New program based on continued necessity for holding food prices in line and need to break paralyzation of coffee market.

Continuation of subsidy will allow those delayed for one reason or another from fully participating in first subsidy to benefit, since Directive 87 is amended to increase quantity from 6,000,000 to 13,500,000 bags to be imported by June 30.

Half million bags of new quantity will be set aside as reserve to be used to take care of hardship cases among roasters some of whom complain of inability to import or otherwise purchase green coffee during first subsidy period.

To ensure equitable domestic distribution, Agriculture will issue inventory control order immediately.

Inter-American Coffee Board did not regard subsidy plan (Depcirtel March 11⁴) as satisfactory solution and producing countries reaffirmed their point of view to OPA on March 15 that elimination of all restrictions is only solution. However, under present unusual circumstances they recognized that US may be unable immediately to meet desires of producing countries.

The Coffee Board wishes to begin negotiations with US Govt. in effort to find long-term solution to coffee problem which may take effect after June 30. Such negotiations will be started immediately but it is hoped that they will not result in withholding by producing countries on chance of getting higher prices after June 30. Such negotiations would be most difficult if they were conducted under adverse supply conditions in this country.

³ Not sent to Argentina, Bolivia, Chile, Panama, Paraguay, and Uruguay.

⁴ *Supra*.

The facts in the above paragraph should be used discreetly by Embassy but it is believed do provide an answer to charge that this Govt. is thinking only of its own interests in deciding upon a continued subsidy costing it \$30,000,000.

Airgram follows with complete text subsidy press release.⁵

BYRNES

811.5017/5-2346

*Memorandum by the Assistant Secretary of State for the American Republics (Braden) and the Ambassador to Brazil (Pawley) to President Truman*⁶

[WASHINGTON.]

Coffee is the main cash crop of a number of the American republics, including Brazil and Colombia, and the key to their economy. Coffee ceilings in the United States have been frozen since the beginning of the war. A three-cent subsidy was established last November and will expire June 30.

Costs of living and of coffee production have greatly increased in the producing countries, and these countries have repeatedly appealed to the United States Government for relief, asking that their product be treated on terms no less favorable than those accorded to domestic agricultural products. Prices of the latter have advanced an average of 40 percent since December 1941.

The coffee ceiling prices have become the greatest single irritant in our relations with the coffee producing countries. A way should be found of relieving the situation. The three-cent subsidy has not been sufficient, nor would a three-cent increase in the ceiling. A further increase is believed to be necessary in the interest of our foreign relations, unless the supply situation is found, on study by the Office of Price Administration, the Department of Agriculture, and the Department of State to justify a removal or suspension of the coffee ceilings entirely.

811.5017/6-746

The Secretary of State to the Director of the Office of Economic Stabilization (Bowles)

WASHINGTON, June 7, 1946.

MY DEAR MR. BOWLES: I understand that the Office of Price Administration is recommending to you that the increase in the green coffee price ceilings, which it is suggested should take the place of

⁵ The text of the statement on the coffee subsidy released on March 19 by the Office of Economic Stabilization was transmitted in an airgram of March 21 to the diplomatic representatives addressed in this circular telegram of March 19.

⁶ Delivered undated to the President by Assistant Secretary Braden and Ambassador Pawley on May 23, 1946.

the present coffee subsidy, should be limited to approximately three cents per pound. I am certain that acceptance of this recommendation would be a serious mistake for the following reasons:

1. Treatment accorded coffee in respect of price control is much less favorable than that accorded domestically-produced agricultural commodities, even after allowance is made for the present subsidy of three cents per pound. Since coffee prices were frozen in December 1941, domestically-produced agricultural commodities have increased by approximately 40 percent. Furthermore, if it were impossible to impose a ceiling on coffee, as it is on domestically-produced agricultural commodities, until the price of coffee bore the same relationship to the prices of industrial commodities produced in the United States that it did in the base period 1910-14, the ceiling price on Santos 4 coffee would have to be at least nine cents a pound above the present ceiling of 13 $\frac{3}{8}$ cents. The coffee producing countries are fully aware of the difference in treatment as between their product and the agricultural products produced in the United States.

2. Representatives of the coffee producing countries are convinced that there is at least an implied commitment to accord more favorable treatment to coffee by the time the present coffee subsidy is terminated. At the time the subsidy was first announced in November 1945, there was no recognition that the increased returns to coffee growers provided by the subsidy might be justified by increased costs of production or by an altered supply-demand position with respect to coffee. In fact, an attempt was made at that time to convince the coffee producers that the outlook was such that they would be fortunate to continue receiving even the nonsubsidized price after March 1946. It became necessary for supply reasons to extend the subsidy beyond March 1946, however, and when the extension was discussed with the Inter-American Coffee Board by the representatives of the OPA, it was presented as a temporary measure. It was stated furthermore that the Office was agreeable to entering into negotiations with the Board with a view to working out a longer-term arrangement with respect to coffee. Whatever this may have meant to representatives of the United States Government, it meant to the representatives of the coffee producing countries that the returns to the coffee growers would be increased considerably above the level of the subsidy. That this was a reasonable interpretation is suggested by the facts that the increase provided by the subsidy was generally known to be unsatisfactory to the coffee growers, that the extended subsidy was presented as a temporary expedient, and that the offer to negotiate a longer-term solution implied that concessions might be made to the viewpoint of the representatives of the coffee producing countries.

3. In view of the foregoing, continuation of approximately the same level of returns as that provided under the subsidy would lead to widespread resentment and very probably to a general withholding of supplies. Representatives of the coffee producing countries have shown upon numerous occasions recently a growing belief that the only condition under which they can expect to receive more favorable treatment for coffee is one of short supply. They are at present in a position to force the issue. It is, of course, desirable that any

necessary adjustment in coffee prices not be brought about in this manner.

4. The statistical situation with respect to coffee has altered so drastically in the last ten to fifteen years that a much higher level of coffee prices would have developed in the absence of the war and of price control. A recent comprehensive and very detailed report from our Embassy in Brazil estimates that the number of coffee trees in Brazil is now more than 800,000,000 less than it was in 1934 and forecasts that it is likely to be less by a billion in 15 years than at present. If this estimate and forecast are accurate, the number of coffee trees in Brazil by 1960 would be only approximately one-third the number that were there in 1934. The effect of a change of this magnitude in the country which has customarily produced more than 60 percent of the world's coffee is obvious. Already the coffee carry-over in Brazil has been reduced to low and very manageable proportions.

5. By all odds the most serious single irritant in our relations with the coffee producing countries is the problem of coffee prices. In the considered judgment of this Department, an increase in the present ceiling prices of only three cents a pound when the coffee producing countries expect and feel that they are entitled to a larger increase would lead to further serious deterioration in our relations with such countries.

I believe that the only action which would be certain to correct all the difficulties now interfering with normal trade in coffee would be suspension or elimination of the coffee price ceilings. Only in this way could it be fully assured that coffee will be supplied in adequate volume, that the normal price differentials between the various grades of coffee will be re-established, that present practices of upgrading will be eliminated, and that the lower-priced blends of coffee will reappear on the American market.

If green coffee price ceilings cannot be suspended at this time, however, I recommend that they be increased on the average by approximately five cents per pound. Following are some of the reasons for selecting the five cents figure:

1. This amount of increase has been requested by the Price Committee of the Inter-American Coffee Board and would still probably be acceptable to the governments of the coffee producing countries and to the coffee growers even though the request was made many months ago.

2. The Brazilian Government has recently indicated that an increase of five cents a pound would be acceptable to Brazil.

3. An increase of approximately two cents a pound above the present subsidy of three cents a pound would appear to be necessary in order to legalize a large part of the business which is now taking place.

4. If, as seems probable, the Brazilian Government should not subsidize the exportation of the 1946-47 Brazilian crop, as it has subsidized the 1945-46 crop, an increase of approximately five cents per pound in coffee price ceilings would be required to prevent a reduction in the price even on that portion of the trade in Brazilian coffee which is at present being conducted on a legitimate basis.

I also recommend that an attempt be made to obtain commitments from the governments of the coffee producing countries in exchange for the proposed action. These commitments might be in the form of an agreement not to increase their minimum prices or taxes on coffee for a specified period, and to take other action to assure the free sale of coffee at the new prices. In addition, I suggest that if new ceiling prices are established for coffee, a vigorous enforcement campaign be instituted to seek out and prosecute those of our importers who may violate the new ceilings. This would appear to be essential if the illegal practices which are reported to be common at the present time are to be avoided even at the new level.

If you are agreeable to these suggestions, this Department would be glad to cooperate in any way possible in helping to put them into effect.

I am sending copies of this letter to the Secretary of Agriculture, the Administrator of the Office of Price Administration, and the Director of the Office of War Mobilization and Reconversion.

Sincerely yours,

JAMES F. BYRNES

561.333D3/7-246

Minutes of Meeting of the Inter-American Coffee Board, by the Chairman of the Board (Cale)

[WASHINGTON,] July 2, 1946.

The Inter-American Coffee Board met at its offices at 2400 Sixteenth Street, N. W., at 10:30 a. m., July 2, 1946 and considered the following matters:

3. *Prices.* The Chairman outlined the developments leading up to the announcement on June 26 of the increase in coffee ceiling prices of two cents per pound.⁷ He indicated that the Price Committee of the Board had met on May 22 with Mr. Chester Bowles, the Director of Economic Stabilization, but that negotiations following that date had taken place very largely within the United States Government, itself. The State Department, he said, had taken a very active interest in these discussions and had urged more favorable price treatment for coffee. The proposal for suspension of coffee price ceilings, which had been supported by the Price Committee and the Department of State, was rejected by the stabilization agencies when it became apparent that the governments of the mild coffee producing

⁷ In a circular telegram of August 14, 1946, the Secretary of State advised diplomatic representatives of certain American Republics that price ceilings of green coffee had increased 8.32 cents a pound over the level of December 27, 1941 (561.333D3/7-246).

countries did not have enough stocks of coffee to give a guarantee of sufficient size to prevent a rather marked increase in mild coffee prices in the event of the suspension of ceilings. The question of whether the increase should be on a percentage basis or a cents per pound basis was considered, he stated, but the percentage increase method was abandoned largely because the government of the country producing the largest quantity of mild coffee took the position that it was willing to make commitments only in exchange for complete suspension of ceilings and because the stabilization agencies felt as indicated above, that this was impossible.

Mr. Cale called attention to the fact that the Memorandum of Understanding between Brazil and the United States⁸ regarding coffee prices and supplies, which was announced at the time of the price increase, assured to all coffee producing countries that the prices would not be reduced below the new level. The increase which applies to all coffees will be permanent in view of the provision in the Memorandum of Understanding that corresponding adjustments in coffee price ceilings will be made if the subsidy of three cents per pound on coffee is withdrawn in whole or in part.

Following this outline of coffee price developments by the Chairman, representatives of some of the mild coffee producing countries expressed disappointment that the price increase had not been on a percentage basis but appeared to be rather well reconciled to the cents per pound basis which was adopted.

The Chairman indicated that the President's veto of the bill extending the OPA left the whole coffee price situation uncertain until such time as Congress may take further action on the question of price control.

EDWARD G. CALE

561.333D3/9-546 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

CONFIDENTIAL

WASHINGTON, September 5, 1946—7 p. m.

1190. After agreeing to cooperate fully in world coffee study now being undertaken by Inter-Amer Coffee Board (1) through furnishing of basic coffee data requested by Board directly from DNC and (2) providing services of Braz expert in actual preparation of study here, Brazil has failed to carry out this cooperation in either respect. Without Braz assistance, particularly in furnishing of basic data, coffee study either cannot be completed at all or if completed will

⁸ For a synopsis of the Memorandum, see telegram 888, June 29, to Rio de Janeiro, p. 518.

lack authority which it is intended to have. Main reason US favors extension Inter-Amer Coffee Agreement for 1 year is completion this study.

Please impress this situation on appropriate authorities and ascertain (1) whether Brazil intends to sign protocol for 1 year extension Agreement from Oct 1 and (2) whether Brazil intends provide necessary cooperation in coffee study.⁹

CLAYTON

561.333D3/10-146

*Minutes of Meeting of the Inter-American Coffee Board, by the
Chairman of the Board (Cale)*

[Extract]

[WASHINGTON,] October 1, 1946.

The Inter-American Coffee Board met at its offices at 2400 Sixteenth Street, N.W., at 10:30 a. m., October 1, 1946, and considered the following matters:

5. *Prices.* The Guatemalan Delegate, Mr. López-Herrarte, expressed his feeling that the Board should go on record as supporting the action being taken by the U.S. Coffee Industry in their efforts to decontrol coffee prices. The Brazilian Alternate Delegate, Mr. Penteado, agreed that this should be done and stated that the evils which have been in existence during the past have developed again despite the new price ceilings announced by the U.S. Government. These evils are up-grading and short-weighting. He said that the psychological effect of the ceilings on coffee is to create a feeling of short supply while actually coffee production is more than sufficient to supply the American and the small European demand. Mr. Braddock advised that the State Department had formerly favored decontrol, but that with the new price ceilings the Department did not have the same argument for decontrol as in the past. Mr. López-Herrarte, however, insisted that the Board request Mr. Cale, as Chairman of the Board and not as a member of the Department, be given the decontrol problem. It was suggested that he find out in what way the Board can help as an international organization to bring about the decontrol of coffee prices. The Board agreed to leave the matter of price decontrol entirely in the hands of the Chairman of the Board.

EDWARD G. CALE

⁹ The inquiry by the Acting Secretary was repeated in telegram 1226, September 17, 1946, 4 p.m. (561.333D3/9-546). The agreement was signed by Brazil, along with other countries, and dated as of October 1, 1946. For text, see Department of State Treaties and Other International Acts Series No. 1605.

561.333D3/11-746

*Press Release Issued by the Office of Price Administration,
October 17, 1946*

Decontrol of green and roasted coffee at all levels of distribution was announced today by the Office of Price Administration.

Effective October 17, 1946, this action complies with a provision of the new price control act which requires decontrol of any commodity when supply equals demand.

Today's action marks the granting of the first formal petition for decontrol filed by an OPA industrial advisory committee. The petitioner was the Coffee Industry Advisory Committee.

The price control law requires OPA to take action within 15 days after accepting the petition. Today's action is taken ten days after the decontrol petition was filed.

The price agency said it was basing its decision on data presented by the industry and obtained by OPA as well, indicating that supply and demand were approximately in balance.

561.333D3/11-746

*Press Release Issued by the Inter-American Coffee Board,
October 30, 1946*

The Chairman of the Inter-American Coffee Board, Mr. Edward G. Cale, announced today that the 15 countries who were signatory to the original Inter-American Coffee Agreement had signed the Protocol for the extension of the Agreement for one year from October 1, 1946.¹⁰ The Protocol extends the Agreement in a form similar to the extension for one year from October 1, 1945. Therefore, the quotas, which were in effect until October 1, 1945 remain inoperative. The Coffee Board will complete by March 31, 1947 an analysis of the world coffee situation which was initiated during the year ending September 30, 1946.

¹⁰ Department of State Treaties and Other International Acts Series No. 1605.

COOPERATION OF THE UNITED STATES WITH OTHER
GOVERNMENTS IN THE CONSTRUCTION OF THE
INTER-AMERICAN HIGHWAY AND RAMA ROAD ¹

810.154/1-2646

*Memorandum by the Chief of the Division of Caribbean and Central
American Affairs (Cochran)*²

[Extracts]

[WASHINGTON,] January 26, 1946.

Subject: Trip of Congressional Party Over Inter-American Highway

While we discussed this matter, it occurs to me that it might be helpful to you to have a memorandum with regard to the approaching trip over the Inter-American Highway of representatives of the Senate and House Roads Committees.³

. . . It seems to me that the Foreign Service officer who goes along will have two important functions, as follows:

(1) He should miss no opportunity to emphasize that neither the Department of State nor PRA had anything to do with the Army's Pioneer Highway venture. The Army decided that this was a war-essential measure. When War so notified State, we negotiated the agreements permitting their operation. There our responsibility stopped. We had nothing to do with the selection of route, (which does not always follow the Inter-American Highway line), with the

¹ For previous related documentation on this subject, see *Foreign Relations*, 1944, vol. VII, pp. 187 ff.

² Addressed to the Assistant Chiefs of the Division of Caribbean and Central American Affairs (Barber and Newbegin).

³ The Committee on Roads, House of Representatives (Chairman, J. W. Robinson, of Utah), inspected the highway in February and March 1946; its report of December 18, 1946 noted an implied promise by the United States to complete the road and recommended that completion be financed by the United States in cooperation with the Central American Republics (*The Inter-American Highway: Interim Report from the Committee on Roads, House of Representatives, Pursuant to H. Res. 255 . . . December 18, 1946*).

The Senate Special Committee To Investigate the National Defense Program (Chairman, James M. Mead, of New York) inspected the highway in August 1946; for report on the Inter-American Highway submitted by Senator Homer Ferguson of Michigan to Congress on July 7, 1947, see U.S. 80th Cong., 1st sess., Senate Report No. 440; for discussion of the report in the Senate on July 7, see the *Congressional Record*, vol. 93, pt. 7, pp. 8321-8325.

construction contracts, with the methods employed or with the amount of money spent.⁴

(2) After much prodding, we have been able to get PRA to introduce a bill in Congress to provide an additional \$25,000,000 for the completion of the Inter-American Highway.⁵ . . . Our position must be that the standards of construction, the estimates of cost, the methods of construction and the amounts expended are all technical problems already within the constance [*province?*] of PRA, with which we have nothing to do.

On the other hand, we are extremely interested in pressing the bill because (1) the completion of this Highway is an extremely important factor in our relations with and our prestige in the six countries involved, and (2) that the Government of the United States is committed to the completion of this road.⁶ . . .

The accompanying officer should also be aware of the fact that the pending bill appropriates \$17,000,000 of the \$25,000,000 for the completion of the construction in Costa Rica and involves a departure

⁴ The Pioneer Highway was a military project undertaken by the War Department in June 1942 to establish as soon as possible a through line of communication from the Mexico-Guatemala border to the Panama Canal; all work on this project was stopped on October 31, 1943, as the result of mounting costs and vanishing needs for this emergency road. On the other hand, the Inter-American Highway was being built on a cooperative basis, the Central American Governments putting up either borrowed money or their own funds to cooperate with the United States in the building of the highway primarily for peacetime uses.

⁵ The Department, having received from the Public Roads Administration (PRA) in December 1943 estimates which showed the need for additional funds to complete the highway, on various occasions urged PRA to introduce a bill into Congress providing funds for the highway. On February 21, 1944, a Departmental memorandum to President Roosevelt informed him of the urgent need for additional appropriation of \$25 million, and, on April 24, 1945, a Departmental memorandum advised President Truman, also, of the situation. President Truman, in his message to Congress on September 6, 1945, recommended an appropriation of \$25 million "to continue the construction of the Inter-American Highway through the Central American republics to the Canal Zone". On May 9, 1945, PRA had introduced to Congress the bills H.R. 3172 and S. 1104 which would have provided \$25 million additional funds. In response to a request from the House Foreign Affairs Committee, the Department, in a letter of June 18, 1945, expressed full support of the measure and urged that H.R. 3172 be given favorable consideration because of this Government's moral commitment to complete the road.

⁶ The various commitments were outlined in a memorandum of March 8, 1946, by Assistant Secretary Spruille Braden, not printed. The clear intent of Congress that a through road, rather than intermittent portions thereof, would be built was established by the provisions of the highway appropriation bill (Public Law 375, December 26, 1941, 55 Stat. 360) authorizing \$20 million to provide for cooperation with the five Central American Republics and Panama in the construction of the Inter-American Highway. The six countries concerned gave the necessary assurances and agreed to furnish one-third of the funds required, in the clear understanding that a through road would be constructed (Department of State Executive Agreement Series Nos. 293, 294, 295, 296, 345, and 365, or 56 Stat. (pt. 2) 1840, 1842, 1845, and 1848, and 57 Stat. (pt. 2) 1111 and 1298, respectively).

from present legislation, in that it is not contemplated that Costa Rica shall contribute $\frac{1}{3}$ of the cost.⁷ This provision was necessary because Costa Rica cannot so contribute in view of its poor financial condition. The pending bill further provides funds on a two-thirds-one-third basis for the construction of a spur of the Inter-American Highway to Tegucigalpa. The justification for this proposal is contained in the Staff Committee documents already mentioned.

The accompanying officer should also be aware of the provision of the new law, suggested by Senator McKellar, whereby the expenditure of these funds would be conditioned upon the countries' agreeing to free traffic over the road.⁸

While the pending legislation has not been referred to the House Roads Committee (but rather to the Foreign Relations Committee)⁹ the members of the Roads Committee making the trip will have both an interest in and an important influence on the legislation and I feel that the foregoing points should be made very clear to them during their trip.

810.154/2-2746

Memorandum of Conversation, by the Chief of the Division of Caribbean and Central American Affairs (Cochran)

[Extracts]

[WASHINGTON,] February 27, 1946.

Participants: Mr. John L. Harrison, Assistant Chief of the Inter-American Regional Office of the Public Roads Administration.

Mr. William P. Cochran, Jr., Chief, Division of Caribbean and Central American Affairs.

Mr. Robert Newbegin (CCA).

Mr. Harrison adverted to conversations which the Nicaraguans had had in the Department approximately a year ago with regard to

⁷ Highway construction in northern Costa Rica had been suspended in April 1945 and in southern Costa Rica in March 1946, because available funds had been exhausted.

⁸ In introducing the Inter-American Highway bill in the Senate, Senator Kenneth D. McKellar (President pro tempore) inserted amendments providing that the funds appropriated could not be obligated or used in any cooperating country unless and until that country had signed a "treaty" with the United States providing (1) that it would impose no restriction on the use of the highway or levy taxes on vehicles of any country member of the Pan-American Union, which did not apply equally to its national vehicles and (2) that it would grant reciprocal recognition of registration and drivers' licenses to all members of the Pan-American Union.

⁹ The House Foreign Affairs Committee handled the original legislation. The Committee, however, held no hearings on H.R. 3172, and the bill died with the adjournment of the 79th Congress.

our possible unfulfilled financial obligations resulting from the construction of the Inter-American Highway and the Rama Road.¹⁰ Mr. Harrison explained that the Nicaraguans did as we do in that they established a single fund for all road work and charged all expenditures to it. Total expenditures from this fund had amounted to \$4,500,000. Work on the Inter-American Highway under the inter-governmental agreement and project statements had amounted to about \$1,500,000, of which we had reimbursed Nicaragua in the sum of \$1,000,000 as our $\frac{2}{3}$ portion of the agreement, Nicaragua putting up the other $\frac{1}{3}$. The Nicaraguans took the attitude that we also owed them $\frac{2}{3}$ of the remaining \$3,000,000. We tried to explain to them that this obviously included work on the Rama Road (for which we are wholly responsible¹¹) and all kinds of work done on the streets and highways of Nicaragua and chargeable wholly to Nicaragua. However, the accounts were in such bad shape that we were unable clearly to segregate these various items. An audit was undertaken and has now been completed. . . .

It was made clear by Mr. Harrison that the Rama Road is an entirely separate project and that figures with regard to it are not included above. I asked him whether he thought it would be possible to complete the road for \$4,000,000. He said that he doubted it. He intimated that 100 kilometers were already in very good shape and vaguely hinted that it might be possible to complete only 150 of the total of 280 kilometers with the funds at present available. I expressed concern and pointed out that we were committed to the Nicaraguan Government to build a highway to Rama and I thought that it should be completed, although not necessarily to standards used in the United States, emphasizing that the point was to get a through road rather than to build it to any particular standards. Mr. Harrison said that while it might be possible for them to work to lower standards than they were using, this would be an unsatisfactory method of operation, in that they were using the lowest standard possible from the point of view of future maintenance. The implication was that, were construction standards further reduced, the road would deteriorate rapidly, bridges possibly being washed out, etc., so that it would be of progressively decreasing utility and greater expense to the Nicaraguan Government.

¹⁰ On April 1, 1945, President Anastasio Somoza's instructions had been issued to the Nicaraguan highway department to cease work on the Inter-American Highway unless an agreement were reached with the United States on reimbursement of Nicaragua for work done on the highway. The Nicaraguan Embassy had informed the Department on February 21, 1945, that this Government was \$1,600,000 in arrears on such reimbursements.

¹¹ Some \$400,000 had been spent on the Rama Road.

I expressed concern at the possibility of having to go back to Congress for additional funds to carry out this commitment to the Nicaraguan Government and asked Mr. Harrison if he felt that he could defend the use of his present standards and failure to complete the road within the sum of money allocated by President Roosevelt, in seeking additional funds from Congress. He stated that he felt it would be quite possible to do so and discussed at some length the increased labor and other costs with which PRA has been faced since the original estimate was made.

W[ILLARD] P. C[OCHRAN, JR.]

810.154/3-2646

The Ambassador in Nicaragua (Warren) to the Assistant Secretary of State for American Republic Affairs (Braden)

PERSONAL

MANAGUA, March 26, 1946.

CONFIDENTIAL

[Received April 2.]

DEAR CHIEF: During the visit of the Congressional and Military Road Mission to Nicaragua over the week-end of March 3, I had the opportunity to speak for a few minutes with the Honorable J. W. Robinson of Utah, Chairman of the Committee on Roads and head of the group visiting Managua. He was good enough to tell me in confidence of his reaction to what he had learned and, perhaps, the reaction of the other members of the Committee accompanying him.

. . . If I have understood correctly the attitude of Mr. Robinson, this places the responsibility for the continuation of the Inter-American Highway and the Rama Road squarely on the Department of State. It is a great responsibility, but it is one we should welcome in view of the tremendous obligation which the Department of State now has throughout the world for the maintenance of world peace. I believe that every activity of the American Government and of every American firm and institution operating in the American republics will be affected by our decision on the construction of the roads. Having no doubt whatever as to the compelling need for the completion of the roads as quickly as possible, I would like to set forth the following reasons why I consider the program should go forward in Nicaragua:

1. We should complete the Inter-American Highway and the Rama Road because to fail to do so would be a tremendous blow to the prestige of the United States in this Central American republic and do untold damage to the Good Neighbor Policy as a permanent principle for the conduct of our foreign relations. Nicaragua considers she has been promised the Inter-American Highway and Rama Road.

If we now say that we cannot complete them, the Nicaraguans will feel that we have gone back on our word. During the second World War we appealed to Nicaragua and obtained full cooperation in the war effort. The Nicaraguan Government and people felt that they were standing by the United States in an all-out effort to defend the way of life of the Western Hemisphere. There was a unity of purpose, attitude, and action that appealed to the Latin mind and spirit. There was a display and exercise of force by the Allies that had a particular appeal to a people who respect and admire the use of force and who desire to be on the winning side. This people felt that it was part and parcel of the greatest endeavor made in the history of the human race. If we now say that we cannot complete the highway or the road, the Nicaraguans will be told, as some already believe, that we only appealed to them when we were in trouble and now that the war is finished we are abandoning them. In other words, the failure to complete the road-building program will be cited and taken as proof that we don't have the interest in this people that we professed during the war. Our prestige will drop to the lowest point in a half century.

2. A decision to withdraw from the road-building program in Central America will augment and encourage the forces opposing the efforts for world peace as we envisage that ideal today. In order to secure that peace we must have a peaceful and cooperative Central America. For years the names of Nicaragua and Central America have been synonymous with revolution. Revolutionary undertakings will continue to thrive in the Central American republics as long as they remain the isolated states which we now know. Nicaragua will continue to be two jealous states under one government as long as the East Coast is divided by the great land barrier—the jungle reaching from Honduras to Costa Rica. In Nicaragua that barrier will exist indefinitely unless the United States Government lives up to the promise of President Roosevelt to build the Rama Road connecting Managua with navigation on the East Coast. If the Inter-American Highway is fully constructed as it should be from the Costa Rican to the Honduran border, I shall expect to see a rapid and a dampening effect on revolutionary activity in Nicaragua and a gradual improvement in relations between Nicaragua, Costa Rica and Honduras. If the highway is not constructed, we shall contribute to continued unsettled conditions in this section and lend aid and comfort to those who oppose our efforts to assist these republics.

3. The completion of the United States road-building program in Nicaragua is important because of our need for Hemispheric solidarity. It would be difficult to overestimate the value of the aid given the United States and her allies by Nicaragua and the other American republics in winning the second World War. We are now trying to win and insure the peace. We realize that the cornerstone of any structure for world peace must rest on the solidarity of all the American republics. Our attitude toward Argentina recognizes this. If we have the respect of all the American republics we have a basis for attaining the solidarity of the Western Hemisphere. The Inter-American Highway has become a symbol of Hemispheric solidarity. If we do not complete it, we will play into the hands of our enemies who are attempting to undermine that solidarity.

4. We should complete the Inter-American Highway and the Rama Road because to do so will create a predisposition on the part of Nicaraguans to understand and support us when we have to refuse future requests for assistance. During the second World War we spent money at home and abroad as we have never done before. We knew that we had to spend in order to win. The Nicaraguans also realized this. Consequently, laudable undertakings which we sponsored and carried through during the war period will never receive the recognition from the Nicaraguans which they merit. The Nicaraguans feel that we had to carry through those undertakings. However, the Nicaraguans are beginning to realize that that period has come to an end. In the future we must examine every proposal for expenditures with more care than heretofore. Consequently, there will be many things that we will want to do in Nicaragua and that Nicaragua will want done which will have to be denied to ourselves and the Nicaraguans. I believe we can make the Nicaraguans understand our position if we keep our promise regarding the road-building program. If we do not keep that promise, we can not expect the understanding that we would desire.

5. We should carry through our road-building program in Nicaragua because it will help to draw this country closer to us. We want Nicaragua to have a democratic government that will bind it culturally, intellectually, and ideologically as close as possible to the United States. With such a government we can feel that American firms and individuals who desire to do business will have the same support from the Government and people of Nicaragua that we grant to Nicaraguans in the United States desiring to carry on trade and commerce there. Throughout Latin America, when a native desires to indicate an exact time he says, "hora inglesa". In other words, the Englishman is known in all the Americas for being punctual. We can be sure that if we do not complete our road program in Nicaragua that a "compromiso Americano" will not be a synonym for keeping one's word.

6. We can not afford to abandon construction of the two highways because to do so would cause the loss of the sums which Nicaragua and the United States have already spent on the roads. Until those roads are completed we will not get the returns which we have a right to expect from our expenditures. Conceivably the United States can write off her part of the expenditure as a portion of the cost of the war. However, Nicaragua can not afford to expend her part in that way. She would only be justified in spending the amount if the work is finally finished. If we doom construction by withdrawing our assistance, Nicaraguans will blame us for generations.

7. The Inter-American Highway and the Rama Road should be completed because of the increased American tourist trade that would be brought to this country. In the next decade Nicaragua is expected to have a decreasing yearly amount of foreign exchange. During that period she will need more foreign exchange than normally to purchase automobiles, trucks, heavy and agricultural machinery, tires, gasoline, railway rolling stock, and many consumers goods which she has been unable to procure during the war years. If during the decade the tourist trade from the United States can be effectively

stimulated, the resulting increase in foreign exchange will be a god-send to Nicaragua in meeting the critical demand for more dollars. The completion of the two roads should bring an ever increasing tourist travel to this country.

8. Although the construction of the two highways is not to be justified on military grounds, there is still an important military aspect. The Embassy does not presume to speak for the military in this matter, but certain factors appear obvious. With the cessation of hostilities the military urgency for the construction of the Inter-American Highway and the Rama Road no longer existed. However there remained what might be termed a "latent military requirement." This requirement for highway transport facilities in foreign lands is similar to the necessity of maintaining through military or civil means a system of air bases throughout the world. Should we have to fight another war, we would then need these highways more than we did in 1941-45.

In concluding let me emphasize that although the paragraphs which I have written above for the most part cover intangible and spiritual values in the relations of our country and Nicaragua, they are values that cover the entire range of all our activities in this country. I believe those activities are big and broad enough so that we can not afford to abandon the Inter-American and Rama Roads. I have no fear that the years will show how truly justified we are.

Cordially and sincerely yours,

FLETCHER WARREN

810.154/4-1746

Memorandum of Conversation, by the Chief of the Division of Caribbean and Central American Affairs (Cochran)

[WASHINGTON,] April 17, 1946.

Participants: Mr. E. W. James, Chief, Inter-American Regional Office, Public Roads Administration.
 Mr. William P. Cochran, Jr., Chief, Division of Caribbean and Central American Affairs.
 Mr. Fred G. Heins, Political Economist (CCA)
 Mr. Murray M. Wise, Desk Officer (CCA)

Mr. James called this morning and let me read the first draft of his memorandum of his conversation with President Somoza.¹² Mr. James had just returned from Nicaragua, having gone there to discuss the outcome of the recent audit of the road accounts. The report stated in brief that by approving certain expenditures in excess of agreement amounts, and bringing other accounts up to date, we were in the position of owing approximately \$500,000 to the Nica-

¹² Not printed.

raguan Government. This figure was apparently accepted by the Nicaraguan officials present.¹⁴

Mr. James then adverted to certain purchases made by Nicaragua of private firms in the United States, the PRA having urged the American firms to supply the equipment desired. These accounts amount to some \$154,000 and Somoza agreed that it would be entirely satisfactory to have PRA pay these American exporters from the amounts due from PRA to Nicaragua. Mr. James said that what he would do would be to take the 13 principal items and have them billed direct to PRA, which would then be able to pay them out of the funds due to Nicaragua.

During the meeting, the question arose of Nicaragua's being in arrears in its payments on its loan from the Eximbank¹⁵ and President Somoza also expressed a desire to have this sum paid out of the half million dollars available. The question of how this could appropriately be done was raised and Mr. Cochran suggested that Mr. James discuss this carefully with his legal advisers. It was pointed out that it might be possible to make the check payable to the Nicaraguan Embassy here, which would then endorse it over to the Export-Import Bank. This would leave some \$250,000 available to the Nicaraguan Government.

While in Guatemala, Mr. James met a Colonel MacNamara of the United States Army Engineers, who was attempting to collect some \$167,000 due to the USED for supplies and parts turned over to the Nicaraguan Government when USED abandoned its Pioneer Road project. This is the first Mr. James had heard about the matter. Mr. James mentioned this account to Ambassador Warren, but the latter did not feel that we should press President Somoza to pay it out of the remaining \$250,000 mentioned above, since he equally had heard nothing of the case up to this point.

The memorandum of conversation also indicated that President Somoza had expressed interest in pressing work on the spur section of the Inter-American Highway from Matagalpa to Jinotega¹⁶ and that Mr. James agreed to do so.

We then discussed PRA's activities as regards the construction of the highway to and the runways of the new airport in Panama.¹⁷ (Reference: Despatch no. 1250 of April 2, 1946 from Panama.¹⁸)

¹⁴ A copy of the completed audit was transmitted to Mr. Cochran by Mr. James in a letter of June 20, 1946 (810.154/6-2046).

¹⁵ See airgram A-58, March 5, to Managua, p. 1085.

¹⁶ For documentation on this route agreement, see *Foreign Relations, 1944*, vol. VII, pp. 187 ff.

¹⁷ For documentation on this subject, see pp. 1167 ff.

¹⁸ Not printed.

Mr. James read the despatch and agreed that the matter could be worked out on the basis suggested therein. However, he suggested that this should be discussed with Captain Curtis of PRA. He expressed his personal opinion that Mr. Humbard was motivated somewhat by his desire to continue in his present employment in Panama. He was informed that our concern sprang from two reports which we received of recent newspaper attacks upon PRA for its construction activities in Panama.

W[ILLARD] P. C[OCHRAN, JR.]

810.154/5-346

The Ambassador in Guatemala (Kyle) to the Secretary of State

No. 1327

GUATEMALA, May 3, 1946.

[Received May 16.]

SIR: I have the honor to refer to the Embassy's despatch No. 810 of November 8, 1945¹⁹ and to previous communications concerning expenditures made by the Government of Guatemala in continuation of the work on the International Highway of the Pacific in order that the Government of Guatemala might obtain full ownership to certain equipment left in Guatemala by the United States Army.

There is now enclosed a copy in translation of note No. 5995 of April 26, 1946,²⁰ which has been received from the Guatemalan Ministry for Foreign Affairs. It will be recalled that the accounting forwarded under cover of the Embassy's despatch No. 810 of November 8, 1945 showed that there was a balance of \$16,065.23 to be accounted for in order that clear title to the equipment et cetera might be obtained, if the accounts should be approved. The enclosed note states that a balance was again made as of December 31, 1945, which purports to show that Guatemala has expended between November 1, 1943 and December 31, 1945 the sum of \$1,644,916.07, while the value of the equipment which was left in Guatemala upon the cessation of work by the United States Army on the *Ruta Militar de Emergencia*²¹ was \$1,508,257.60. The note, therefore, states that the Government

¹⁹ Not printed; it transmitted to the American Embassy a note No. 13241 of November 2, 1945, from the Guatemalan Ministry for Foreign Relations indicating that Guatemala had fulfilled its obligations to the United States Army Engineers to expend \$1,508,257.60 (the value of equipment transferred) on the Pioneer Highway and requested a final accounting to indicate in documentary form that the Guatemalan Government had a completely clear title to all of the equipment (810.154/11-845). For the contract between the Corps of Engineers of the War Department and the Guatemalan Government, see instruction 518, May 17, 1944, to Guatemala, *Foreign Relations*, 1944, vol. VII, p. 193.

²⁰ Not printed.

²¹ The Emergency Military Route (RUME) later known as the International Highway of the Pacific (Carretera Internacional del Pacifico, CIPA).

had expended as of December 31 a total of \$136,658.47 in excess of the amount that it was obliged to expend in order to obtain title to the equipment. . . .²²

Respectfully yours,

For the Ambassador:
ANDREW E. DONOVAN II
Secretary of Embassy

817.154/12-1246

The Ambassador in Nicaragua (Warren) to the Secretary of State

RESTRICTED
No. 1260

MANAGUA, December 12, 1946.
[Received December 17.]

SIR: I have the honor to refer to the Embassy's despatch no. 1215 of November 22, 1946, entitled "The Rama Road"²³ and in that connection to report further developments in Managua.

In order that the persons chiefly concerned might know the results of my conversation with President Somoza as reported in the despatch under reference, I requested Mr. Milton J. Adams, P.R.A. representative in Managua, Mr. E. F. Heyler, P.R.A. auditor in Managua, Engineer Constantino Lacayo Fiallos, Nicaraguan Government representative in charge of construction on the Rama Road, and Mr. P.E.P. Marshall, American employee of the Nicaraguan Departamento de Carreteras, to meet with me in the Embassy residence at Las

²² A supplemental United States-Guatemalan agreement signed on April 23, 1946, and approved by direction of the Under Secretary of War (Royall) on December 13, 1946 (transmitted to the Department in a memorandum of December 18, 1946 from the War Department) indicated that the depreciated book value of the equipment, etc., turned over to the Guatemalan Government amounted to \$1,522,816.25; and that that Government, between October 15, 1943, and December 31, 1945, incurred expenses amounting to \$1,644,916.07 in connection with the construction of the Highway and maintenance of completed segments thereof. The agreement provided, therefore, that Guatemala had complied in full with its commitments under the contract, and that in return therefor the United States relinquished any and all claims to ownership and/or control over the use or other disposition of the equipment (810.154/12-1846).

²³ Not printed; a memorandum of December 10, 1946, by Mr. Fred G. Heins, Political Economist, Division of Caribbean and Central American Affairs, summarized this despatch and telegram 593 of December 9 from Managua as follows: "Pursuant to a conference in Washington on November 1 between Ambassador Warren and PRA officials, the Ambassador saw President Somoza on November 21 and again on December 6. The President concurred in the decisions reached at the November 1 conference as follows: (1) Nicaragua will not submit back accounts in excess of \$970,000 on Rama project No. 2 (this eliminates the presentation of back accounts amounting to approximately \$128,476). (2) Nicaragua will contribute \$30,000 a month from November 1, 1946, to be used for labor on the Rama Road; and (3) Nicaragua will submit future Rama accounts, for reimbursement by the United States, within 30 days after the close of the month in which the expenditures are incurred.

"Mr. James of PRA indicated in a telephone conversation that the above arrangements are satisfactory, and that PRA work on the Rama Road will continue at the present reduced pace." (810.154/12-946)

Piedrecitas to discuss the status of the Rama projects. They met at the residence because I was too ill with a cold to go to the Chancery. They all had seen copies of the memorandum quoted in Despatch No. 1215.²⁴ I repeated to them the additional information contained in the despatch. Explanation was given for the need of the closest cooperation of all present if the work on the Rama Road were to be continued until the United States Congress has the opportunity to consider granting funds to complete the Road. I appealed to all to work together to that end. During the course of the discussion I referred to my interview with President Somoza on November 21, 1946, and, speaking directly to Mr. Marshall, suggested to him that he go to President Somoza for the instructions which the President had said he would give to the Nicaraguan Departamento de Carreteras.

After the group had left Las Piedrecitas Mr. Marshall, without my knowledge, requested Mr. Adams to draw up a memorandum of the discussion and to supply each person present with a copy. Mr. Adams complied with the request by drafting the following memorandum:

"MEMORANDUM OF DISCUSSION AT PIEDRECITAS
"NOVEMBER 29, 1946

"Present: Ambassador Warren, Sr. Lacayo Fiallos, Mr. P.E.P. Marshall, Mr. E.F. Heyler, Mr. M. J. Adams.

"When Ambassador Warren returned recently from the United States he brought with him the results of a discussion between State Department and Public Roads Administration officials regarding Rama Road finances.

"He also brought a personal message from Mr. Thomas H. McDonald to President Somoza.

"Ambassador Warren upon his return to Nicaragua had gone over the whole situation with President Somoza and they had arrived at a complete understanding regarding the procedure to be followed.

"The discussion of November 29 was held by Ambassador Warren in order to give those present the results of his discussions in Washington and with President Somoza.

"With the full knowledge and approval of President Somoza the following special understandings concerning Rama Road work are to be put into effect.

"(A) Beginning November 1, 1946 the Government of Nicaragua is to earmark \$30,000 per month or, its equivalent in cordobas, as a donation toward continuing the work on the Rama Road. No claim will be made by Nicaragua for reimbursement of any part of this \$30,000 per month.

"The \$30,000 will be used first to pay for labor but in any month after all labor charges have been met, from the \$30,000 fund, if there

²⁴ The quoted memorandum concerned a meeting in the office of Commissioner Thomas H. MacDonald, Public Roads Administration, on November 1, and the conclusions reached with respect to Ambassador Warren's prospective conversation with President Somoza.

remains a balance that balance will be used to liquidate other than labor charges. The idea is that in any month the \$30,000 will be spent to liquidate current charges and that no attempt shall be made to carry part of it ahead to meet future charges.

“(B) President Somoza has agreed to forego any and all claims for expenditures on Rama Road Project No. 2 in excess of the amount now under agreement which is \$970,000.

“(C) So that the Public Roads Administration may intelligently plan a program of work, with full knowledge of the financial situation; and so that Nicaragua may receive the fullest benefit from the expenditure of the entire \$4,000,000, in the actual construction of the Rama Road, President Somoza has agreed that claims for reimbursement must be submitted within 30 days.

“This is to take effect on December 1, 1946. That is after that date accounts for reimbursement must be submitted within 30 days.

(signed) “M. J. ADAMS”

Upon receipt of his copy, Mr. Marshall asked Mr. Adams if he could send copies to the Minister of Fomento and other Nicaraguan officials. Mr. Adams replied that he had no objection but recalled that I had told Mr. Marshall to go to President Somoza for his instructions. Mr. Marshall, however, ignored the advice of Mr. Adams and proceeded to circulate the memorandum to various officials. The memo is much more categorical and directorial than I would have written. However, it was already in circulation and the harm done before I knew of its existence. Needless to add, the Minister of Fomento, General José Maria Zelaya, did not like or understand the communication. Engineer Lacayo Fiallos learned about the Minister's displeasure and after several interviews got the Minister to understand what I was trying to do and that I had definitely told his subordinate, Mr. Marshall, that he should go to President Somoza for his instruction in the matter. Minister Zelaya did not mention the incident to me and I let it take its course.

I am now in receipt of a copy of a letter dated December 5, 1946, written in Spanish by Minister Zelaya to Mr. P. E. P. Marshall. That letter reads:

The enclosure to Minister Zelaya's letter is a revised copy of Mr. Adams' memo mentioned above. The enclosure is in English and reads:

[Here follows text of memorandum of discussion at Piedrecitas, November 29, 1946, identical with the text of Mr. Adams' memorandum, with exception of the two following paragraphs:

“(A) Beginning November 1, 1946 the Government of Nicaragua is to earmark \$30,000.00 per month or, its equivalent in cordobas, as an advance toward continuing the work on the Rama Road. No claim

will be made by Nicaragua for reimbursement of any part of this \$30,000.00 per month unless there is a remaining balance of the original Four Millions Dollars appropriated by the U.S.A. Government for the Rama Road.

“(B) President Somoza has agreed to forego any and all claims for expenditures on Rama Road Project No. 2 in excess of the amount now under agreement which is \$970,000.00, providing there are no more funds available to reimburse out of the \$4,000,000.”]

It will be seen that Minister Zelaya's memo in effect confirms the information in Mr. Adams' memo. The only essential difference is a proviso that, “No claim will be made by Nicaragua for reimbursement of any part of this \$30,000 per month unless there is a remaining balance of the original four million dollars appropriated by the U.S.A. Government for the Rama Road.” A similar proviso under (B) reads, “Providing there are no more funds available to reimburse out of the \$4,000,000.”

The effect of these provisos would be to put on record the intention of the Somoza Government to seek reimbursement of any part of the \$30,000 to be advanced monthly or of any sum beyond \$970,000 spent on Rama Road project in case the U. S. Government does not spend all of the \$4,000,000 on the Rama Road. Of course, the total expenditure of the four million dollars is what we are now trying to effect.

I believe that Mr. Marshall's mistake has turned out to the advantage of the Rama project.

Respectfully yours,

FLETCHER WARREN

ARGENTINA

THE ISSUANCE BY THE DEPARTMENT OF STATE OF THE "BLUE BOOK" AND THE POSITION OF THE UNITED STATES ON SUPPLYING ARMS TO ARGENTINA

800.515/1-246 : Telegram

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

SECRET

BUENOS AIRES, January 2, 1946—5 p. m.
[Received January 3—3:10 p. m.]

4. For Treasury. Following is response their inquiries Deptel 1779, December 13, 6 p. m.¹

1. German banks and insurance companies are in process of liquidation under Ministry Finance and show substantial progress toward final disposal. These are only German concerns not directly under control of Junta de Vigilancia. . . .

2. Present interventors in German concerns, numbering some 150 were mainly selected by Fiore and Adrogué² in whom Embassy has confidence. Although Embassy has made no detailed investigation personal history each interventor, it considers them generally satisfactory.

3. Embassy considers Junta making every effort effect satisfactory replacement undesirable German personnel and technicians in firms under its control. Junta submits to Embassy lists all employees each firm placed under control which lists are checked against Embassy records. Thereafter any person found objectionable to Embassy is dismissed and is not reemployed in any firm under Junta control. After dismissal by Junta any further action such as detention or repatriation of objectionable persons is responsibility of Ministry Interior. Some such dismissed persons are being employed by firms already on P L but not controlled by Junta. Embassy has received no claim by Argentine authorities that any person found objectionable by Embassy and recommended by it for dismissal is irreplaceable.

CABOT

¹ Not printed.

² Luis Fiore and Carlos A. Adrogué successively headed the Argentine governmental agency having oversight of Axis companies, the Junta de Vigilancia.

740.35112 RP/1-546

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

[Extracts]

SECRET

BUENOS AIRES, JANUARY 5, 1946.

No. 1714

[Received January 15.]

SIR: I have the honor to submit a monthly progress report on the Argentine Government replacement program of Axis firms covering the month of December 1945.

As of December 31, 1945, the action by the Board against Axis firms in Argentina is as follows:

1. Firms liquidated: 11
2. Firms under complete control and possession: 66
3. Firms under intervention by Arg. Government: 77
4. Firms whose intervention has been discontinued by Argentine Government: 7
5. Firms under investigation by Arg. Government: 172
6. Firms on which Embassy has requested action by Junta without results: 1

There is enclosed a detailed list of these firms and their present status.³

In carrying out the recent investigation by Embassy officers of the Nazi activities in various spearhead firms (see Embassy's despatch No. 1694 of January 1, 1946³) the Embassy has noted that by and large the Board officials and members of the government Liquidating Commissions were well disposed to cooperate.

Respectfully yours,

For the Chargé d'Affaires ad interim
 HOWARD H. TEWKSBURY
*Counselor of Embassy for
 Economic Affairs*

835.00/1-746: Telegram

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

SECRET

BUENOS AIRES, January 7, 1946—7 p. m.

[Received 8:19 p. m.]

66. ReDeptel 22, January 5, 8 p. m.³ I heartily approve Dept's suggestion that German Embassy telegrams regarding Nazi-subsidized publications in Argentina be transmitted to Foreign Office.

³ Not printed.

This should make Argentine authorities more circumspect regarding newsprint, and diminish attacks in Peronista press (most of which is clearly under Govt influence) on US and its officials.

My strong personal inclination is to recommend that further step suggested by Dept, to wit: Release of material to newspapers by Embassy (or alternatively by Dept) immediately after delivery to Foreign Office, be also carried out, but I find some of staff have meritorious arguments against this. . . .

My own view is that official release of documents should not and would not be construed as formal attack on Argentine Govt . . .

In view of relative press freedom now existing, courage shown by various newspapers, and tremendous local news value, I think news coverage is likely to be good.

In short, while recognizing unpredictable consequences which may follow publication of documents at this time, I am definitely in favor of it. At least we shall gain some useful experience to guide us in release of main blasts.

CABOT

835.00/1-746 : Telegram

The Acting Secretary of State to the Chargé in Argentina (Cabot)

[Extract]

SECRET

WASHINGTON, January 9, 1946—8 p. m.

46. Reurtel 66, January 7, 7 p. m. Regarding release German Foreign Office documents, Dept approves your recommendation and directs following procedure:

You should deliver to FoMin photographs of 13 telegrams in German, together with Spanish translations, stating orally to FoMin that these are submitted as proof of prior Argentine mismanagement relative to newsprint distribution and consequent need to avoid any such abuse in connection with most recent decree, leaving FoMin with distinct impression that Argentine government must run risk that press involved remains Axis tainted. Upon delivery messages to FoMin you should deliver identical documents to Argentine press at press conference giving oral background. Dept contemplates issuing no statement here.

ACHESON

862.20235/1-1246

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

CONFIDENTIAL

BUENOS AIRES, January 12, 1946.

No. 1763

[Received January 21.]

SIR: I have the honor to report that on December 24, 1945 Federal Judge Fox ordered the conditional release of fifteen Axis espionage agents being held in "preventative" imprisonment under court order. These 15 were part of the list of 16 individuals listed in the Embassy's despatch no. 1232 of November 2, 1945.⁸ The sixteenth, Melita Tietz Schrotter, still is being held pending the disposition of extradition proceedings initiated by the Chilean Government. It is understood, however, that those proceedings have been cancelled and soon will be dropped. It is believed that this person will also be released by the Court.

An officer of the Ministry of Foreign Affairs has confidentially informed this Embassy that Judge Fox proposed to release these agents without notice to the Executive Power in order that they could go into hiding and thus embarrass the Argentine Government for not fulfilling its commitments under Resolution VII of the Mexico City Conference⁹ by the continued detention and the deportation of all such agents. This is probably a somewhat fanciful explanation, but it is the only one available at the moment. Before the prisoners could actually be released, however, the Ministry of Foreign Affairs and the Federal Police arranged for their continued detention at the disposal of the Executive Power under the authority of the State of Siege Act. This information has not yet been released to the press. The decree ordering this arbitrary continued detention probably was dated on December 24, but is understood not to have received all the necessary signatures until at least a week later, an obvious violation of civil rights and perhaps an action in contempt of court.

A recent decision of the Argentine Supreme Court is of considerable importance with respect to the deportation and repatriation program for Axis espionage agents and dangerous German nationals from Argentina. On December 27, 1945 the Supreme Court confirmed a decision of a lower court in rejecting a plea for writs of habeas corpus for fourteen suspected Axis agents (reference despatch no. 1523 of December 8, 1945¹⁰). The Supreme Court ruled that the Government, under the State of Siege Act, has the right to arrest and detain indefinitely anyone suspected of endangering public order or tran-

⁸ See *Foreign Relations*, 1945, vol. ix, p. 487.

⁹ For text, see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945), p. 38.

¹⁰ Not printed.

quillity. (Reference Military Attaché report R-826-45 of December 29, 1945; and Legal Attaché report of January 3, 1946).¹¹

Another Argentine court, also about December 27, 1945, refused to consider a petition for a writ of habeas corpus for José Enrique Arzac Moya. The judge stated that the Government is justified in the arrest and expulsion from the country of foreigners suspected of action harmful to the country or to the security of the American Continent, and referred to Resolution VII of the Final Act of the Mexico City Conference. (Reference Military Attaché report R-826-45 of December 29, 1945.)

Respectfully yours,

JOHN M. CABOT

835.796/1-846 : Telegram

The Acting Secretary of State to the Chargé in Argentina (Cabot)

RESTRICTED

WASHINGTON, January 17, 1946—8 p. m.

US URGENT

100. Urtel 80, Jan. 8.¹² LADE,¹³ though engaged in commercial operations, is army-owned and operated. Any US equipment made available to it at this time, aside from strengthening striking potential of army, which admittedly may be strengthened from other sources, will be capitalized by Peronistas as best possible evidence our pusillanimous policy.

It is evident that Air Secretary ¹⁴ is playing US against British. . . .

Ranking United Aircraft officials have discussed situation thoroughly with Dept and are sympathetic Dept viewpoint.

ACHESON

800.00 Summaries/1-1846 : Circular telegram

*The Secretary of State to Certain Diplomatic Representatives
in Europe* ¹⁵

SECRET

WASHINGTON, January 18, 1946—10 a. m.

Legation Stockholm has been informed that US policy re shipment of arms to Argentina is as follows: No arms, ammunition, implements of war, and no capital equipment, including machine tools, consigned to Argentine Govt and useful in manufacture of military equipment

¹¹ Neither printed.

¹² Not printed.

¹³ Líneas Aéreas del Estado, an Argentine airline.

¹⁴ Brig. Gen. Bartolome de la Colina.

¹⁵ Sent to the diplomatic representatives at Berlin, Caserta, Lisbon, London, Madrid, Moscow, and Paris.

will be licensed for export to Argentina pending further clarification of Argentine political situation. In view of present character of Argentine regime and its ambitious programs of armament production and importation Dept feels that any increase in export of armaments to Argentina threatens peace of hemisphere. Since Argentines are reportedly placing orders in Sweden and UK for machine tools, Dept feels that UK and Swedish cooperation in this policy is essential. Brit have indicated they will cooperate on arms, ammunition and implements of war but have not definitely stated their position on export of capital equipment which may be used in manufacture of armaments.¹⁶

ACHESON

835.00/1-1846 : Telegram

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

RESTRICTED

BUENOS AIRES, January 18, 1946—8 p. m.
[Received January 19—3:05 a. m.]

194. General reaction so far to release of 13 German telegrams seems unbelievably favorable. Only criticism so far heard in Democratic circles is that it is not enough. General opinion is that it has seriously compromised Perón by pointing out links of present Peronista newspapers with former German propaganda organs (I was, of course, careful in my press conference to avoid all mention of Perón and of internal politics except for my references to German interference in latter). In Democratic circles there is great expectancy of and anxiety for further releases. By sheer coincidence release was perfectly timed. Press coverage excellent in afternoon papers also. Everybody seems to be talking about it in all social classes.

Sauri¹⁷ is reportedly furious at my exposure of his demanding 600 tons of newsprint for Peronista journals. Gossip has it that Cooke¹⁸ is rewriting tonight's speech; that Govt is seriously concerned, even though it does not consider itself directly involved; that Cardinal is angry but Catholic circles pleased. *Epoca* in long weak article tonight does not question accuracy even to my statements regarding its staff.

Democracia is [*in*] headline covering entire front page accuses me of shielding Nazi newspapers, mentioning *La Razon* and *Clarín*, and of being angry because no longer able to control newsprint.

¹⁶ In telegram 247, February 1, 1946, 7 p. m., the Ambassador in Sweden (Johnson) indicated that no deliveries would be made under certain armament contracts to Argentina by Bofors Limited until the political situation in that country was acceptable (835.24/2-146).

¹⁷ Col. Joaquín I. Sauri, Minister of Industry and Commerce.

¹⁸ Juan Cooke, Argentine Minister for Foreign Affairs.

Representatives of *Andí*, *Gaceta* of Tucuman and *Capital* of Rosario have called on me in injured innocence. To latter I have pointed out last lines of my quoted remarks in *La Prensa*.

I believe that one reason for success of my press conference was that the whole attack appeared directed at Nazi influences rather than Argentine Govt or Perón and that it would be well to bear this in mind in planning future releases.

CABOT

835.00/1-1946 : Telegram

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

BUENOS AIRES, January 19, 1946.
[Received January 19—4:29 p.m.]

201. Following are brief statements of points covered by Foreign Minister in radio address last night:

Argentina's pacific and democratic traditions well known and established throughout her history. Referring to good neighbor policy, Foreign Minister stressed traditional friendship with US and understanding of that country's dominant position but pointed out possession of such great power engenders natural suspicion and jealousy among smaller nations. Principle of good neighborhood that of nonintervention.

June 4, revolution entirely Argentine affair.

Argentine Armed Forces based on conscription drawn from all sectors population and consequently democratic force.

Original revolutionary Govt composed largely of Army and Navy officers has been gradually replaced by civilian administration until today there are only a few military officers in Govt.

Cannot be said consequently that there is "military cell" or "Govt behind the Govt". Charges of Nazi-Fascism absurd as are claims that Army is imbued with spirit of aggression. Argentina has no territorial aspirations and no frontier disputes.

With reference to rights of man which Argentina has been accused by Uruguayan Foreign Minister of violating, Cooke made four points on basis of examination United Nations Charter:

(1) Rights of man not clearly defined; (2) Charter expresses only purpose of cooperation for respect and fostering of those rights; (3) No method of juridical defense established; (4) No procedure for application of sanctions suggested.

How, asked Cooke, is multilateral intervention suggested by Uruguay¹⁹ to be carried out? If on basis unanimity then intervention

¹⁹ For documentation on this proposal, see *Foreign Relations*, 1945, vol. ix, pp. 185 ff.

obviously impossible since unanimity would never be achieved. If by majority decision then it means end of good neighbor policy.

Any claims that Argentina does not enjoy fruits of democracy ridiculous when it is recalled elections have been convoked for February 24, that there is full freedom of press and speech and that country enjoys greater liberty now than at any time during past 15 years. Admittedly there have been moments when revolutionary govt has prevailed by force; no revolution is conducted only to be ended following day with return of deposed forces. True that state of siege still in force but this is constitutional measure, is not martial law and does not mean police officials can commit abuses at will.

Referring to Axis spies and those persons guilty of activities against United Nations all will be deported.

Argentina disposed as always to collaborate with rest of world, stands as always with other peoples of America and at service of United Nations.

Text ²⁰ will be forwarded by airmail.

CABOT

835.00/1-2246 : Telegram

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

SECRET

BUENOS AIRES, January 22, 1946—9 p. m.
[Received January 22—8:39 p. m.]

231. Further reactions to release of 13 German Embassy telegrams:

1. *Tribuna* in two solid page[s] of vituperation calls me first spy, first insolent and first liar of Argentina, along with several other charming epithets.

2. *Ahora* in today's edition screams that Braden is a liar in headlines on top of practically every page. Because sensational revelations were liberally advertised, whole edition was sold out by 9 a. m.

3. Silveyra, head of ex-*Clarín* [ex-head of *Clarín*?] and Lestrade have published dull solicitadas in *Tribuna*.

4. Aparicio (*Andi*) after seeking Embassy approval of letter, plans to publish it tomorrow without Embassy authorization. He is terrified of losing valuable Radio Belgrano contract.

Extraordinary thing is that no serious attack has been made on authenticity of documents and any study of defense of affected publications clearly shows that they accept documents as authentic. Thus *Tribuna* claims that garble in one telegram was deliberate mutilation by Embassy to cover presently democratic newspaper. Even extreme nationalists appear to believe documents authentic but are raging at alleged interference in Argentina national affairs and demand that

²⁰ Not printed.

I be declared *persona non grata*. *Epoca*, *Ahora*, *Democracia* and *Andi* are proclaiming their 100 percent democracy.

I am having PL cases prepared against *Tribuna* and *Ahora*. For moment continue to recommend no action against *Andi*, which is quite possibly ruined in any case.

CABOT

862.20235/1-2346 : Telegram

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

SECRET

BUENOS AIRES, January 23, 1946—2 p. m.

[Received January 23—1:19 p. m.]

232. I would greatly appreciate any information Dept can give me re its future plans for exposure of Nazi penetration in Argentina and Nazi links of Perón and clique. As I have previously pointed out Argentine people are becoming increasingly sensitive about direct attacks on Argentine Govt under present circumstances. Nevertheless, I must again emphatically register my belief that it is not fair to keep from Argentine people pertinent evidence in our possession re Nazi penetration. Delay in making facts known is bound to discourage democratic forces and lessen their chances of getting rid of totalitarianism in this country. I am particularly disturbed at possible repercussions of Acheson's statement yesterday²¹ since many authoritative indications both from Washington and this Embassy ever since Dept [apparent omission] have shown Argentine people that we have such evidence and have indicated that we intended eventually to publish it.

CABOT

835.00/1-2546 : Telegram

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

SECRET

BUENOS AIRES, January 25, 1946—3 p. m.

[Received 3:45 p. m.]

261. Possibility of early revolutionary movement appears steadily increasing:

1. Group of younger army and navy officers are known to be demanding really fair elections, notably by removal of pro Perón intervention.

²¹ The following notation by Carl B. Spaeth, Special Assistant to the Assistant Secretary of State for American Republic Affairs, appears on the file copy of this telegram:

"At Press Conference on Jan. 22, Mr. Acheson said, in answer to a question whether the Department was going to release more of the documents on various Nazi activities in Argentina: 'No, I don't think we have any immediate plan to do that.'"

2. Civilians are known to be organizing, for example, a large inquiry for bandages has been made by democratic women. Also reliable reports indicate resistance movement is planning to announce revolutionary outbreak over three principal Buenos Aires radio stations and then sabotage these and all other stations in the city, leaving clandestine stations only service available. Arms are being ever more widely distributed among democratic civilians.

3. Bombers and fighters at Palomar have been loaded with bombs for past 10 days.

4. Tension is increasing particularly because of Peronista attacks on Tamborini²² presidential train and appointment Albarino²³ as commander of Campo de Mayo.

5. Government's prestige is steadily sinking despite Albardhos dismissal as interventor of Buenos Aires and greater impartiality of police in Buenos Aires in suppressing disturbances. Basic question now is whether Government has will and ability to enforce fair elections. This is generally doubted, leading many people to conclude there will be no elections. One rift in clouds is gossip of conciliation candidate.

6. Conviction apparently gaining ground in both camps that Perón cannot win in fair elections. This may force Perón either to greatly increased fraud and intimidation or to attempt a coup. Democratic forces are naturally taking heart and resolved to stand firmer.

CABOT

835.00/1-2646: Circular telegram

*The Secretary of State to All Diplomatic Representatives in the American Republics Except Those in Mexico and Argentina*²⁴

SECRET

WASHINGTON, January 26, 1946—8 a. m.

Messersmith²⁵ reports that Mexican Govt has been approached by Argentine Govt as follows:

1. Does the Mexican Ministry of Foreign Relations have information about a mediatory movement among the Latin American countries in an endeavor to solve in a friendly way the Argentine situation.

2. If such movement exists does the Mexican Government see it with sympathy and is it disposed to take part in such movement.

3. The Argentine Govt has been informed that the Ecuadoran Fon-Min is offering to start such a movement.

4. Argentina will appreciate the mediation of Brazil and Mexico.

²² José P. Tamborini, nominee of the Unión Cívica Radical in the presidential election of 1946.

²³ Gen. Ramón A. Albarino, former Interventor of Buenos Aires Province.

²⁴ Repeated to diplomatic representatives in Mexico and Argentina for information only.

²⁵ George S. Messersmith, Ambassador in Mexico.

In reply to inquiry of FonMin regarding probable attitude of Dept, Amba Messersmith stated that in his view this was a move on part of Argentina to make it appear that the question was one of mediating a difference between Govt of US and Argentina. The Amba stated emphatically that this was matter in which all the American republics were interested and was therefore not a question of mediation between any two American Govts.

Dept unqualifiedly approves position taken by Amba Messersmith and has instructed him so to inform Mexican FonOff. Farrell²⁶ Govt's obligations under the Final Act of the Mexico City Conference are owed to all of the Republics which invited its adherence and accepted its word pledging compliance.

In July 1944 Farrell Govt made similar move for mediation through Dominican Republic and other Govts. At that time Dept took position which it now reiterates that Argentina's failure to comply with commitments made to and with all other American republics did not present any occasion for mediation between Argentina and Govt of US. Argentina's failure to meet obligations of hemisphere solidarity was declared concern of all republics. We pointed out that Argentine representatives had been approaching one republic after another suggesting that each serve as mediator between Argentina and US. This Argentine ruse was designed to promote impression that, since issue was one between Argentina and US, it of course did not involve prospective mediator. It was thus calculated to curry favor with each of the Govts approached by appealing to its superior sense of objectivity.

If you are approached on this matter by Govt to which you are accredited, you should state our position along foregoing lines in strong terms.

BYRNES

862.20235/1-2346 : Telegram

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

SECRET

WASHINGTON, January 26, 1946—2 p. m.

U.S. URGENT

160. Embtel 232, Jan 23. In connection with your recommendation that additional disclosures be made at earliest possible time your views are urgently requested on proposal that you:

(1) Present a special request to FonOff that with further reference to our request for repatriation German civilians, Argentine Govt immediately take special precautions for safe custody pending departure on *Highland Monarch* of following four leading Nazis:

²⁶ Gen. Edelmiro Farrell, Head of the Argentine Government.

Becker, head of Hemisphere Secret Service (Sicherheitsdienst); Harnisch, head of the Abwehr for South America; Freude, Nazi "stay behind" leader; and Utzinger, chief Nazi technician. Your request would stress that these men ran the Nazi hemisphere espionage and subversive network from Argentina; that fact of their continued presence in Argentina at this late date, and in Freude's case complete freedom, is one of principal reasons why we question Argentine protestations of readiness comply Hemisphere obligations. You should also submit record of our requests for action these cases.

(2) In making request you would explain to FonMin that additional reasons for lack of trust by our Govt are now provided by German FonOff telegrams (listed below) which demonstrate that the Nazis had penetrated to highest quarters in FonOff and, indeed, to highest post in Argentine Emb in Washington. In giving telegrams to FonMin you would stress those relating to Oscar Ibarra García who is now revealed as having been established in service of Nazis in darkest days of the war. This is man who was UndSecy of FonOff of present Govt, Argentine Delegate to United Nations Conference, and was first Argentine Ambassador to US after recognition of Farrell govt, and the admission of Argentina to United Nations.

You may add that we are bound to inquire whether there may be other Nazi agents in FonOff who are responsible for failure Argentine compliance commitments. In this connection refer to attitude of Director Economic Division Argentine FonOff telegrams 2951 Aug 19, 1942 and 2481 July 18, 1942.²⁷

(3) Immediately after presenting foregoing to FonMin, you should give entire story to press, releasing photostat copies of German telegrams as well as Pochhammer papers²⁸ showing Freude role. In presenting background you would indicate that request for these four Nazis coupled with proof of Nazi penetration FonOff combine elements which run throughout our case: continued Nazi power in Argentina, failure of Farrell govt to take decisive action, Nazi agents in high places of Farrell govt. You should express fear lest last minute technical objections such as those which blocked repatriation on *Red Jacket* may again be advanced. You will appreciate desirability of playing up Ibarra García story since it so effectively dramatizes reasons for our policy. Main line should be one of the first official acts of Farrell govt following acceptance by American republics of their protestations of allegiance to United Nations and hemisphere solidarity was to send Nazi agent to Washington and UNO Conference. If Farrell govt pleads ignorance of his character, all protestations that it has cleaned out Nazis may properly be questioned on ground that they do not know extent of Nazi penetration.

BYRNES

²⁷ Neither printed.

²⁸ Papers relating to the interrogation in Germany of Wilhelm von Pochhammer.

835.00/1-2846 : Airgram

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

SECRET

SAN SALVADOR, January 28, 1946.

[Received February 4—2: 53 p. m.]

A-24. In a conversation with Foreign Minister this morning on another matter, Dr. Escobar Serrano inquired in a general way as to the status of our relations with Argentina. This gave me an opportunity to bring to his attention, with considerable emphasis, the Department's views in regard to the recent Argentine move reported by Ambassador Messersmith, as outlined in the Department's circular telegram of January 26, 8 p.m. [*a.m.*].

Dr. Escobar Serrano showed great interest and expressed his definite support of our position in considering the Argentine question as a matter of common interest to all the American republics and not one of mediation between any two American governments.

He volunteered the opinion that the Mexico City move was an obvious political maneuver on Argentina's part. He said that his own Government had not been approached in any way by the Argentine Government along these lines, although it had recently received from that Government what appeared to be a general descriptive circular setting forth the Argentine position in carrying out its hemispheric obligations.

He described the Argentine nation as proud and sensitive, indicating that perhaps in the past certain positions adopted by the American republics, which might have appeared to Argentina as interventionary in character, may have had the effect of consolidating their nationalism rather than encouraging democratic elements to bring pressure against the Farrell regime.

He continued on this theme by assuring me again of the entire support of our position by the Salvadoran Government and by expressing the view that, in future dealings with Argentina, we may always count upon the full support of the Salvadoran Government for our policies, particularly as regards the community of interest of the other American republics in dealing with the Argentine question.

SIMMONS

835.00/1-3146 : Telegram

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

U.S. URGENT

WASHINGTON, January 31, 1946—3 p. m.

185. Kluckhohn³¹ in front page article *New York Times* this morning, B A dateline Jan 30, quotes Perón as follows:

³¹ Frank L. Kluckhohn, correspondent of the *New York Times*.

"The candidate, in an interview with this correspondent, insisted that it was the opposition which was seeking to break up the elections and that the police constantly were picking up arms that had been smuggled across the Plata River. He expressed the firm belief that the United States Embassy was involved in this counter-movement."

You are instructed to go immediately to FonMin and leave with him an *Aide-Mémoire* quoting this newspaper account and stating that because of Perón's former official position and his continued identification by public opinion with Arg Govt this Govt takes a serious view of his charges against US Emb. The *Aide-Mémoire* shd inquire whether Arg Govt associates itself with such charges and shd state that if it does not this Govt would expect the Arg Govt publicly to repudiate them.

Confirm delivery *Aide-Mémoire* by telephone at earliest possible moment. Dept will then release to press text this tel.

BYRNES

835.24/1-3146

Memorandum of Conversation, by the Director of the Office of American Republic Affairs (Briggs)

[WASHINGTON,] February 1, 1946.

Participants: Mr. Spruille Braden, Assistant Secretary of State
 Mr. Ellis O. Briggs, Director of the Office of American Republic Affairs
 Mr. L. B. Pearson, Canadian Ambassador

The Canadian Ambassador on February 1 delivered the attached note no. 35³² to Mr. Braden, who expressed his sincere appreciation of the cooperative attitude displayed by the Canadian Government in acceding to our wishes with respect to the proposed relaxation of Canadian controls on exports to Argentina.

The Ambassador said that he would appreciate an opportunity to discuss the matter further during the latter part of this month and Mr. Braden indicated that we would be happy to do so.

It is apparent from the foregoing that the Canadians have gone along with us in a very helpful way indeed and that we should accordingly deal with them with the same frankness with regard to future developments. In that connection Mr. Braden indicated that we very much hope that the situation would be clarified at an early date. He also assured the Ambassador that in accordance with his request we would give further study to the effect of the proposed Canadian relaxations.

E. O. B[RIGGS]

³² Not printed.

835.00/2-146 : Telegram

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

SECRET

BUENOS AIRES, February 1, 1946—8 p. m.

[Received February 1—7:35 p. m.]

348. As reported by telephone today, I presented *aide-mémoire* to Foreign Minister at 1 p. m. as directed by Deptel 185, January 31, 3 p. m.

Foreign Minister took some exception to our connecting Perón with Government. I told story of Lombardo Toledano's³³ similar accusation, which mollified Minister. Minister said that personally he had never heard Embassy accused of anything like this, although he went on to say that many people in opposition felt that they were backed by moral support of Embassy. I said that I recognized this but that our activities were merely directed at extirpating Nazi activities of all kinds in this country. Minister promised to speak to President, Secretaries of War and Interior and Chief of Police and see me again at six tomorrow evening, unless he informed me to the contrary.

CABOT

835.00/2-146

The Ambassador in Cuba (Norweb) to the Assistant Secretary of State for American Republic Affairs (Braden)

SECRET

HABANA, February 1, 1946.

DEAR SPRUILLE: I had an opportunity to call upon President Grau³⁴ and to talk with him at some length this morning. I was able to give him your messages with respect to the Río Conference and the Argentine situation, as they may be affected by the forthcoming election in that country.

He replied that the divergent points of view which have shown themselves with regard to the position of Argentina, and the manner in which the problem should be handled, raise an extremely delicate problem for the American republics, which will be obliged to devote their best talents to a study of the attitudes which they individually will assume in that regard.

For his own part, he fully appreciated that we had every ground for our point of view and that we need hardly let ourselves be drawn, for the sake of good fellowship, into signing together with a governing clique which we consider in such an unfavorable light a treaty providing for the defense of the Americas. Yet without the signature

³³ Founder and general secretary of the Confederación de Trabajadores Mexicanos.

³⁴ Ramón Grau San Martín.

of the United States, given its preponderant military and naval power, no treaty for the defense of the Americas could be a really effective instrument. At the same time, finally, there was a considerable feeling among the other American republics that it would be most embarrassing to sign such a treaty in the event that Argentina were not to be afforded a simultaneous opportunity to do so as well.

The President felt there was a chance that the forthcoming Argentine elections themselves might afford an escape from this dilemma. Apparently he expects violence with consequent general disapproval of an administration in Argentina established by coercion.

Here I should like to remark parenthetically (though this is a subject which did not come up in my talk with the President) that Perón's recent accusations against our Embassy in Buenos Aires, coupled with the Department's memorandum to the Argentine Government desiring that if the Government does not associate itself with Perón's charges, it publicly repudiate them, may conceivably, as time passes, come to afford a toe-hold for our neighbor republics to assume publicly a more critical point of view toward the Perón clique.

It was particularly interesting to learn from the President, in this connection, that Sir [*Mr.*] Leslie Hore-Belisha ³⁵ had just told him that all the chiefs of state in Latin America with whom he had talked during his recent tour had expressed a similar uneasiness over the outlook. Hore-Belisha remarked that he hoped to have the opportunity of calling on you in Washington within a few days. As you indicated to me, his point of view with regard to these matters differs considerably from our own.

HENRY NORWEB

S35.00/2-246 : Telegram

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

SECRET

BUENOS AIRES, February 2, 1946—1 p. m.

[Received 5:17 p. m.]

354. 1. It is generally agreed by observers that Perón has seriously lost ground in recent days.

2. Several reports from fairly reliable sources indicate that he is running short of money. Seven Laborista Committees have closed. Another source says this is not so but is being deliberately spread by Peronistas.

³⁵ Leslie Hore-Belisha, former British Secretary of State for War; his visit to Latin America was unofficial.

3. From two good sources, it is reported that he is planning a second march of the "Descamisados"³⁸ next week. There are rumors and speculation of a Peronista *coup d'état*.

4. At the meeting on Jan 31 of the generals and admirals who are to supervise elections, these officers insisted on elections on Feb 24 with proper guarantees. It was openly stated that Perón had no chance in such elections and that he would have to accept the situation.

5. A reliable source quotes Admiral Zuloaga³⁹ as saying that elections in Buenos Aires Province will be guaranteed by 20,000 soldiers, properly distributed.

6. The Navy is frankly disregarding Govt's orders. A prominent retired Naval Officer describes it picturesquely as being "in a state of belligerency with the Government."

7. A report of unknown authenticity says that Velazco's⁴⁰ resignation has been demanded as of Tuesday.

8. General opinion sharply reversing itself now is that elections will be held and that they will be reasonably honest.

9. For first time, one is beginning to hear openly expressed opinion that democratic union will carry elections.

CABOT

835.00/2-446 : Telegram

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

SECRET

BUENOS AIRES, February 4, 1946—9 p. m.

[Received February 5—3:33 a. m.]

379. Foreign Minister tonight handed me Argentine reply to our *aide-mémoire* regarding Perón's statement. Am forwarding in clear tonight all except introduction. In presenting note, Foreign Minister expressed himself in terms similar to text, laying somewhat less stress on fact Perón is out of Government and more on lack of evidence to sustain Perón's charges. In answer to my question, Foreign Minister said he was publishing note this evening.

I then raised question of offensive articles in Friday's *Epoca* (reference Department's telegram 198, February 2, 1 p. m.⁴¹). I pointed out how serious and how unfounded charges made were. Foreign Minister pointed to similar articles in United States press. I countered that it was one thing to comment on public acts of an official and

³⁸ The shirtless and ragged ones, a term applied to the followers of Perón in the laboring classes.

³⁹ Vice Adm. José Zuloaga, Electoral Commander of Buenos Aires.

⁴⁰ Col. Filomeno Velazco, Chief of Federal Police.

⁴¹ Not printed; in it the Chargé was authorized to request a denial of the stories (835.00/2-146).

quite another to make completely untruthful accusations, particularly when they involved grave crimes. Foreign Minister said that he had always refused to have anything to do with *Epoca*. I immediately showed volume of advertising now received from Government and aid given in securing newsprint. Foreign Minister said that though *Epoca* was not "vinculado con el gobierno" as stated by Uruguayans in note, it was true that it received Government support as I had mentioned. He said that he would investigate legal situation as to whether newspaper could be punished for unfounded charges against foreign official prejudicial to Argentine relations. I said that since our laws did not permit similar action I wanted it to be very clear that I was not asking that *Epoca* be punished but I did want Government's help in establishing the truth and I felt that it could give such help in view of Government support *Epoca* was receiving. Foreign Minister agreed to discuss with other Government officials what could be done at least to get *Epoca* to moderate its tone.

Foreign Minister said he expected to invite me to see him tomorrow night to discuss other matters, particularly deportees.

Reference Department's telegram 198, February 2, 1 p. m. second paragraph.⁴² I told Lombardo Toledano story, realizing differences, in order to establish point that he also was a private citizen. My account to Foreign Minister was accurate insofar as it went.

CABOT

835.00/2-446 : Telegram

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

BUENOS AIRES, February 4, 1946.

[Received February 7—4: 50 p. m.]

387. Following is text of essential part of Argentine reply to our note re Perón interview:

Aide-mémoire (ellipsis)

In reply I must communicate to you:

1. The Argentine Government cannot admit that because of 'the previous position of Colonel Perón' and because of the circumstance that it is asserted that 'public opinion continues to identify him with the Argentine Government', (that) the words of this citizen may give rise to responsibilities of any kind for those who have the political and administrative direction of Argentina. Moreover, the opinions of the Argentine Government, in all that pertains to foreign relations, are expressed exclusively by this Chancery.

2. Colonel (R) Juan D. Perón presented his resignation as Vice President of the Republic, Minister of War and Secretary of Labor

⁴² In this paragraph the Department indicated that Lombardo Toledano's accusations of arms smuggling referred to private United States firms, and that the Mexican Government disassociated itself from the charges (835.00/2-146).

and Welfare on October 9 of last year, which was accepted by decree dated the 10th of the same month. Likewise he requested his retirement from the army which was granted to him on the 17th of October.

These circumstances prove the separation of Colonel (R) Juan D. Perón from all governmental activities and from the army to which he belonged. Consequently, Colonel (R) Perón is at present an Argentine citizen who, in the exercise of legitimate rights, has accepted a candidacy for the Presidency of the Republic proclaimed by political organizations; and in that capacity he is acting with the freedom of action and expression consistent with the rights granted by our constitution and our laws, the broad exercise of which the present Government is pledged to guarantee to all citizens.

3. It appears, therefore, improper, that for the actions and words of Colonel (R) Perón, one of the candidates to the Presidency of the Republic, one should seek to make the Government responsible, just as it would also be improper that for the acts and words of the Government responsibility of any kind should be attributed to the aforesaid citizen.

4. Having set forth these principles, which it deems essential to establish in defense of its honor and of the dignity and sovereignty of Argentina,—which primary duties require should be defended with jealous scrupulousness—, the Argentine Government does not find any objection to stating that with reference to the active contraband in arms which has been carried on and is being carried on along the sea-coast, it has no proofs nor evidence of any kind which implicate the United States Embassy nor does anything lead it to believe in its intervention respecting this.

5. The Argentine Government formulates this declaration in its intention not to make an omission which may contribute to aggravate differences that conspire against good neighborliness, inter-American policy of fraternity, which the illustrious President Roosevelt initiated and maintained with irreversible tenacity, to which the Argentine Republic has given its enthusiastic and loyal adherence".

CABOT

862.20235/2-846 : Telegram

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

SECRET

BUENOS AIRES, February 8, 1946—11 a. m.

[Received February 8—9:30 a. m.]

415. ReEmbtel 403, February 6, 9 p. m.,⁴³ and Deptel 160, January 26, 2 p. m. I believe that Cooke is making real effort to get as many Nazi agents as he can off on *Highland Monarch*. There appears good reason to suppose that Cooke is genuinely concerned at what we may do and reveal, and that the principal obstacles are anti-Perón courts dominated by conservatives which are looking with decidedly jaundiced eye on war as well as other powers revolutionary Government has sought to arrogate to itself.

⁴³ Not printed.

Under circumstances I doubt that drastic action or recriminations would be justified on basis of failure to deliver agents under court order. Freude⁴⁴ case is in somewhat different category despite fact Court of Appeals has cleared way for securing Argentine citizenship. Naturally if Government fails to deport any agents not under court order my recommendation does not apply.

CABOT

835.00/2-846 : Telegram

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

SECRET

WASHINGTON, February 8, 1946—noon.

NIACT

222. For Cabot only. Basic case re Argentina will be presented late Mon afternoon. It consists of 8 page summary followed by about 140 pages documentation.

Couriers leave Wash Mon⁴⁵ noon to deliver copies to our diplomatic missions in other American republics for transmission to FonOffs. Late Mon afternoon chiefs of mission of other American republics in Wash will meet with UndSecy and AsstSecy Braden and will be given copies of document. (For security reasons they will not be invited until Mon morning.) At approximately same time copies will be given to press with 48 hour release date.

Cable immediately any comment you may have on this procedure, and your views re any precautionary measures that should be taken for protection Emb and American citizens in case publicity results in violent reaction Buenos Aires. Do not mention this telegram to anyone.

BYRNES

835.00/2-846 : Telegram

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

TOP SECRET

BUENOS AIRES, February 8, 1946—8 p. m.

NIACT

[Received 9:59 p. m.]

430. Due to rapid swing in situation, Deptel 222, Feb 8, noon raises grave issues. Perón has suffered a series of disasters recently and majority of observers now think he cannot win elections. To throw ["atomic bomb"] directly at Argentine Govt in present super-charged atmosphere is to court incalculable results. Opinion will be

⁴⁴ Ludwig Freude, German-born head of Cia General de Construcciones, accused of espionage in behalf of the Axis.

⁴⁵ February 11.

universal that we are trying to influence election results. Some Argentines will warmly applaud attack, others bitterly resent it; relative size of groups cannot be determined. Many will recall our recent reaction to Perón charges. Publication may also interfere with *Highland Monarch*⁴⁶ negotiations.

Under circumstances, I recommend against official release of document at present. I recommend publication only under following circumstances:

1. In event of successful Perón coup.
2. If tide again swings toward Perón.
3. In event Perón elected, to justify toughness at Rio.
4. If Argentines attack us, or wilfully stop fulfilling commitments, or give other excuses.
5. If elections are flagrantly fraudulent.
6. As reason for breaking relations (if that is our intention in event Perón is elected).
7. Perhaps, if Perón attacks us Tuesday, or if case is aimed at a German penetration rather than Argentine Govt.

If case released to other Republics leak is probable but would perhaps be less harmful than official release. Also Argentines would doubtless get document and impending threat of its publication might terrify them into reasonably good conduct, particularly at elections. Once bomb is exploded publicly it cannot again be used.

Am somewhat distressed that I shall not have document when it is released; can Dept cable text of summary?

We cannot send ships or planes here without arousing screams of intervention, therefore I see little we can do except warn key Americans Wednesday of what is coming.

CABOT

835.00/2-846

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extract]

SECRET

No. 1393

SIR: . . .

BOGOTÁ, February 8, 1946.

[Received February 22.]

Unfortunately, however, as I have pointed out in reports to the Department during the last year, the Colombians frankly regard the conflict between Argentina and the American family of nations as a conflict between Washington and Buenos Aires. Colombian super-sensitiveness with regard to intervention in any form inclines the

⁴⁶ See telegram 160, January 26, 2 p. m., to Buenos Aires, p. 192.

Colombians to view the energetic policies pursued by the American Government with some suspicion and with very little sympathy. The only constructive thought in respect of the Argentine problem which I have recently encountered came from President Lleras⁴⁷ (*vide* my telegram No. 84, of January 24, 1946, 2 pm⁴⁸) in which he expressed the hope that if it was true that the United States possessed documentary evidence establishing Argentine guilt in respect of the Axis, "we can then do something". By this, I believe, he had in mind a collective condemnation of Argentina.

Respectfully yours,

JOHN C. WILEY

835.00/2-946 : Telegram

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

SECRET

PANAMA, February 9, 1946—9 a. m.

[Received 12:34 p. m.]

92. Department's circular telegram January 26, 7 p. m. [8 a.m.]. In conversation with Foreign Minister⁴⁹ yesterday in briefly discussing Argentine matters, I obtained the information which causes me to definitely feel that no approach has been made to Panama on subject of dedication [*mediation?*]. I am sure Foreign Minister shares view that Argentina holds definite obligation not to one Republic but to all.

HINES

835.00/2-946 : Telegram

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

TOP SECRET

BUENOS AIRES, February 9, 1946—10 a. m.

NIACT

[Received 12:08 p. m.]

432. Following expansion of thoughts transmitted in my telegram 430, February 8, 8 p. m. may help Department in reaching decision.

1. Since it is generally agreed that democratic forces would win in fair elections, problem is now one of doing what we can to further such elections rather than of bringing home to Argentine people what their Government has been doing.

2. For above purpose, I feel that constant menace of ["bomb"] would probably be more effective than actually dropping it in keeping Argentine authorities to their pledges of free elections.

3. Bomb is immensely powerful weapon so long as it is in our possession. In using it, we should be convinced that it is necessary for

⁴⁷ Alberto Lleras Camargo.

⁴⁸ Not printed.

⁴⁹ Ricardo J. Alfaro.

purpose sought, and we should be very careful of aim and timing. Not knowing what is in bomb, I cannot say whether Department's proposed procedure covers these points, but I am somewhat fearful it does not.

4. Should bomb be released as planned, I consider it improbable that it would harm democratic cause in Argentina. I merely seek maximum effectiveness and recognize inherent risks under present circumstances.

5. I warmly concur in release to other Republics. Leakage to public of this fact or of lesser or greater part of material in bomb would in my opinion further basic purpose mentioned in paragraph 1. Argentine Government is sure to have whole story from Bolivians or Ecuadorans and that should increase their jitters re possibility of official release.

6. I would greatly appreciate permission to discuss this with one or two other people, since effects are so difficult to calculate.

CABOT

835.00/2-846 : Telegram

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

TOP SECRET

WASHINGTON, February 9, 1946—4 p. m.

NIACT

227. For Cabot only. We deeply appreciate and have carefully weighed the considerations set forth in urtel 430, Feb. 8. However, on net balance it has been decided to give statement to press Mon. about 6 p. m. Washington time with 24 hour release date. Summary being cabled in cirtel⁵⁰ today.

Dept feels this is right course action and the one least vulnerable to criticism from points of view of principle and long-range policy and objectives.

BYRNES

835.00/2-946 : Circular telegram

*The Secretary of State to Diplomatic Representatives in All the American Republics Except Argentina and Haiti*⁵¹

RESTRICTED

WASHINGTON, February 9, 1946—5 p. m.

NIACT US URGENT

We now have ready comprehensive statement demonstrating Argentine Nazi complicity and conspiracy. Document (131 printed pages)⁵² setting forth our views and summarizing evidence on which

⁵⁰ Not printed.

⁵¹ Sent to Argentina and Haiti for information only.

⁵² Department of State, *Consultation Among the American Republics With Respect to the Argentine Situation* (Washington, 1946), known as the "Blue Book".

based will be delivered to Latin American chiefs of mission (except Argentina and Haiti) at meeting in Blair House Monday afternoon, February 11.

Because of possibility that document so widely distributed might shortly leak, probably in inaccurate or distorted form, Dept is at same time giving copies in confidence to press with release date 5 p. m., February 12.

Copies will be despatched by courier from Washington on February 11 and upon receipt you should immediately deliver them to Minister for Foreign Affairs of govt to which you are accredited (retaining one copy for Chancery).

We are cabling you herewith texts of table of contents and introductory statement from above document and copies should be delivered to FonMin on afternoon of February 11.

Full statement speaks for itself. Background already well known. Sifting of evidence has been tremendous task, including examination of approximately 400 tons of documents in Europe and substantial additional tonnage this country. Since inauguration of consultation last October this work has gone forward with all possible speed and document has been prepared for distribution at earliest possible moment. (Please emphasize this, should question be raised concerning proximity of delivery date to Argentine election date; that proximity is purely fortuitous, only consideration throughout examination and compilation of data has been urgency consistent with accuracy). Further info confirming in every particular conclusions set forth in document being received in Washington almost daily, providing us with additional details and information.

BYRNES

835.00/2-1146 : Airgram

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

RESTRICTED

SAN SALVADOR, February 11, 1946.

[Received February 14—10:59 a. m.]

A-33. I called upon the Foreign Minister this afternoon and delivered to him a note, with enclosed memoranda, covering the substance of the Department's circular telegram of February 9, 5 p. m., concerning the document to be delivered to the Latin American Chiefs of Mission in Washington this afternoon, demonstrating Nazi complicity and conspiracy on the part of Argentina.

Dr. Escobar Serrano was greatly impressed by the overwhelming mass of evidence which has now been sifted and which apparently

leads to conclusions extremely derogatory to the present military regime in Argentina, involving the latter as it does in a definite plot for giving positive aid to the enemy and for undermining the inter-American system.

Dr. Escobar Serrano assured me of his complete concurrence in the belief that the present regime in Argentina is unworthy of trust and confidence and that a military assistance treaty should not be signed with that regime. He said that the Salvadoran Government wishes, in this and other questions affecting Western Hemisphere solidarity, to be guided by our leadership. He said that he is anxious to receive the actual document mentioned, and wishes to give it the most careful study upon receipt. He expressed admiration for our courageous attitude in this matter, adding that the only question in his mind was whether we had given full consideration to the possibility that such action might possibly result in cementing even the opposition elements in Argentina into some form of national unity greater than that now existing.

He said that he agreed entirely with our position and was only raising this question in the thought that we had doubtless considered it already and that the reasons for our taking the present strong action in revealing Argentina's recent unsavory record were fully justified.

SIMMONS

835.796/2-1346: Telegram

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

SECRET

LONDON, February 13, 1946—5 p. m.

[Received 5:30 p. m.]

1796. ReEmbs 1445, Feb 6, 1 p. m.⁵³ We have just received following letter from Perowne⁵⁴ in reply to our informal written and oral steps re Capt Hanson's activities:

1. Thank you for your letter of the 28 Jan⁵³ which provided the ForOff with the first info it had received of the presence in this country of Capt Hanson. From some enquiries I have made, it appears that Capt Hanson who is described as head of Signal Section of the Argentine Air Force, arrived here recently unannounced, but that he has shown no interest in acquiring aircraft of any kind. We should not, I need hardly say, give any encouragement to any requests he might make for the acquisition of military aircraft, since such acquisition would be clearly contrary to the understanding which we came

⁵³ Not printed.

⁵⁴ J. V. T. W. T. Perowne, Head of the South American Department of the British Foreign Office.

to with you last Oct and which is of course still in force on the subject of the directive which would govern the competent Govt depts in considering requests from Argentina for munitions and kindred articles.

2. This directive which was quoted in the *aide-mémoire* which our Washington Embassy communicated to the SD⁵⁵ under cover of Lord Halifax's letter to Mr. Byrnes of the 28 Oct last⁵⁶ states:

"While HM Govt are in present circumstances opposed to the supply to Argentina, or to private Argentine firms, of any arms or munitions of war or other goods particularly adapted for warlike uses, they would have no objection to the supply to Argentina of articles such as are generally of a civilian character, although they may be capable of military use."

As the Embassy made clear at the same time, we regarded as articles of a civilian character aero-engines, training aircraft, civil aircraft, and all aircraft not suitable for combat. As the Emb further stated, the policy implied by the directive involved a very considerable sacrifice of British interests and it represents I can assure you the limit to which HM Govt felt, after the most careful and sympathetic consideration, they could reasonably go to meet the requests concerning exports to Argentina addressed to them up to that time by your gov't. I fear therefore that we cannot now take steps to interrupt any discussions which may be proceeding between the Argentine authorities and firms on the one hand and British exporters or depts on the other, concerning the export of articles which do not fall within the precise scope of our Oct understanding.

3. In any case we should doubt whether the interruption of such discussions would influence the electoral situation in Argentina. You will recollect that in Nov 1944 your Govt basing itself on political considerations, addressed to us an urgent request that our current meat negotiations with Argentina should be suspended.⁵⁷ We deferred to this request despite the disadvantages, and even risk, to ourselves from doing so. This suspension as far as we were able to judge in no way influenced the Argentine political situation, and the definite results were to involve us in considerable additional expense and to improve the general bargaining position of the Argentines when the time came for the resumption of negotiations.

4. The position as regards the trainer aircraft referred to in your letter is that a contract was signed some time ago by the Miles Co for the supply of 150 reconditioned Magisters to the civil aviation authorities with Bennequin Alo Co, Buenos Aires, as the intermediaries. (This is by the bye the only contract yet signed for the supply of aircraft to Argentina). Two sample reconditioned Magisters have arrived in Argentina. If present arrangements held, further deliveries will take place at intervals between March and Sept next. You will thus see that no further trainers will in fact be delivered until after the Argentine elections have been held. This should meet the point in the second paragraph of your letter.

⁵⁵ State Department.

⁵⁶ Not printed, but see Department's *aide-mémoire* of November 15, 1945, *Foreign Relations*, 1945, vol. ix, p. 555.

⁵⁷ For documentation on relevant aspects of British policy with respect to Argentina, see *Foreign Relations*, 1944, vol. vii, p. 288 ff.

5. At the end of your letter you mention that State Dept feels that in making the request you have put forward it is not asking any greater concessions from us than have been requested by us from you in connection with shipments to Spain. I think there may be some misunderstanding here. In reply to an enquiry made on our instructions by our Embassy at Washington last May as to the SD's views re the supply of arms and military equipment to Spain, the SD, in a memorandum written at beginning of July⁵⁸ replied *inter alia* that they saw no objection to the supply to the Spanish Govt of engines or [for?] training aircraft and complete training aircraft, excepting advanced training aircraft and engine parts thereof. It is true that in response to subsequent enquiries on the subject by George, Harvey, in a letter to him of the 30 Oct last, stated that we were at that time contemplating sending instructions to our Embassy at Washington to give a further explanation of our views to the State Department re the export of military equipment to Spain, and in doing so to ask whether the US Govt would be prepared to join with us in prohibiting the export to Spain of elementary training aircraft and engines and parts thereof. In the event, however, we subsequently decided not to make any communication to the SD on these lines. We did indeed decide ourselves to prohibit the supply from this country of any kinds of training aircraft (or engines or parts thereof) intended for the Spanish armed forces but bearing in mind the fact that the State Dept had already made their position clear in their memorandum of last July, we decided not to press the State Dept to follow suit.

6. I feel that I ought to take this opportunity to mention in conclusion that we do not regard Spain and Argentina as exactly parallel cases. Thus it would not in our opinion follow that because we thought a certain kind of treatment appropriate in one case the same treatment would necessarily be appropriate in the other.

Sent Dept as 1796; Buenos Aires 4; Rio de Janeiro 3.

WINANT

835.00/2-1346 : Telegram

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

SECRET

MONTEVIDEO, February 13, 1946—7 p. m.

[Received February 14—12:21 a. m.]

93. Foreign Minister⁵⁹ told me he had read entire release on Argentina and wished to send his personal congratulations on this notable work. He said everybody was familiar with rumors of complicity but was stunned with such overwhelming proof. He referred to Argentine leaders in most derogatory terms and mentioned Ibarra García⁶⁰ recalling his two visits to President Amezaga with assurances of democracy and American solidarity.

⁵⁸ Not printed.

⁵⁹ Eduardo Rodríguez Larreta.

⁶⁰ Argentine Under Secretary for Foreign Affairs.

He said President Amezaga had not yet read release but had asked him specifically to request Department to furnish him any information as to individuals, newspapers and companies similarly involved in Uruguay.

SPARKS

835.00/2-1346 : Telegram

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

CONFIDENTIAL

WASHINGTON, February 13, 1946—8 p. m.

NIACT

239. To assist you in connection with inquiries undoubtedly being made by press concerning our future course of action in respect to Argentina you are informed that we contemplate no statement here at this time except to point out that document speaks for itself and that in submitting it to other American govts we have indicated that we would appreciate receiving their views thereon (see last page of document).

We desire to have attention continue to focus on document itself and facts presented therein and not to do anything which might distract attention from it.

It is not intended to make any reply to Perón's attack on Mr. Braden in former's speech yesterday. To queries by correspondents in this regard Mr. Braden replied today off the record that he did not care to dignify attack by a reply.

Please keep us closely informed concerning local treatment of document in press.

Repeated to other missions in American republics for info and guidance.

BYRNES

835.00/2-1346

Memorandum of Telephone Conversation, by the Deputy Director of the Office of American Republic Affairs (Butler)

[WASHINGTON,] February 13, 1946.

Mr. Cabot telephoned at 2:30 this afternoon to report on reaction to our memorandum.

He said that nothing much has happened yet and that the general reaction is one of stunned surprise. He stated that the Argentine people seemed to be overwhelmed by the disclosure. His opinion is that the democratic elements are surprised that the situation set forth in the memorandum actually was so bad.

Mr. Cabot's own reaction was entirely favorable. He stated that he thought a splendid piece of work had been done and that he was glad the memorandum was issued at this time. So far as he has been able to ascertain there is no resentment among democratic elements about the publication of the memorandum.

Mr. Cabot expresses the preliminary opinion that there is about a 20 to 25 per cent chance that Argentina will break relations. The reasoning would be to break with the United States before the other American republics, as a result of the memorandum, might break relations with Argentina. He said that he would keep the Department promptly informed.

Mr. Cabot also raised the question of a possible reply to Perón's attack against Mr. Braden in Perón's speech of February 12. He thought it might be best to take no notice of the attack. I expressed the personal opinion that the publication of the memorandum is reply enough and that no other statement seemed necessary or advisable. However, I promised to telephone or telegraph immediately if the Department wished him to take any action. Mr. Cabot said that if anything were to be done, it should be done not later than tomorrow.

Mr. Cabot also requested that he be given as much advance notice as possible about the time of his visit to Washington for consultation. He said that election results should be published about March 10 and that if Mr. Braden wants him to come to Washington shortly thereafter he would have to make his reservations soon.

GEORGE H. BUTLER

835.00/2-1346 : Telegram

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

URGENT

BUENOS AIRES, February 13, 1946.

[Received February 13—5:08 p.m.]

465. In proclamation address last night Perón returned to charges against Braden of direct intervention in Argentine political affairs, . . .

“The stay of Mr. Braden in our country was characterized then by his interference in our affairs, by his giving form, encouragement and directive to the amorphous political organization which opposed us by his implacable and systematic attacks on the prestige of the June 4 revolution, its men and of myself in particular. And, finally, by the offer of his friendship to all of the enemies of the June 4 movement without giving any consideration to their political affiliation and ideology.

“In the name of Mr. Braden, when he was Ambassador to our country, some fully authorized person said that I would never be

President of Argentina and that here in our country no government could exist which is opposed to the policies of the United States.

"Now I ask: Why does Mr. Braden want in Argentina a partisan and obsequious government? Is it because he is trying to repeat in our country the schemes he failed in Cuba where it is public knowledge that he wanted to bring about the ruin of the sugar industry and where he went so far as to threaten the free press which denounced him? If through a fatal design of destiny the regressive forces of the opposition organized, supported and directed by Spruille Braden should triumph, the situation of the Argentine workers will be a terrible reality of misery, of suffering and ignominy, the same as the ex-Ambassador unsuccessfully attempted to impose on the people of Cuba.

"Consequently, let those who vote on the twenty-fourth for the Oligarchic-Communist alliance know that they are simply voting for Mr. Braden. The question of the hour is this: Braden or Perón.

"Paraphrasing the immortal phrase of Roque Saenz Peña⁶¹—let the people know how to vote!"

CABOT

740.35112RP/2-1446 : Telegram

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

CONFIDENTIAL

BUENOS AIRES, February 14, 1946—6 p. m.

[Received February 14—5 : 43 p. m.]

484. Re Embassy's telegram 426, February 8, 7 p. m.⁶² Appellate Court yesterday rejected Judge Ortiz Basualdo's order restraining Junta de Vigilancia from taking possession of Staudt firms.⁶³

Without deciding constitutional question, Court held order was unjustified judicial interference with the executive functions required to fulfill obligations under Chapultepec and United Nations pacts and that measures placing Staudt firms under Junta's control were in compliance with international agreements which are incorporate in Argentine legislation.

It is believed certain that Staudt will petition for review by Supreme Court⁶⁴ in which case Junta cannot proceed to take possession until Supreme Court either denies petition to review or affirms Appellate Court.

CABOT

⁶¹ Former President of Argentina, noted for promoting electoral reform.

⁶² Not printed.

⁶³ German firms appearing on the Proclaimed List and object of court action in Chile as well as Argentina.

⁶⁴ For action of this court, see telegram 1858, July 18, from Buenos Aires, p. 280.

835.00/2-1446: Telegram

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

SECRET

BUENOS AIRES, February 14, 1946—9 p. m.
[Received February 14—8:06 p. m.]

490. My impression derived from various conversations and abundant reports from Embassy staff is that predominating preliminary reaction to Blue Book is one of stunned humiliation. Few people have read entire text nor has there been time for them to have their secondary reactions. Most democratically-minded Argentines are deeply pleased at publication but enthusiasm is dampened by sense of humiliation. Effect of Blue Book on them in great majority of cases is likely to be increased repudiation of Peronism. Rabid Peronistas appear to have been impressed by Perón's attack on Braden. There seems to be little disposition so far to doubt essential truth of revelations despite frantic shrieks of Peronista journals and denials of persons mentioned. Although there has been some criticism of timing of publication and of intervention in Argentine internal affairs so far this has been rather less than I had expected. There is also deepened feeling among thinking people that Argentina can never emerge from her present international difficulties or regain a shred of her former prestige while present crowd remain in office. Some sincere nationalists reported disgusted with Perón as result revelations.

There is definite evidence reported by telephone and other telegrams that Perón is planning a smear campaign. To what extent he will stick to facts cannot as yet be determined but Department should in my opinion begin to consider what measures if any it is going to take in event Perón starts anything. It would also be appreciated if Department would consider giving me authority to act independently at last moment before elections, since Perón is quite capable of some infamous fabrication in last minute effort to sway electorate.

CABOT

835.00/2-1546: Telegram

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

SECRET

RIO DE JANEIRO, February 15, 1946—11 a. m.
[Received 12:32 p. m.]

327. For Braden. Neves da Fontoura⁶⁵ called me last night. They had had full Cabinet session discussion among other things Argentine situation.

Fontoura said he wished to follow our lead and give us all help he could and repeated question he had previously asked of La Guardia

⁶⁵ João Neves da Fontoura, Brazilian Minister of Foreign Affairs.

and me. Supposing, he said, Perón is elected, what is your line of march? In other words, what do you consider a possible solution?

I said I would cable and get as exact a statement as Dept could give me and at moment speak only personally. I said obviously no new diplomatic agreements could be of any use: We had had a barrel full already. Fontoura promptly and vigorously agreed. I said that it seemed to me certain personalities including Perón and a small group of men around him would have to disappear in any case. I said that I personally thought that a general signing of treaty contemplated by Chapultepec but without Argentina under present regime, might be considered as a first step accompanied by mobilization of moral pressure in Hemisphere against Perón group.

I think Fontoura vaguely has in mind working a little with Farrell to try to get Perón eliminated from picture in some fashion. How he could do this of course remains to be seen.

In any case Dept has probably thought out the next step after elections on hypothesis that Perón comes into power and Brazilian Govt would like to know how they can be of help.

BERLE

835.00/2-1546 : Telegram

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

RESTRICTED

BUENOS AIRES, February 15, 1946—7 p. m.

[Received February 16—12:54 a. m.]

498. Headlines across front page *Epoca* February 14 read "Perón accuses: Mr. Braden was chief of an organization of spies against Latin America". Then follows interview of Perón by *Epoca* director from which following are translated extracts:

"I can affirm that everything said about me personally (referring to Blue Book) is inexact. Even more: I publicly invite Mr. Braden to present corresponding proofs.

We are in position to tell Braden something terrific: that here in Argentina he was head of a vast espionage net not confined to Argentina, but to all South America."

Interview then referred to "expulsion" of General Lang⁶⁶ because of "proven espionage injurious to Argentina and other friendly countries" as an episode and left impression that "real offenses", of which War Ministry has documentary proofs, are serious and legion. "We do not need to look for proofs in Europe, we have them at home."

Following paragraph is translated in full:

"If I wished, like Mr. Braden, to make airy accusations, I might also, although with better foundation than he, tell very interesting

⁶⁶ Brig. Gen. John W. Lang, former Military Attaché in Buenos Aires.

things. I might say that Mr. Braden financed his political campaigns in our country with money obtained by means of extortion from Argentine merchants. The Black List served from [*for?*] this. There with Braden was a Mr. Griffith, Commercial Counselor,⁶⁷ who was concerned with fixing the sums which Argentine merchants and industrialists had to pay to be removed from the Black List. This activity, if I were to speak as Mr. Braden speaks, was a source of income which enabled him to carry on his subversive work without cost, appearing in the eyes of his servants as being generous and well-paying."

He then stated that whereas he can prove all he said in his address concerning paternity of certain political enterprises, Braden can prove none of things attributed to him (Perón). He then referred to "Braden's famous phrase, heard by many Argentine ears, that 'with free elections or without free elections, Perón shall not be President. I say so,' " which he called key to whole subject.

"Lamentably for Mr. Braden, the Argentine people do not believe with him."

CABOT

835.00/2-1546 : Telegram

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

BUENOS AIRES, February 15, 1946.

[Received February 15—8:06 p. m.]

494. There follows summary Foreign Minister Cooke's radio address twice postponed from February 9 delivered last night:

As will be noted, entire address dealt with Blue Book although it was originally expected Foreign Minister would discuss general international situation with stress on latest Uruguayan note. Text will be forwarded airmail.

Cooke stated Argentine Government has not yet seen official text Blue Book; full reply cannot be based on newspaper reports. At proper time, reply will be addressed to American nations. Meanwhile Foreign Office regrets United States Government did not follow traditional custom between governments which maintain good relations of prior consultation which would have given Argentine Government opportunity to refute or clarify charges. Publication Blue Book not in accord traditional norms international law or cordial relations between nations supporting common cause. Published 12 days before elections and on day when one of presidential candidates was being proclaimed, question bound to arise in thoughts of many if attempt was not made to influence election.

⁶⁷ John F. Griffiths, Special Assistant to the Ambassador.

Minister stated he personally did not believe any such thing, which would be unworthy of Government and people of that great democracy, but US Government's failure to observe normal procedure bound to give rise to suspicions which will in no way favor United States or continental harmony.

Cooke then stated information supplied by press, although incomplete, is sufficient for him to declare in President's name that all imputations direct or indirect based on evidence German origin formulated in Blue Book relative to latter's intervention in acts or conferences with persons of any Axis powers are absolutely false.

Cooke then turned to discussion personal position and references in Blue Book which might tend to throw suspicion on him and his conduct. His services during 30 years political life have been in support democratic cause and principles; his work with revolutionary government has been directed toward return to constitutional regularity; during 6 months he has held office he has received complete support of President and Government officials. Consequently, he stated, he regrets that with reference to period of his office, Blue Book contains incorrect interpretations of situation based either on statements of irresponsible persons or on mistaken understanding of facts. During period his office, only two obstacles encountered in connection Government's fulfillment of undertakings; both these obstacles arose through judicial action which Government has felt it must respect.

Cooke then said moment is not one for detailed rectifications but in near future numerous communiqués will be issued to prove Argentina's past and present compliance with international obligations. Cooke expressed conviction that when present political passions have subsided, and regardless of result of elections, there will not be one Argentine who will not return to sacred principle that nation's problems are Argentina's affair.

While there are undoubtedly some Argentines, Cooke said, who will rejoice at charges made in Blue Book and attempt to make political capital out of them, time will come when they will understand interests of country are above all circumstantial and political questions; national sovereignty and dignity must be guarded above everything else. Foreign Minister concluded saying Argentina's historical course, her future and destiny are bound to those of sister peoples and can never be diverted by any force foreign to sentiments of her sons and history; there is no human force or personal effort sufficiently powerful to break up spiritual unity of American continent.

835.00/2-1446 : Telegram

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

SECRET

WASHINGTON, February 15, 1946—8 p. m.

253. Urtel 436, Feb 9.⁶⁸ Statement of US position re Podesta Costa ⁶⁹ is explained in separate telegram. In your discretion you may use info to clear up any misunderstanding.

Secretary's press comments today covered in separate telegram. (Urtel 481, Feb 14)⁶⁸ Dept contemplates no statement for present since obvious purpose Perón's counter-charges is to divert attention from Blue Book by inducing us to engage in debate on his allegations. We are accordingly reiterating that the document speaks for itself.

We are not at this time inclined to favor suggestion re publication of documentation and do not wish to encourage requests by foreign Govts for such action. Our statement has been submitted and we are awaiting receipt of other Govts views (see final page of document).

With reference to suggestion contained concluding sentence urtel 490 Feb 14 while Dept does not wish to limit your action in event sudden emergency development we hope you will at least have opportunity to communicate with us by telephone.

BYRNES

835.00/2-1646 : Telegram

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

CONFIDENTIAL

CIUDAD TRUJILLO, February 16, 1946—11 a. m.

[Received 7 p. m.]

61. In informal conversation last night Foreign Minister Peña Batlle stated that he had approached Dept's so-called Blue Book on Argentina with skepticism, but overwhelming data convinced him of "treachery" of Argentine Govt. If Perón is unsuccessful in Feb 24 elections, there will be no problem, but a victory would bring serious difficulties for hemisphere, according to Foreign Minister.

I stressed that document was transmitted by US Govt to other govts for purposes of [consultation?] and that we are interested in receiving their views (Depcirtel Feb 14, 8 a.m.⁷⁰)

Newspaper *La Opinion* 15th quoted editorial from *Washington Post* and *La Nacion* 16th carried news service stories from various countries regarding Blue Book.

SCHERER

⁶⁸ Not printed.⁶⁹ Luis Podesta Costa, candidate for judgeship, International Court of Justice.⁷⁰ Same as telegram 239, February 13, p. 209.

835.00/2-1646 : Telegram

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

SECRET

BUENOS AIRES, February 16, 1946—4 p. m.

[Received February 16—2: 46 p. m.]

515. Reaction among Armed Forces regarding Blue Book appears mixed but on the whole unfavorable. Among Navy, criticism reported limited; majority of officers apparently satisfied with publication. However, I have had message from vitally placed Admiral indicating that publication was prejudiced anti-Peronistas and strongly pleading that nothing further be published before elections.

We have as yet few reports of reaction among Army. There appears some reason to view their reaction with apprehension. (See below). . . .

Many people . . . feel that unfavorable reaction . . . will be disastrous to Democratic chances in elections. They point out that officers of Armed Forces directly affected by political charges must do everything in their power to retain Govt. in friendly hands and that many lower officers are now more likely to accept grossly fraudulent elections. I hope that more ample reports will indicate that this is not the case.

CABOT

835.00/2-1746 : Telegram

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

BUENOS AIRES, February 17, 1946.

[Received 1: 58 p. m.]

518. Following is official text of communiqué ⁷¹ issued last night by Foreign Office in re Blue Book. Communiqué, according to press, had been approved at Cabinet meeting earlier in day.

“The Government of the Nation, which does not yet know the official text of the Blue Book which the Government of the United States of America has published, and which at the proper time will be the object of the observations and rectifications which are proper, deems it appropriate to declare:

1. That it considers unusual in its nature, and contrary to the practices of international law in procedure, the publication of the Department of State of the Republic of the North.

2. That the Blue Book signifies, rather than an analysis of an international case, an interference in internal affairs of our country, which violates the sovereignty of a state which respects and defends the juridical equality of nations and which has been characterized, in its relations with the republics of America, by its spirit of brotherhood, traditionally pacifist.

⁷¹ In translation.

3. That the timing of the publication has caused, in great part of public opinion, the concern that its purpose may be to influence decisions which lie exclusively in the will of the Argentine people, called to elections for the 24th of the current month, in conformity with the provisions of the Saenz Peña law, which gives justice a preeminent role for their application, elections the fairness and legality of which the government and armed institutions of the nation have promised, and are firmly resolved, to guarantee.

4. That the Government of the Revolution is fulfilling and will fulfill faithfully the international commitments contracted by the republic by virtue of its adherence to the Conference of Mexico and its presence at that of San Francisco,⁷⁵ and is in a position to prove to the governments of the sister republics and of the other United Nations the efficacy and sincerity of its conduct.

5. That this attitude and disposition authorize it to demand of all nations the same respect for the reciprocal commitments contracted, and in particular those pertaining to the obligation not to intervene in the affairs of its internal politics.

6. That it rejects as injurious to the dignity of the nation, unjustified and inaccurate accusations, at the same time that it declares that attitudes of this kind compromise the good neighbor policy to which the Republic has lent its most enthusiastic and decided support.

7. That the Argentine Government considers the situation with absolute serenity, convinced that the time will come when there will be appreciation of the honesty of its procedure, directed toward strengthening inter-American solidarity and assuring the reestablishment in the country of the democratic principles, which are consubstantial with the essence and origin of all the republics of the continent".

CABOT

835.00/2-1846: Telegram

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

SECRET

BUENOS AIRES, February 18, 1946—11 a. m.

[Received 11:18 a. m.]

520. I am informed by French Ambassador and another fairly reliable source that Cabinet has discussed at length immediate break in relations with the US but decision was adverse. Ambassador states that military men opposed break. Other sources indicate that Cooke is utterly furious at Blue Book, that he supported break and that he is now going all out in a series of communiqués to refute our charges and to smear US in return. Another source indicates that Argentina plans to maintain relations unless and until it discovers through other American Republics that we are planning break in which case it will anticipate US.

CABOT

⁷⁵ United Nations Conference on International Organization, April 25-June 26, 1945; for documentation on the Conference, see *Foreign Relations*, 1945, vol. I, pp. 1 ff.

835.00/2-2146 : Telegram

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

CONFIDENTIAL

BUENOS AIRES, February 21, 1946—7 p. m.

[Received 11 : 26 p. m.]

555. Opinion as to effect of Blue Book in Argentina continues to be sharply divided.

1. Great majority of people with whom Embassy comes in contact are pleased at publication. Practically all of these are democratic.

2. A substantial minority of democratic element believes Blue Book timing was poor. In democratic elements opinion appears to be swinging against timing of publication of Blue Book.

3. Despite wide questioning Embassy has encountered few instances of persons swung to one side or other by publication of Blue Book. Most notable apparent case that of General Peluffo,⁷⁶ who alleges he was swung to side of Perón as result of affront to country's dignity.

4. Due to length of Blue Book Embassy has heard from various sources that public paying more attention to *solicitudes*⁷⁷ (which frequently twist Blue Book text) than to Blue Book itself.

5. Many friends of US are fearful of the long range psychological reaction of Blue Book.

6. Most newspapers and politicians are handling Blue Book charges very gingerly. They are apparently apprehensive of unfavorable popular reaction.

7. Democratic forces by no means as confident regarding elections as fortnight ago but this is apparently due to success of recent Perón meetings and to implications of Plaza Once and other recent shootings rather than to Blue Book.

CABOT

835.00/2-2346 : Telegram

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

SECRET

SANTIAGO, February 23, 1946—noon.

[Received 3 : 13 p. m.]

233. Following is concise valuation requested Depcirtel Feb 21, 9 a. m.⁷⁸

Reaction to Blue Book in Chile has been characterized by extremely cautious attitude displayed in press and official circles. Commercial and Govt supporting press has published editorials seriously questioning ethics of such a publication and recommending careful study of

⁷⁶ Gen. Orlando Lorenzo Peluffo, former Argentine Foreign Minister.

⁷⁷ Statements of self-defense and explanation.

⁷⁸ Not printed.

sources and consultation among Latin American Republics before issuing official reply. Communist press has taken advantage of material to support phases of its own internal political platforms while at same time questioning US motives in issuing Blue Book.

No official statements have been made with regard to its contents and no prominent personalities have publicly expressed their views. It would appear, however, that official and serious opinion will follow tone of Brazilian Foreign Minister's declaration on subject⁷⁹ in view of fact that this declaration was hailed as "prudent and measured" by Govt supporting press as well as by Conservative Party organ.

BOWERS

835.00/2-2346 : Telegram

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

SECRET

CARACAS, February 23, 1946—noon.

[Received 5:45 p. m.]

132. Venezuelan official press and public reaction to publication of Blue Book was at first one of great interest which has now died down greatly. Practically only editorial comment has been in official paper expressing approval of our attitude but asking why we have not also taken stand against other Latin American dictatorships. That this was inspired is shown by fact that Junta President Betancourt took same line with me in conversation on Feb 5 reported fully in despatch 8399, Feb 8 and repeated it on Feb 13 (see despatch 8419, Feb 14).⁸⁰

Venezuelan policy will be decided by Betancourt. Main effect of Blue Book here has been to give Betancourt something on which to peg his position.

My impression is we can count on general Venezuelan support but that Govt will wait for lead from US and show little initiative except to try to get action against Dominican Republic and other similar regimes. Fascism has little meaning to average Venezuelan but dictatorship has because of country's history.

Argentina was completely off front pages yesterday. Considerable space given today to Perón's Blue and White Book but no press comment and do not think it is given much weight although any charges, however wild, do have some effect on thoughtless anti-Americanism.

DAWSON

⁷⁹ The official views of the Brazilian Government were not released until April 4. They were communicated to the Department of State, however, on April 1, in telegram 609, 8 p. m., p. 8.

⁸⁰ Neither printed.

835.00/2-2346

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, February 23, 1946—3 p. m.

[Received 8:24 p. m.]

154. Your circular 21st 9 a.m.⁸¹ Press reaction to Blue Book at first quite favorable except for Communist *Diario Popular*. Now there is an increasing tendency to be more "neutral" with growing apprehension that Argentine question may divide Continent and destroy solidarity if question is not very prudently handled.

Official reaction has been largely submerged in current domestic political problems. Gustavo Santos, Colombian Ambassador to Buenos Aires, has been urgently recalled for consultation which indicates that Govt contemplates prompt study of Blue Book and attitude towards Perón if elected. A high official of FonOff feels strongly that consultation and possibly a conference would be essential in latter event.

While there are no perceptible pro-Argentine sympathies within Govt, indeed opposite is the case, there is, I fear, a peace at any price inclination.

WILEY

835.00/2-2546: Telegram

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

RESTRICTED

BUENOS AIRES, February 25, 1946—3 p. m.

[Received 9:18 p. m.]

583. Press organs, both Democratic and Peronista, are unanimous in eulogizing conduct of yesterday's elections, which are variously described as cleanest in Argentine history and as exemplifying high civic culture of Argentine nation. No case of disorder or intimidation is reported from anywhere in republic and although there appears to have been isolated instances of localized irregularities, both press factions are agreed upon inevitability and unimportance of such. Armed forces came in for merited praise for efficient organization of election and impartiality of their supervision. Tamborini is quoted as saying that conduct of elections evidences "renewed brotherhood between the people and the armed forces".

Special Embassy observers, both in capital and provincial vicinity and in provinces, confirm press reports.

Streets of capital and even southern industrial suburbs in Buenos Aires Province were deserted during day except for cues at polling

⁸¹ Not printed.

places on legitimate business of suffrage. All cafés, restaurants, theaters, tobacconists, even zoological garden closed.

Both groups are expressing certainty of victory of respective presidential candidates but unless Democratic landslide in key provinces of Buenos Aires and Santa Fe (observers believe Perón win would only be by narrow margin) definitely indicative returns may not be expected before week. Count of votes only begins at each provincial and at federal capital when all urns pertaining to each are assembled. Only definite date in electoral decree of December 1, 1945 is April 24 next wherein National Congress must constitute itself.

As already reported, Armed Forces will continue to protect urns during transportation to capitals and thereafter until scrutiny by electoral boards is completed.

There has as yet been no suggestion of fraud during remaining procedure.

CABOT

835.00/2-2546 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, February 25, 1946—4 p. m.

[Received 7:46 p. m.]

214. ReDepcirtel February 21, 9 a. m.⁸² Since none of important Lima papers have commented on Blue Book except for APRA *La Tribuna*, which is favorable, silence of major periodicals is considered as deliberate avoidance of controversial issue, and their failure to use this opportunity to criticize US is significant, as reported in previous telegrams. While news coverage has been extensive, only smaller and relatively unimportant papers have given their views which except for *La Tribuna* and the Communist sheet *Labor* are decidedly unfavorable. On February 22 *La Prensa* began printing in installments full text of document. Argentine Embassy has put out several communiqués denying that elections would be postponed and emphasizing tranquil atmosphere in Argentina.

There has been no clear cut official reaction, although APRA leaders have publicly announced approval. In general, prominent Peruvians both in and out of official circles and foreign diplomats stay away from the subject. Their non-committal answers and the general impression given, however, are that publication of Blue Book was a mistake, ill-timed, and if anything may have done more harm than good.

PAWLEY

⁸² Not printed.

835.00/2-2546 : Telegram

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

SECRET

RIO DE JANEIRO, February 25, 1946—8 p. m.

[Received 8:30 p. m.]

402. Specifically answering last paragraph Deptel 248, February 20,⁸³ I do not believe Brazil has been inclined to favor existence in Argentina of type of govt incapable of full cooperation with US as means of maintaining favored position for Brazil. What did happen was Vargas'⁸⁴ incurable habit of playing both ends against middle, whereby, while working closely with US, he likewise maintained close connections with Argentina and Perón through Yuzardo [*Lusardo*], his Ambassador, and through his brother Benjamin Vargas, and less openly through his brother Viriato Vargas who is, as Dept knows, acknowledged leader in Fascist movement and publishes Fascist newspaper here.

Possibly also Vargas was likewise concerned lest anti-dictatorial sentiment might eventually react in Brazil as indeed it finally did. But these were reactions of dictatorial group as another dictatorial group and were in nature of personal policy.

Official policy of Brazilian Govt which is still maintained and probably reflects general sentiment is that they are afraid of Argentine situation as continuing threat to security of Brazil and of hemisphere and as future threat because Argentina with superior industrial organization working through immigrant German technicians and others could place themselves in position of military and technical superiority. They do not like continuing quarrel on their border particularly since this could imperil and now does imperil Brazilian bread supply⁸⁵ and they consequently hope for an early solution though they are in dark as to how it may be achieved. Fundamentally, they would like an Argentine with whom they can trade easily and can carry on with personal exchanges which have been customary without being perpetually frightened of intrigues, possible military adventures, and repeated internal Argentine explosions. I have seen nothing to indicate that any responsible man believes that by secretly encouraging a bad situation in Argentina they therefore increase their trading value with US. It is dangerous thinking to extract from left-hand maneuvers of Vargas a theory of Brazilian foreign policy which seems not to be justified by Maonlina [garble] currents both of opinion and of responsible thinking. Brazilian is worried about quarrel with

⁸³ Not printed.

⁸⁴ Getulio Vargas, former President of Brazil.

⁸⁵ For documentation on this problem, see pp. 111 ff.

her largest near neighbor and hopes to God she will get over it and settle down. If asked, Brazilian Foreign Office would probably say that she had done her best to keep alongside of US but that in past year our own policy varied from a stiff line towards Argentina, to a conciliatory one and then back to a stiff one and that even President Vargas never got to the point of doing what we did when the Warren mission arrived in Buenos Aires.⁸⁶

BERLE

835.00/2-2746: Telegram

The Ambassador in Nicaragua (Warren) to the Secretary of State

SECRET

MANAGUA, February 27, 1946—11 a. m.

[Received 5:47 p. m.]

135. Information following is for Division CCA in response to Department's circular telegram February 21, 9 a. m.,⁸⁷ regarding Argentine Blue Book.

(1) *Press*: Nicaraguan press has shown favorable reaction to Blue Book charges against Argentina. . . .

(2) *Official Circles*: Nicaraguan Government was ready to accept an Argentine Minister in Managua but has held off because of Blue Book charges. Official circles expressed surprise and disapproval of Argentine involvement with Nazis. At the same time they dimly concealed their admiration for Perón because he dared stand up to US. They are probably asking themselves whether full US pressure may not later be applied to Nicaragua and other dictatorships. Foreign Office stated in a note to Embassy that Nicaraguan Government is sincerely desirous of lending its cooperation in order to face jointly with other American Republics immediate solution of Argentine problem according to norms of Inter-American system.

(3) *General Public*: The Blue Book charges have been warmly received by general public, not so much because of Argentina's close connection with Nazis as because Farrell-Perón regime is a dictatorship.

WARREN

⁸⁶ Reference is to the mission of Ambassador Avra M. Warren and Lt. Gen. George H. Brett to Buenos Aires in April, 1945, to discuss matters consequent upon Argentina's recent declaration of war against the Axis. See *Foreign Relations*, 1945, vol. ix, pp. 378 ff.

⁸⁷ Not printed.

835.00/2-2746

*The Chargé in Argentina (Cabot) to the Secretary of State*CONFIDENTIAL
No. 2130BUENOS AIRES, February 27, 1946.
[Received March 12.]

SIR: With reference to telegrams no. 560 of February 21, 8:00 p. m., and no. 565 of February 22, 5:00 p. m.,⁸⁸ reporting the appearance on February 22 of a booklet containing Colonel Perón's answers⁸⁹ to the charges of the Blue Book, together with certain documentary evidence of United States' spies allegedly operating in Argentina, I have the honor to transmit three copies of this publication.

The first thirty-six pages endeavor to answer the specific charges of the Blue Book, but the treatment is too superficial and vague to merit comment. Pages 37 through 63 contain summaries of cases and photoprints of documents regarding alleged espionage activities, most of the latter referring to the former Military Attaché, Brigadier General John W. Lang. Since the Embassy knew nothing about these documents it can express no opinion as yet, but will transmit a copy of the military attaché's report as soon as available. Pages 64 through 80 contain reprints of various of the "solicitudes" (paid notices) which appeared in the local press following the publication of the Blue Book, all of which have been reported recently by despatch or will be reported soon (list transmitted as an enclosure). The balance of the booklet contains various press notices, almost entirely from pro-Perón dailies, and from the *Diario de La Marina* of Habana, Cuba, making personal attacks against former Ambassador Braden, Gustavo Duran and Eduardo R. Chibas of Cuba. The publication contains a separate chart of [or] diagram representing the "forces which struggle against Colonel Perón under the direction of Mr. Spruille Braden," which is perhaps the most childish feature of the entire effort.

Several experienced newspaper men believe that the booklet was published by the presses of *Ahora*, which, curiously enough, is the only local periodical which is credited with a photograph (reference page 104).

Newsprint dealers state that sixty tons of newsprint was obtained from them by "special request" shortly before the booklet's publication, for delivery to the Ministry of Interior.

Although various pro-Perón dailies have repeatedly announced the selling price of the booklet as one peso, newsboys were able to collect over two pesos and a half during the first days of its appearance, but lately they have been glad to receive as little as thirty centavos.

Respectfully yours,

J. M. CABOT

⁸⁸ Neither printed.⁸⁹ Libro Azul y Blanco.

835.00/2-2846 : Telegram

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

RESTRICTED

QUITO, February 28, 1946—6 p. m.

[Received March 1—11:57 a. m.]

117. Reference Embassy's telegram No. 111, Feb 26, 6 p. m.⁹⁰ The Minister of Foreign Affairs⁹¹ called me to his office this afternoon and informed me that he preferred to give me in writing the official observations of his Govt regarding the Blue Book. He explained that the observations which are quoted below represent the considered opinion of himself and the President. He further stated that he believes that the point of view of Ecuador is shared with perhaps some very slight differences by Chile and Peru. The Ecuadoran observations follow in translation:

“1. The Ministry of Foreign Affairs has studied with careful attention the Blue Book published by The Dept of State of The US concerning the actions and intentions that are attributed to the Argentine Govt with respect to the Inter-American commitments signed by it and whose presumed non-compliance is the subject which the Ecuadoran Govt declared to be appropriate for current consultations between the Govts of the Hemisphere, taking it wherever possible out of the jurisdiction of other world organizations, while the means of regional solution were not exhausted.

2. From an examination of the chapters of the Blue Book which relate to the international conduct of the Argentine Govt, it follows in the judgement of Ecuador that there are accusations related with the agreements of a universal character undertaken by the United Nations which exceed the Inter-American competence and which should be the object of study, debate, and decision of the world organizations, and others relative to the continental conventions that the American nations could opportunely submit for their appropriate formal resolution (juicio) with the presence of the accused Govt and an extensive analysis the proofs and allegations which might be presented by one side.

3. The Blue Book in this last respect constitutes an element which together with said detailed and ample proofs and allegations should be submitted for such formal judiciary action.

4. Nevertheless the superior interests of the Western Hemisphere and the desire to assure harmony definitely and solidly, the good understanding and the friendly cooperation of the American States make it advisable in the opinion of this Govt of Ecuador, that there be sought and that an endeavor be made to find in an atmosphere of frankness and understanding the re-establishment of the normal Inter-American relations which have been observed to be disturbed in the past by suspicions and “susceptibilities,” and should be based in the future on mutual respect and reciprocal confidence.

⁹⁰ Not printed.⁹¹ José Vicente Trujillo.

5. Finally the Argentine people have expressed their will concerning the composition of their future Constitutional Government in elections unanimously qualified as free and correct whose scrutiny will reveal the real national sentiment of the Argentine Republic as relates to its position within the American Democratic Bloc. Consequently it would be prudent to wait the result of the elections and the course taken by the new Argentine Govt in order to continue the consultations."

SCOTTEN

835.00/3-146: Telegram

The Ambassador in Guatemala (Kyle) to the Secretary of State

SECRET

GUATEMALA CITY, March 1, 1946—11 a. m.

[Received 3:29 p. m.]

105. On February 28 Foreign Minister ⁹² said he had finished study Blue Book on Argentina which he found "formidable" and which left no doubt of complicity Perón-Farrell regime as distinct from Argentine people. He observed that important matter now is what steps will be taken should Perón win election and hoped election of Tamborini would open way to Argentine participation at Rio.

KYLE

835.00/3-146

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

[WASHINGTON,] March 1, 1946.

Participants: Dr. Don Guillermo Sevilla Sacasa, Ambassador of Nicaragua
 Don Alberto Sevilla Sacasa, Secretary of Nicaraguan Embassy
 Mr. Braden, Assistant Secretary of State
 Mr. Newbegin, Assistant Chief, Division of Caribbean and Central American Affairs

The Ambassador called to inform Mr. Braden that he had received a letter from President Somoza in which the latter instructed him to call on Mr. Braden to inform him that President Somoza had read the Blue Book. The Ambassador continued that President Somoza, who reads English well, had read the book with a great deal of care and was tremendously impressed with its contents. He characterized the Book as brilliant and wished to inform Mr. Braden that he and his Government were in entire accord with its conclusions and that Mr. Braden

⁹² Guillermo Toreillo.

could rely on Nicaraguan support. Mr. Braden expressed his appreciation while emphasizing the point that the Book was not "brilliant" but that it was the result of much detailed and hard work and was, of course, entirely accurate.

The Ambassador stated that while the Nicaraguan views had been transmitted to Ambassador Warren, the President was particularly anxious to have his views conveyed directly to Mr. Braden.

835.00/3-446

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

[Extract]

[WASHINGTON,] March 4, 1946.

The principal purpose for the Honduran Ambassador's⁹³ call on Mr. Braden was to deliver a note⁹⁴ with regard to the Blue Book on Argentina. The Ambassador informed Mr. Braden that the Book had been read with much interest and that Honduras supported the views of the United States. He continued that in this regard as in all other important matters of foreign policy the United States could count on Honduran backing. The note which he presented to Mr. Braden stated that in the opinion of the Honduran Government, the present Argentine military regime or any other Argentine Government controlled by the same groups did not deserve the faith and confidence essential for the signing of a treaty of mutual military assistance among the American Republics. Mr. Braden expressed his appreciation of the Ambassador's courtesy in this respect.

R. N[EWBEGIN]

835.00/3-446 : Telegram

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

SECRET

WASHINGTON, March 5, 1946—6 p. m.

323. Please cable estimate number of total votes cast in capital and each province where final returns have not yet come in.

AP this afternoon gives Tamborini 24,000 and Perón 37,000 votes in city of BA. Is there an explanation for Perón's apparent strength in BA and do you expect Tamborini to carry city? What is your estimate of outcome of vote in Province of BA?

⁹³ Dr. Julián R. Cáceres.

⁹⁴ Not printed.

Please airmail (a) detailed description of voting and counting process; (b) list of possible means of fraud; (c) detailed description of procedures and precautions taken to avoid fraud; (d) your appraisal of whether fraud was actually possible; and (e) any evidence of irregularities or fraud including those in Provinces of BA and Tucumán which necessitated new elections in some districts. Cable summary of this report as soon as possible.⁹⁵

While we appreciate considerations mentioned in your 641, Mar 4⁹⁶ it is too early to reach final conclusions re honesty of elections and therefore difficult to prevent speculation.

BYRNES

835.00/3-746 : Telegram

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

SECRET

BUENOS AIRES, March 7, 1946—8 p. m.
[Received 11:50 p. m.]

671. Although full returns will not be available for some weeks and Tamborini may still win, it now seems probable that Perón has won residence [*presidency*] and that he will have a great majority in both Houses of Congress. After careful discussion with senior officers of the Embassy, I offer, for what they may be worth, the following considerations with regard to future policy in order that the Department may have had a chance to study them in event Perón is in fact elected.

1. On February 28 Secretary said: "Essence of our democracy is our belief in life and growth and in right of the people to shape and mould their own destiny. It is not our tradition to defend the dead-hand of reaction or the tyranny of privilege." On August 17 last Mr. Braden said: "To assure the peace of the world, we, the victorious democracies, must and will establish the only legitimate sovereignty, the inviolable sovereignty of the people." On September 7 Mr. Braden said: "So soon as the Argentine people are satisfied that they have obtained (a constitutional representative democracy), automatically their confidence will be reflected among the people of the US, thus creating a true and solid foundation for the friendliest relations between our two countries in every direction."

2. Voting procedure and counting of ballots have unquestionably been fairest in Argentine history. Although period of violence and oppression before elections prevented them from being wholly clean,

⁹⁵ In telegram 703, March 9, 1946, 2 p. m., the Chargé concluded that there had been no evidence of fraud or irregularity in the conduct of voting or in the counting (835.00/3-946).

⁹⁶ Not printed.

there is no reason to doubt that Perón has been chosen by will of Argentine people.

3. I do not think that peace of world will be advanced by any effort on our part to get rid of government chosen by Argentine people. Perón is for Argentine masses symbol of social progress and nationality; further interference by US will accentuate our identification with privilege, reaction and pan-colonialism.

4. On basis of above, I believe that we must accept verdict of Argentine people and maintain relations with their chosen govt, unsatisfactory to US though it may be.

5. Election of Perón would in no way alter his past record of double dealing with US and connivance with Nazis.

6. Nevertheless basis for policy determination must be what Perón may be expected to do in future rather than what he has done in past. Only feature which would give us right to maintain crackdown policy would be clear evidence of purpose to make Argentine focus of some future aggression. What Perón has done in past should merely be one criterion on which to gauge future conduct.

7. I consider it vital that we continue and even accentuate extirpation policy on Nazis. I feel on basis of such information as is available to me that other American Republics will be even happy to give us real help in insisting on thorough housecleaning if they are not asked to take measures directed squarely at Perón. I would suggest drawing up a comprehensive list of measures against Nazis which Perón government must take. This should be done in consultation, perhaps in that now proceeding. I feel presentation of full list at early date advisable in order that Argentine Govt may not think piecemeal presentation of demands against Nazis is merely excuse to be disagreeable. We should equally make it clear that Argentina is on probation regarding fulfillment of commitments to other republics, both international and internal.

8. In presenting demands jointly to Argentina we should make it clear informally that we would not discuss either, whether Argentina has complied with Rio and Mexico resolutions or whether other republics have not complied with them. Basis of our joint action would be Blue Book prima facie case that Argentina during war tore to shreds her commitments to other republics and connived with our enemies. On basis these grave breaches in Argentina's obligations to other American Republics latter demand specific performance in deeds not words regarding specified list in return for wiping slate clean. We would, of course, be prepared to discuss justice of charges of connivance and list of measures which must be taken. I feel above essential to give firm basis for our demands and to block any Argentine

effort to stir up trouble by discussing Argentine performance or linking it with that of other republics.

9. It seems to me essential that we should negotiate at early date pact envisaged by Act of Chapultepec,⁹⁷ without Argentina if possible, but rather with Argentina than not at all (I appreciate Department may feel this impossible because of earlier statements or as result of Depcirtel February 22, 9 a. m.⁹⁸). If we are to accept Perón, I do not see how we can put off negotiating treaty for years. We might base willingness to negotiate an [*on?*] Argentine performance of demands. Greatest immediate danger of situation, as I see it, is that Perón will exploit his victory to dominate neighboring republics or undermine them by subversion, though danger he will form bloc against us must not be minimized. I reiterate my firm conviction that we must be in position through treaty to take effective action against outside subversion. Far from pussyfooting on this issue for fear of offending Russia, let us make it clear to Soviet once for all that we will not tolerate outside subversion of any kind, including Communist, in this hemisphere (I naturally do not extend this to legitimate Communist activities). We want no Azerbaijanians in this hemisphere.

10. We must make clear to Argentine Government that resumption of cordial relations would be progressively predicated on Argentine performance of demands. It would be understood that only upon complete fulfillment of demands mentioned in Number 7 would cordial relations be fully resumed and Argentina accepted as a member in good standing of inter-American system.

11. We are placed in difficult position because of question of military collaboration, need for Argentine food exports and commercial competition.

A. I trust we are moving as rapidly as possible to establish control of exports of arms by principal producing countries. Without generally respected arms export control arrangements we cannot expect for any considerable time to keep arms from Argentina and we must recognize the apprehension their purchase would cause among Argentina's neighbors.

B. I believe we must have a firm understanding with British and Russians regarding military missions. Perhaps French should be included in arrangement.

C. At early date (possibly as recognition of some important Argentine act of fulfillment) we should begin to invite Argentine officers to our military training schools in US. In view of army fulfillment of pledges to guarantee free elections, I also feel we should immediately

⁹⁷ For text, see Department of State, *Treaties and Other International Acts Series No. 1543*; for documentation on the Chapultepec Conference, see *Foreign Relations, 1945*, vol. ix, pp. 1 ff.

⁹⁸ Not printed.

adopt somewhat our friendly policy to it, particularly in exchanging information. (See Military Attaché's report of February 28, 1946)⁹⁹. We should seek to maintain air and naval missions and should make it clear that we would be prepared to expand them upon substantial performance by Argentina of demands.

D. We should make it abundantly clear to Argentines that any effort by Argentina to slide down any non-American nation's cellar door militarily speaking will be taken into full account in eventual reestablishment of friendly relations with US.

E. We must have definite objectives not merely to be disagreeable in trade matters. Unless possible harm to Argentina done by restrictions gives us trading point, I see no advantage to handing over this big market to foreign interests by continuing this indefinitely.

12. In view of personal interest involved, I make no recommendations about accrediting Ambassador. Nevertheless should Department for any reason feel that more cordial policy than above should be adopted, I should obviously be transferred since I am inevitably associated here with policy of toughness.

CABOT

835.00/2-2846

The Assistant Secretary of State (Braden) to the Ambassador in Mexico (Messersmith)

SECRET

WASHINGTON, March 8, 1946.

DEAR GEORGE: I am grateful for your February 28th and other letters¹ on the Argentine situation, and agree with your analysis thereof in every particular, excepting that there is a possibility, perhaps, the voting has been honest and Perón actually won by fair means. However, this does not alter the fundamentals of the situation.

You will recall that Perón has always said that he intended to be President by "fair means or foul" (*por las buenas ó por las malas*). The outlook for Argentina and the hemisphere is, of course, very much more serious if he has won by fair means. The delay in my confirmation as Assistant Secretary on which he capitalized to the limit; the blundering of the opposition when they had him out, as for instance, employers refusing to pay the increased wages they had been paying and telling workers to go get the money from Perón; the fact that nothing succeeds like success and his return to power was certainly a highly successful accomplishment; all of the intimidation during the months preceding election with the lifting of the state of siege only during the actual election hours; the issuance of decrees increasing wages and giving a month's bonus; the fact that the Argentinos are

⁹⁹ Not printed.

¹ None printed.

fed up with the old line politicians, that the country is going through a social revolution . . . undoubtedly all had a great influence on the situation. After adding all of these factors together, plus some others, there still remains the fact that the Argentine people are about to elect to the Presidency a typical Fascist as proven by the Blue Book. In other words, at least so far as Argentina is concerned, and I fear this extends elsewhere in Latin America, the fundamental principles involved and the ideals for which we have fought the war are not understood.

Of course the press continues to accuse us, as we expected it would, of attempting to influence the elections. We have tried to make amply clear that we were not doing so—that while, of course, we were interested to know the results of those elections and hoped they would benefit Argentina, they were otherwise none of our business.

We will accept the verdict of the elections but continue to stand on our principles that we cannot and will not sign the Rio treaty with the same elements who have played a leading role in the Farrell-Perón regime which has had such complicity with the enemy.

You will also note that the latest development is that the Commies are now actively climbing on the Perón bandwagon. Away back last June I predicted to the Department that they would do precisely this.

With all good wishes,

Faithfully yours,

SPRUILLE BRADEN

835.00/3-946 : Telegram

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

SECRET

BUENOS AIRES, March 9, 1946—2 p. m.

[Received 5:40 p. m.]

703. [Here follows a description of the procedure used in conducting elections and methods of fraud most commonly employed in the past.]

It is Embassy's opinion on basis available evidence significant fraud could not have been conducted during voting process. Likewise Embassy thus far has no reason to believe there was fraud in terms of tampering with ballot boxes following completion voting process. Seems significant this respect none of democratic parties has voiced protest or even suspicion important irregularity. Only such suggestions, minor in nature, have been on part Peronista press.

Reasons for new elections in various electoral districts Buenos Aires and Tucumán have been minor discrepancies between number ballots in ballot boxes and voters listed on electoral registers (if discrepancy greater than three in precinct new elections may be called). In

Tucumán irregularities which formed basis for new elections were in opinion political parties so unimportant that all petitioned electoral authorities to disregard them. Board proceeded despite petition.

In conclusion Embassy must repeat there has been no evidence so far of important fraud or irregularities in conduct voting or counting process. It may be presumed political groups themselves, particularly losing side, would be first to voice protest if there seemed any reasonable basis therefor.

CABOT

835.348/3-1246 : Telegram

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

SECRET

BUENOS AIRES, March 12, 1946—7 p. m.

[Received 7:05 p. m.]

720. Chief of Argentine Naval Intelligence has written Captain Webb² to say General Staff desires send group of officers to US for purpose of bringing up to date information re naval aviation (planes, characteristics, armaments, radio electrical equipment, etc). Commission be composed of following: Captain (naval aviator) Ernest Massa, Commander (aeronautical engineer) Carlos M. Gadda, Lieutenant Commander (naval aviator) Vicente M. V. Baroja, Lieutenant (aeronautical engineer) Federico J. Hachart, one officer specialist in communications, and one medical officer. Letter asks what possibilities exist for carrying out this desire.

In line with mytel 671, March 7, 8 p. m., I recommend acceding to this request, the more so as Navy has of course taken leading part in securing the fair elections which have now been held. I believe we should inform Navy, however, that any purchases of equipment etc. must await complete fulfilment by Argentina of its pledges re Nazis to other American Republics.

CABOT

711.35/3-1846 : Circular telegram

The Secretary of State to Diplomatic Representatives in the American Republics

CONFIDENTIAL

WASHINGTON, March 18, 1946—2 p. m.

All American Republics have maintained diplomatic relations with Arg since last April. No question of recognizing new Arg regime arises. If question of severing diplomatic relations with such regime

² Capt. Walter W. Webb, American Naval Attaché and Naval Attaché for Air at Buenos Aires.

should arise it should in Dept's view be decided by majority of American Republics as result of consultation now in process. We have no intention of taking unilateral action in this regard.

This position is entirely consistent with our refusal to sign a military treaty with any Arg Govt controlled by elements which have conspired with our enemies since such a treaty obviously requires a high degree of trust and conf.

Foregoing is primarily for your background info but if Dept's views are requested you may informally so advise FonOff.

BYRNES

711.35/3-2246 : Telegram

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

SECRET

BUENOS AIRES, March 22, 1946—4 p. m.

[Received 9 p. m.]

825. Although Embassy has received no policy directives since Perón's victory became obvious except circular of March 18, 2 p. m.,³ statements regarding our policy published in local newspapers indicate there is to be no change. Realizing that public statements cannot fully express Dept's thinking respecting policy, I nevertheless feel it my duty to report that Embassy feels a modification would be desirable. I believe that frank exposition of Embassy's views may be helpful to Dept; and transmission of supplementary instructions by Department will aid Embassy in striving faithfully to implement Department's policy.

What is to be achieved by continuation of present policy?

1. Elimination of Perón? I doubt present policy will achieve this and I do not see how we can afford to assume responsibility for seeking to replace Govt based on will of people for one based on force. I feel our ideals and principles require that we accept Govt representing will of Argentine people and symbolic to majority (however repugnant its Fascist antecedents may be to us) of social progress.

2. Prevention of aggression and liquidation of Nazis? Suggestions in my 671, March 7, 8 p. m., seem to me clearly more effective to this end.

3. Respect and friendship of Argentine Govt and people? Our position and vicious local press campaign have naturally prejudiced Peronistas against us; anti-Peronistas are somewhat disillusioned. I believe that we are not now perceptibly worse off than in past but am somewhat apprehensive of long-term reaction of Argentine people particularly if present policy continues for indefinite period. There is also growing tendency to object to our attitude.

³ *Supra.*

Continuation of policy would also entail following disadvantages:

1. Relations with Govt that has ample reason to hate us will be difficult in any case and Perón is now in stronger position than ever to intrigue against us. Embassy and Department would probably continue to be victims of infamous press campaign with no effective reply possible.

2. Inclusion of Argentina in hemispheric defense plans, and student training or military missions so necessary to achieve our military objectives and de-Nazify Argentine Army, would be indefinitely blocked.

3. Negotiation of mutual assistance pact would presumably be delayed for indefinite period despite our commitment to negotiate it (?) we would have no instrument against aggression in this hemisphere should President's war powers expire.

4. Our inter-American relations might deteriorate under further strain of enduring crisis.

5. We would play directly into hands of other countries notably England and Russia. . . . Russians are moving in commercially and might find it convenient to move in in the political field also. Permanent injury may be done to our interests by giving foreign nations chance to entrench themselves in political, military and commercial fields, to make installations involving continuing commercial benefits, to send military and commercial missions, etc.

Further period of strained relations might be justified if reasonable prospect existed of yet achieving through our efforts original objectives of policy. However:

a. We cannot employ economic sanctions against Argentina in foreseeable future. On contrary present policy makes more difficult rectification of results of our earlier refusal to ship tires, rubber and fuel to Argentina. This is now contributing to starvation in Europe and consequent unrest harmful to our interests. Furthermore, neighboring republics need Argentine food.

b. I greatly doubt we are prepared to use force either unilaterally or collectively. Danger of eventual aggression is clear but by no means so certain as to secure support from other nations necessary for collective action. Use of force must be contingent on future aggressions.

c. Other possible measures to make Argentina feel our displeasure (such as expulsion from United Nations) would merely aggravate rather than help present unsatisfactory situation unless some specific objective sought.

d. An internal explosion which various observers predict as result of Perón's inability to fulfill promises and evil influences surrounding him is in my opinion more likely to be promoted than prejudiced by removing our open pressure on Perón.

Since we neither can nor should take effective action against Perón regime under present circumstances and in light of disadvantages to continuation of present course, I believe our policy should be based on outline given in Embtel 671, March 7, 8 p. m. and following:

I. Appeasement or merely letting bygones be bygones must be firmly rejected. Our position should be that grave injury has been done to all of American Republics but particularly to us who bore such important score in fight for freedom of all. In full consultation with other republics we should determine how Argentina is to make reparation. Although point might be made of Argentine liability to damages for her conduct during war, I believe we should take position that American republics should not press claims for damages if Argentine Govt fulfilled other specific demands (we could point out we did not wish Argentine people to suffer). US meantime should make clear to Argentina that further anti-American intrigues would merely make US firmer in pressing demands against Argentina. But I emphatically feel our demands should specify exact steps Argentina must take to extirpate Nazi activities and should look to eventual restoration of normal relations with Argentina, subsequent cordiality of relations to depend primarily on public reaction in US to Perón administration's line of conduct.

II. Unless Argentina refuses to meet our demands in reparation for her past record or fails in performance we should refrain from further attacks on Perón and Govt. (Although I am not particularly optimistic there is some reason to hope that Argentine conduct in future will be less obnoxious than in past. In view of unpromising alternatives can we not afford to wait and see?) It seems to me important that US should always have effective means of making Argentina feel our displeasure if her conduct deteriorates even further and I should, therefore, also hold in reserve such further sanctions against Argentina as expulsion from United Nations.

III. Republics more immediately threatened notably Brazil should assume responsibility and leadership at least equal to our own if renewed Argentine purpose of aggression becomes evident. Although we must ourselves be eternally vigilant Argentina cannot hope even remotely to challenge our military strength. Given Act of Chapultepec eventual cooperation by us in moderate rearmament program should lessen rather than increase possibility of Argentine military aggression and help us to control situation. Danger from our viewpoint derives rather from possible use of Argentina as Nazi base, subversive conspiracies against neighbors and unfriendly international intrigues; and our pressure merely increases dangers of last two. Calculating as closely as possible under what circumstances we would be prepared to use force (which presumably would require inter-

American or United Nations backing) we should seek at that time to have moral and political factors as favorable as possible.

IV. By increasing unity of hemisphere along tested lines we should increase capacity of inter-American system to promote peace and stability in world greatly in need of them.

I recognize that domestic political considerations may make course I propose difficult. In that case, however, I believe our first efforts should be directed toward fully informing and reorienting US public opinion regarding policy matters.

Department will appreciate how difficult Embassy finds it under existing circumstances to accomplish anything constructive or even to know what, if anything, it should attempt. I should, therefore, be most grateful for detailed instructions at an early date.

CABOT

835.348/3-1246 : Telegram

The Acting Secretary of State to the Chargé in Argentina (Cabot)

SECRET

WASHINGTON, March 25, 1946—7 p. m.

402. Urtel 720, Mar. 12. Dept policy re technical collaboration Argentine armed forces is that our action in all such matters should be consistent with our refusal to sign a mutual assistance treaty to which Arg under present conditions would be party. We shall continue to refuse all assistance which would tend strengthen the Arg armed forces.

It is therefore requested that Capt Webb inform Chief of Arg Naval Intelligence that contemplated visit would be inopportune at present.⁴

ACHESON

835.00/3-2646

The Chargé in Argentina (Cabot) to the Deputy Director of the Office of American Republic Affairs (Butler)

SECRET

BUENOS AIRES, March 26, 1946.

[Received April 4.]

DEAR GEORGE: I am extremely obliged to you for your letter of March 15.⁵ It was the first news I have had from the Department regarding its attitude following Perón's election and was therefore particularly helpful.

⁴ In a letter of April 30, 1946, to the Secretary of the Navy, the Acting Secretary of State indicated that a final decision in the matter was deferred (835.348/4-1546).

⁵ Not printed.

I am forwarding herewith copies of Salinger's report ⁶ about the connection between graft and Perón's campaign funds. As I indicated in my previous letter, it is interesting and may be true, but unfortunately we can get no court evidence to support it. I hope it will be of some use even as it is.

With regard to matters of policy, I fear that my telegrams have already shown you that I am not altogether in agreement with your way of thinking. However, you have a far better opportunity than I to see the whole picture and I shall of course try to carry out the Department's policy to the best of my ability.

I am discussing with the principal officers of the staff what we can do locally to implement the Department's policy. I do not imagine for example that the Department would wish to have me toddling around with the top Government crowd or entertaining them It occurs to me, however, that at a lower level it might be wise for contacts to be maintained about as at present, i.e., a minimum of formal but informally normal.

We are thinking in terms of working as hard as ever against the Nazis, both in economic warfare and in repatriation. Any ammunition you can give us in this connection will be most helpful. . . . it is therefore not surprising that the Junta de Vigilancia ⁷ has never been so charmingly responsive (we are even informed that Staudt is going to be liquidated), or that other Government officers are just too nice for words. I am somewhat afraid, however, that this may merely be due to Perón's hope that we will change our tune. Incidentally, the various Government organizations are falling all over themselves for cooperation from the Information Service (for example in having film exhibitions, etc.)

I must reiterate what I have mentioned in my telegrams: that the atmosphere has decidedly changed since Spruille left; ⁸ that most Argentines do not like our attitude, and that the more we talk about it the less they are going to like it. I realize that it may be necessary to inform public opinion in countries other than Argentina. What I do wish to make clear, however, is that there is very little possibility that what Spruille did here could be repeated under present circumstances; on the contrary, tough public statements are going to be resented, and the positive need for them should therefore be carefully considered before they are made.

Very sincerely yours,

JOHN M. CABOT

⁶ Not printed.

⁷ An Argentine agency to identify and prosecute unlawful activities of Axis-tainted firms and individuals.

⁸ Spruille Braden, Ambassador in Argentina from May until October, 1945, left to become Assistant Secretary of State.

835.00/3-2946 : Telegram

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

RESTRICTED

BUENOS AIRES, March 29, 1946—8 p. m.
[Received March 30—1:22 a. m.]

907. Necessarily hasty reading of 51 page mimeographed reply to Blue Book gives impression of many glittering generalities and rather weak argumentation. General tone one of more in sorrow than in anger, although at times indignation is expressed. No counter-charges made and only a few of Blue Book charges are specifically mentioned.

Reply (in form of circular note) begins by referring to Blue Book as unprecedented case in diplomatic annals of continent and serious attack on spirit of American confraternity. It calls publication of Blue Book a lamentable intromission in internal political affairs of Argentina. After criticizing Von Meynen's⁹ exaggerations, it admits German spying in Argentina but says relations were broken because of discovery through Hellmuth¹⁰ case and refers to German espionage in United States. Memorandum claims Argentine adherence to Act of Chapultepec and United Nations Charter juridically estop subsequent accusations for previous acts.

Second section refers to Argentine fulfilment of international commitments particularly measures against enemy property, closing of German and Japanese schools, closing of Nazi publications, delivery of 2 Nazi submarines, repatriation of *Graf Spee* sailors, and measures against German spies.¹¹

Section III refers to charges against Argentine Army. It points out that Argentina tried to obtain arms from United States before turning to Germany and was rebuffed; that Argentina needed arms for own defense (Truman is quoted re United States); and that arms could not have been sent from Germany to Argentina. Section makes feeble denial of charges regarding Captain Chavarria's mission to Chile by saying he went to deliver replica of sword of San Martín; uses incorrect newspaper version of Blue Book reference to Rawson¹² to refute charge against him; with reference to Olano¹³ says that the army does not govern with menaces; claims that military program was stated by Ortiz; makes point that Libro Azul claims on one hand

⁹ Erich Otto von Meynen, former German Chargé d'Affaires in Buenos Aires.

¹⁰ Osmar Alberto Hellmuth whose revelations to British officers was one factor that led to the breach of relations between Argentina and Germany in 1944.

¹¹ For documentation on the encounter between the *Graf Spee* and British warships, the scuttling of the *Graf Spee* and internment of its crew by Argentina, see *Foreign Relations*, 1939, vol. v, pp. 91 ff.

¹² Gen. Arturo Rawson, former Acting President of Argentina.

¹³ Col. Manuel José Olano, President of the Administrative Council for the Intervention of Axis firms.

Argentina is arming disproportionately but on other hand admits Argentina could get no arms; refers indignantly to Blue Book statement that Govt soldiers staged a bloody demonstration in Buenos Aires and explains away army expenditures by referring to great improvements of a non military nature provided for soldiers.

Section IV refers caustically to Blue Book's comments on Nazi character of Argentine regime by saying that nothing could be more perilous than foreign criticism of the internal political conditions of a country. Section admits that revolutionary Govt may have made mistakes but argues that that was inevitable and that general purpose of Government has always been laudable. Points to free elections as completing purposes of revolution and impossibility that Nazi regime would hold free elections. After several more pages of noble words about Argentine democracy and peaceful intentions reply ends by asking for restraint on part of United States toward weaker nations.

CABOT

862.20235/4-1046

*Balance Sheet of Argentine Elimination of Non-Economic Axis
Subversive Influences*¹⁴

CONFIDENTIAL

I. AXIS AGENTS

The United States and British Embassies until April 1946 had discussed with the Argentine Government the possible deportation of only one hundred and twenty-two German agents. More or less adequate action has been taken against all but nine of these. The two cases in which the position of the Argentine Government is most open to question are those of Ludwig Freude and Heinrich Doerge. Action taken against Freude is open to suspicion of non-sincerity of purpose; no action has been taken against Doerge. It might be said that proof of the Argentine Government's sincerity in proceeding against Axis subversive influences, hinges on these two cases. Yet the case of Freude may take years to resolve even if the Argentine Government proceeds aggressively against him; thus its sincerity or lack thereof will be difficult to prove.

There are about one hundred and fifty other German agents (many not German citizens and some perhaps naturalized Argentines) of sufficient importance to request their deportation. Only about half these are very important. About seventy were involved in espionage

¹⁴ Transmitted to the Department in despatch 2483, April 10, 1946, from Buenos Aires; received April 17. For an appraisal of this statement, see memorandum of April 24, by the Special Assistant to the Assistant Secretary of State, p. 247.

or sabotage cases [Class A (a)]. About eighty are in the A (b) classification outlined in the Department's instruction of December 3, 1945,¹⁵ i.e., they took a leading part in aiding German political, social or economic objectives, et cetera, but are not known to be involved in espionage or sabotage. The Argentine Government has accepted the principle of deportation of espionage and sabotage agents regardless of their importance; it has *not* accepted the principle of deportation of "leading" Nazis.

Discussions regarding these one hundred and fifty are now being conducted with the Argentine Government on an informal basis. Action probably should not be expected regarding class A (b) cases until some *démarche* is made to the new government soon to take office, and it is induced to adopt a policy of repatriation of individuals in this category.

See Annex ¹⁵ for details.

Graf Spee Crew

Eight hundred and eleven of the crew of the former German battleship *Graf Spee* were repatriated in February 1946. Two hundred and thirty escaped before that date. Probably half the escapees returned to Germany before the end of the war. Some of the remainder may eventually be recaptured and returned to Germany; two already have been recaptured and are awaiting repatriation.

II. AXIS INSTITUTIONS

A. Schools.

The first action taken against Axis schools was a decree of September 10, 1945, ordering the government to take possession. At that time formal possession was taken of one Japanese and nine German schools; this action was of no positive value in as much as the schools themselves had already eliminated Nazi doctrines from the curricula in an attempt to forestall their closure. These schools and a few others were ordered closed on October 31, 1945, a month before the normal end of the scholastic year. By November 12, 1945, those named in the order actually were closed. They included most but not all of the important Nazi schools. The others were outside the capital or were well camouflaged as "Argentine" schools.

At the beginning of the new school year, March 1946, the Government took physical possession of the properties of some of the most dangerous Nazi schools. At least five remain however; two are well camouflaged. Still four others may be operating under camouflage or by circumventing Argentine regulations which do not affect small

¹⁵ Not printed.

classes conducted by individual teachers. These matters now are under investigation.

The Junta de Vigilancia (a dependency of the Foreign Office primarily concerned with economic matters) is concerned with this problem from the standpoint of controlling Axis assets. The Foreign Office itself is interested from the overall standpoint of compliance with the terms of the Final Act of the Conference of Mexico City, 1945.¹⁶ The Ministry of Justice and Public Instruction is concerned from the standpoint of actual control and operation of the schools. The Superintendency of Corporations is concerned from the standpoint of granting or allowing corporate status to school associations. There is little or no coordination between these agencies. This Embassy is unable even to obtain material for its reports concerning action taken by the Argentine Government, except from the public press. There is, furthermore, little interest shown by the Argentine Government. It takes the position that the requisite action has been taken. Since this Embassy is not in a position, for lack of information, to contradict this position to any considerable degree, no action is taken by the Argentines to better the situation. One factor in this lack of interest is the conviction in Argentine Government circles that this Embassy and the Department have been playing politics with the Axis elimination program and that, therefore, their protests do not necessarily have great validity from a factual standpoint.

B. Axis Institutions.

All dangerous German institutions, other than schools, are believed to be closed and inoperative at the present time. Information in this regard is vague however, for the same reasons that that situation exists with regard to Axis schools (see above).

A few Japanese institutions have been closed but there still are operating a few which might be of a dangerous character. The Embassy's information in this regard is too indefinite at this time to allow of definite statements or any approach to the Argentine Government other than a request for information. As pointed out above, such approaches have been to little avail.

C. Suggested Course of Action.

These matters should be carefully investigated by the Embassy, acting independently.

The Department should expedite the transmission of material taken from German archives captured in Germany, which bear on these matters.

¹⁶ Department of State Treaties and Other International Acts Series (TIAS) No. 1543.

The Embassy, acting jointly with the British Embassy, should propose to the new Foreign Minister when he takes office, or to President Perón himself, the adoption of some means by which the Embassy can work more directly with the operating agencies in this field, namely the Ministry of Justice and Public Instruction and the Superintendency of Corporations. This might be accomplished by an informal joint commission including Foreign Office and Junta de Vigilancia representatives.

All dangerous Axis teachers should be repatriated.

III. AXIS PERIODICALS

There are at present in Argentina only three periodicals which might possibly be called continuations of former Axis periodicals. These are the *Freie Presse*, *La Tribuna* and *La Epoca*. It is questionable if these newspapers are continuations of Axis periodicals. In any case, such continuity, if existent, would be extremely difficult to prove. None of them now publish anything approaching Nazi doctrine although the latter two are very anti-United States.

The Embassy believes that it may now be considered that there are no Axis periodicals in Argentina at present.

IV. OTHER RELATED MATTERS

A. Former German Embassy Archives and Property.

The Swiss Legation relinquished possession of these archives and property to the Argentine Government. The British, French and United States Embassies have access to the archives. These Embassies have taken the position that the Argentine Government has possession merely as trustee for the Allied occupying powers. A request in September 1945 for delivery of archives and property to the three Embassies was denied with the observation that an examination of the archives was not yet complete and that, after the examination is completed, the matter again would be considered. The Argentine Government has not yet indicated acceptance of the theory that it is only a trustee.

At some appropriate future date, the three Embassies again may wish to ask for delivery to them of the archives and property.

B. Italian Matters.

The British and United States Embassies have agreed to discontinue present pursuit of Italian subversive matters because of their unimportance.

711.35/4-1246 : Telegram

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

SECRET

BUENOS AIRES, April 12, 1946—5 p. m.
[Received April 13—7:39 p. m.]

1057. Series of announcements—notably appointment of Ambassador Messersmith,¹⁸ memo expressing conditional willingness to negotiate mutual assistance treaty including Argentina, easing of export restrictions and abolition of export licenses—together with widespread press speculation re better relations between US and Argentina and editorial comment in US critical of our Argentine policy have strongly suggested to Argentine Government and people that a major reorientation of our policy is in progress.

I feel that I should point out to Department that all of this publicity not only prejudices our bargaining position here but also (particularly in the absence of instructions to the Embassy before the news is published) is harmful to Embassy prestige. Embassy has been necessarily cautious in dealing with Perón emissaries (reEmbtel 956, April 3¹⁹) and it is notable that none have come in last days.

Argentine pressure on Uruguay is clear indication that even though we must modify our position, it is imperative not to lose sight of the continued danger Perón represents for us and not to think that we can win his friendship by appeasement. I am hopeful that we can reach reasonably satisfactory relations with Perón government by a combination of diplomatic toughness and conciliation, each at proper time, because I think that we can make this to his interest and that he realizes this. However, Ambassador Messersmith should in my opinion be in as untrammelled a position as possible upon his arrival here to survey the situation and act accordingly. Prior to his arrival I feel that the less official statements or press speculation re our Argentine policy that are published the better.

Department will appreciate that in absence of instructions Embassy continues unable (Embtel 825, March 22) to take any constructive action or even to know what attitude to assume in reply to questions from triumphant Peronistas and disheartened Democrats.

CABOT

¹⁸ George S. Messersmith presented his credentials as Ambassador in Argentina on May 23, 1946.

¹⁹ Not printed.

711.35/4-1246 : Telegram

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

SECRET

WASHINGTON, April 16, 1946—7 p. m.

513. Urtel 1057 Apr 12. Following is summary of current US policy towards Argentina. Cable specific points on which you wish further info.

1. There has been no change in general policy described in Depcirtel Apr 1, 11 p. m.²¹ Road will be open to complete inter-American unity only when and if incoming Argentine regime complies with its plain inter-American commitments including those relating to elimination of Axis influence. This means that until new regime has had reasonable opportunity to perform our attitude must be one of watchful waiting.

2. Continuance of existing diplomatic relations and appointment of new Ambassador is consistent with this general policy and with statements of Byrnes and Braden last August and September. There is however no present intention of sending or accrediting special mission to Perón's inauguration.

3. There is no change in policy re export of arms and munitions to Argentina. Brit and Swedes who appear to be cooperating in this respect will be informed of any change in this respect (urtel 1067 Apr 13²²).

4. Final decision re possible change in present policy of non-collaboration with Argentine military on technical matters awaits an on the ground appraisal of situation by Messersmith. Meanwhile we do not wish to approve visit of Argentine naval mission to US (urtel 1032 Apr 10²²) or similar official projects and we are so advising Navy.

5. Removal of Argentina from Group E²³ simply recognition our inability unilaterally to control Argentine imports in face of growing availability of goods from other sources plus important factor of dependence of Europe and some American republics on Argentina for essential foodstuff. Effect mainly psychological since in practice export of most items has been permitted for some time. We are now discussing with Commerce question of procedural changes (urtel 1076 Apr 15²⁴) and will advise you as soon as possible.

6. Policy on export of aircraft is stated in Deptel 418 Mar 28.²⁴ There will be no export of aircraft suitable for combat.

²¹ *Ante*, p. 10.

²² Not printed.

²³ This group included, besides Argentina, such countries as Austria, Bulgaria, Rumania, and Hungary with regard to which the control of exports of all commodities was to be continued under individual license.

²⁴ Not printed.

7. Exportation of industrial equipment, machine tools, toluene and other products not capable of classification as arms and munitions will be permitted regardless of whether consignee is Argentine Govt or private entity.

8. Future of PL in Argentina is related to general problem of List's future which is currently under consideration. There is no present intention of abolishing List of Special Blocked Nationals or of unblocking funds and gold of Argentine banks now blocked.

9. Urtel 1058 Apr 12²⁵ re US Air Mission is being considered.

10. In general Dept agrees with your comments re additional official statements and advantage of Messersmith being in untrammelled position.

BYRNES

862.20235/4-2446

Memorandum by the Special Assistant (Spaeth) to the Assistant Secretary of State for American Republic Affairs (Braden)

CONFIDENTIAL

[WASHINGTON,] April 24, 1946.

You will note that a copy of the attached despatch²⁶ was sent to Ambassador Messersmith.

I think a reading will satisfy you that it is, to say the least, a misnomer to describe the memorandum as a "Balance Sheet". To say that "more or less adequate action" has been taken against those Axis agents on our list of 122 who were not deported is certainly misleading. To state that "action (what action?) taken against Freude is open to suspicion of non-sincerity of purpose" is a gem of understatement.

I am afraid that if more memoranda of this kind are sent to Ambassador Messersmith he is going to have a very "unbalanced" picture of the anti-Axis program.

You will note that at several points in the memorandum . . . refers to lack of information in the Embassy's possession and implies that the only source of our information is the Argentine Government itself. This would seem to bear out Mr. Klaus'²⁷ view that the Embassy is either inadequately staffed or is not going about the intelligence job in the right way.

²⁵ Not printed.

²⁶ No. 2483, April 10, from Buenos Aires, which was covering despatch to "Balance Sheet," p. 241.

²⁷ Samuel Klaus, Assistant General Counsel, Office of Foreign Liquidation.

835.24/5-1146: Telegram

The Ambassador in Belgium (Kirk) to the Secretary of State

SECRET

BRUSSELS, May 11, 1946—noon.

[Received 5:20 p. m.]

566. Department's 474, May 7.³² We ascertained from Foreign Office yesterday that official government contract had been signed in Buenos Aires April 10 by Pakt of Kronacker Mission for exchange of 25,000 tons of Argentine wheat for 1,000 tons of Belgian TNT. Contract provided for shipment of 250 tons TNT during April and 125 to 120 tons per month thereafter.

This morning I told Spaak³³ that my Government and British Government had, as was widely known, long been endeavoring to prevent Argentine Government from acquiring stocks of arms or munitions that while we fully realized Belgians need for wheat my Government was concerned that Belgian Government should see fit to exchange high explosives in large quantities with Argentine Government for it and that this deal might have repercussions in Combined Food Board. I inquired whether Belgian Government could do anything to avoid execution of contract. Spaak seemed slightly embarrassed but said that as contract which was between the two Governments had been concluded on April 10 and as one-half Argentine wheat was already on high seas Belgian Government must carry out contract. He did not know whether any shipments of TNT had yet gone forward. He promised emphatically and repeatedly that Belgian Government would not in future conclude similar exchanges with Argentine Government.

In circumstances I do not believe we here can prevent shipment of TNT but will immediately consult British colleague.

Sent Department 566, repeated London 40.

KIRK

810.20 Defense/5-2746: Telegram

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

SECRET

WASHINGTON, May 27, 1946—2 p. m.

U.S. URGENT

698. Your telephone call to Briggs. The following message was prepared for transmission to you on May 24 and not sent because of word received by War Dept from Argentine Military Attaché³⁴ on that date to effect that Gen von der Becke³⁵ was already en route.

³² Not printed.

³³ Paul-Henri Spaak, Belgian Minister for Foreign Affairs.

³⁴ Col. Arturo Bertollo.

³⁵ Gen. Carlos von der Becke, former Commander in Chief of the Argentine Army and Chief of Staff.

Still believing that von der Becke was en route we replied to press inquiries on May 25 stating that we had no info concerning object of visit which was not in response to official invitation.

"On May 21 Gen von der Becke, who is now retired, informed Gen Caldwell³⁶ that he, von der Becke, had been alerted by Perón for visit to Wash. Purpose of visit would be to discuss matters of hemispheric defense and allied subjects and to obtain military equipment. It was indicated first visit would be of short duration followed by a second and longer visit if situation warrants. Von der Becke inquired as to Caldwell's personal reaction to proposed visit and whether Gens Vandenberg³⁷ and Eisenhower³⁸ would receive him.

Caldwell suggested no definite plans be made until after Messersmith presents credentials. Caldwell's interpretation is that Perón wishes to capitalize on von der Becke's popularity with army, his professional reputation and his aloofness from politics in order to overcome opposition within army and press circles to inter-American military collaboration.

Foregoing report which was received from War Dept is related to Cabot's report by telephone that Fonoff has requested visa for von der Becke.

Dept's view is that while von der Becke shd not be denied visa he shd be informed that proposed mission to US would be premature at this time. It is noted that no ref is made to compliance by Arg with inter-American agreements referred to by Sec in his statement of Apr 8.³⁹

War Dept has been informed that Dept desires Amb Messersmith's views before expressing opinion. Telegraphic reply requested."

We are still of opinion that such a visit would be premature.

BYRNES

740.35112A/5-3146: Telegram

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

SECRET

BUENOS AIRES, May 31, 1946—7 p. m.

US URGENT

[Received 7: 50 p. m.]

1495. New vigilance board officers energetically press Embassy to delete from PL controlled enterprises taken in possession, and have exhibited drafts of decrees for sale or Argentinization, promising final action within 60 days and plead for prompt deletion as necessary aid in securing bidders and as manifestation our faith in their sincerity. (Names of companies to follow.) In view of withdrawal of PL June 30, I urge deletion such enterprises before June 15 by Wash-

³⁶ Brig. Gen. C. H. Caldwell, Military and Air Attaché at Buenos Aires.

³⁷ Lt. Gen. Hoyt S. Vandenberg, Assistant Chief of Air Staff, War Department.

³⁸ Gen. Dwight D. Eisenhower, Chief of Staff, War Department.

³⁹ For text of this communication of April 1, released to the press on April 8, see p. 10.

ington press release and local announcement in order that we may gain what we here are confident will be real advantage from compliance their request. Dept will appreciate that no such advantage can be gained but reverse will be true if information leaks out that we are planning to abolish list June 30.

MESSERSMITH

810.20 Defense/6-146

The Chief of Staff (Eisenhower) to the Under Secretary of State (Acheson)

SECRET

WASHINGTON, June 1, 1946.

DEAR MR. SECRETARY: Thank you for your note of May 31 with its enclosures.⁴⁰ I am somewhat at a loss regarding the second paragraph of the paraphrase copy of the telegram to Ambassador Messersmith, which states:

"2) In the event that von der Becke calls on Eisenhower he would be received but discussion would be limited to pointing out that before the question of military collaboration could be considered it would be necessary for Argentina to comply with its inter-American agreements. There would be no discussion of what this compliance should consist of nor would there be any discussion of what United States might be disposed to do should Argentina comply."

In my conversation with you prior to my talk with Colonel Arturo Bertollo, the Military Attaché of Argentina, you suggested that to discuss with him the factors that Argentina would have to comply with in its inter-American agreements. Following specifically your instructions, I indicated to Colonel Bertollo that: (a) a list of names of important firms in Argentina was furnished the Argentine Government in the hope that these firms who supported the war effort of the Axis Powers would be liquidated or taken over by the Argentine Government; (b) a list of about one hundred persons in Argentina considered to be agents or spies of the Axis Powers, was furnished the Argentine Government in the hope that in accordance with the agreements previously mentioned, these persons would either be arrested or deported; (c) insofar as could be determined here it was my understanding that the firms mentioned were still in operation, and of the hundred persons named as agents or spies, only 23 of the minor ones had been arrested or deported.

I indicated to Colonel Bertollo that if the Argentine Government found it possible to meet the views of the Department of State as indicated above, General von der Becke would find me willing to meet

⁴⁰ None printed.

him more than half way in establishing such basis for effective cooperation between the Argentine and United States' Armies as would be approved by my government.

Since this was done with your complete understanding and approval, I feel that I should be placed in an untenable position should I be restricted to the literal interpretation of the paraphrase-quoted paragraph, which indicates that there would be no discussion of how the Argentine Government should comply with its inter-American agreements after having, in effect, discussed this somewhat freely with a subordinate of General von der Becke. Since General von der Becke is due to arrive shortly, I would appreciate an immediate reply on the above point. The War Department has been extremely careful throughout in refraining from taking the initiative in any detail outside its own clear responsibility and in keeping the State Department informed of all of its moves in this connection. It has followed to the letter the desires of the State Department as we understand them. The War Department has in no way inspired, sponsored or encouraged von der Becke's visit.

Should von der Becke call upon me I will be glad to transmit to you a summary of the conversation—but if I am not even authorized to repeat to him the statements I made in good faith to his subordinate, then I feel I will have to decline to see him.

Sincerely,

DWIGHT D. EISENHOWER

810.20 Defense/6-146 : Telegram

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

SECRET

WASHINGTON, June 3, 1946—5 p. m.

US URGENT

745. Von der Becke visit discussed today in the light of urtel no. 1497 June 1 noon ⁴¹ with General Handy, Deputy Chief of Staff (General Eisenhower absent from Washington.) Full agreement that misunderstanding must be avoided, that State and War must maintain identical position and that visit here must not prejudice in any way your position or negotiations in Buenos Aires. A letter from UnderSec has just been delivered to Handy for Eisenhower which concludes as follows:

“Ambassador Messersmith has already had one conversation with President-elect Perón on the subject of Argentine-United States

⁴¹ Not printed.

relations, in the course of which he informed the President-elect that he hoped to be able to continue discussions shortly after Perón's inauguration on June 4. A conversation such as outlined in the enclosed memorandum should be helpful to the extent it serves to impress on the Argentine Govt the necessity of complying with its inter-American commitments, in order that we can then be in a position to take up other important matters of mutual interest with them."

Memo reads as follows:

"Should General von der Becke call on General Eisenhower, it is recommended:

1) General Eisenhower should not take the initiative in raising the question of US-Argentine relations or the question of military collaboration between the two countries.

2) Should either of these questions be raised by General von der Becke, General Eisenhower would reply that, as previously explained to Colonel Bertollo, General Eisenhower shares the hope expressed by General von der Becke that some basis for cooperation between the armies of the two countries can be established; and that General Eisenhower has been in conference with high officials of the US Govt looking toward that goal. General Eisenhower could then continue:

3) In seeking some basis for cooperation with the Argentine Army, General Eisenhower has been confronted with a problem of compliance with certain inter-American agreements, including resolutions VII, XVIII, and XIX of the Mexico City Conference which relate to the elimination of German and Japanese influence in this Hemisphere.

4) As stated to Colonel Bertollo, the Dept of State considers that among the important steps which should be taken pursuant to these resolutions are, for example, the elimination of German and Japanese ownership in certain business enterprises and the repatriation of certain enemy nationals.

5) The matter of specifying the agreements which are pertinent and what would constitute compliance are matters which should be worked out between the Foreign Offices of the respective Govts.

6) Once these matters have been worked out between the respective Foreign Offices then General von der Becke would find General Eisenhower willing to meet him more than half way in establishing the basis for an effective cooperation between the Argentine and US armies.

7) Until these matters have been worked out, General Eisenhower is not in a position to discuss what this cooperation shall consist of."

Handy indicated agreement with terms set forth and will deliver personally to Eisenhower on latter's return tomorrow together with copy Urtel 1497.

Von der Becke reached Washington today being met behalf War Dept by Lt. Gen. Vandenberg. He requested an interview with Eisenhower which has been scheduled for June 5.

BYRNES

740.35112A/5-3146: Telegram

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

SECRET

WASHINGTON, June 11, 1946—11 a. m.

789. Proposal contained urtel 1495, May 31 reviewed by IDPLC. Following difficulties exist: 1) In administering PL the Dept and IDPLC have never acted for any country on mere promises but only upon performance in making actual sales or vesting title to firm; 2) if we were to reverse this policy Arg would certainly be wrong country to single out in view her previous failures to comply with commitments. Moreover, Arg Congress has not yet approved Replacement Decree; 3) Press release such as you suggest has never been issued for any country and would mean special consideration for Arg which certainly is not warranted for above reasons; 4) you have previously been authorized to give assurances to individual prospective purchasers. In this connection refer also to Deptgam 404, Apr 19 and Deptel 560 Apr 25.⁴² Dept & IDPLC therefore cannot approve proposal.

In any event, in view of last sentence urtel 1495 Dept presumes that your proposal delete controlled enterprises now inexpedient for following reasons: 1) Although date of withdrawal PL has not been publicly announced, *New York Times* article of June 2 asserted unofficially PL being withdrawn July 1. Argentine Embassy here undoubtedly notified Buenos Aires. 2) Moreover Deptcirtel of Jun 5, 8 a m⁴³ asked all Embassies to notify Govts to which they are accredited of impending withdrawal of PL because of possible dependence of their controls upon List.

BYRNES

810.20 Defense/6-1146

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*⁴⁴

SECRET

[WASHINGTON,] June 11, 1946.

The documents submitted by General von der Becke through General Eisenhower contain only information which was already known to the Department and which for the most part is public knowledge in Argentina. The nature of this information is summarized in the underlying memorandum.⁴⁵ The information now presented essen-

⁴² Neither printed.

⁴³ *Ante*, p. 83.

⁴⁴ Addressed to the Secretary and the Under Secretary of State.

⁴⁵ Not printed.

tially substantiates the position which we have taken with regard to Argentine non-compliance:

1) Concerning enemy property the Argentine Government has not nationalized a single enemy concern and has completed the liquidation of only two insignificant firms. (We had previously understood this figure to be four.) Title to the remaining enemy property, only a part of which is even under Argentine control, remains with the enemy.

2) Concerning enemy persons the Argentine Government has not deported the most dangerous persons. Of the list of persons recommended for deportation in January, a list which was restricted to 100 because of the limited capacity of the repatriation ship, only 23 have been deported. As regards an additional 40 individuals mentioned by General von der Becke, only 9 have been deported. Ambassador Messersmith on June 1 submitted to the Argentine Foreign Office a list of 619 additional persons for repatriation, none of which is known to have been repatriated.

In explaining Argentina's failure to comply, General von der Becke mentioned legal obstacles. Similar legal obstacles appeared in every American republic including the United States. A study is presently being made of these legal obstacles in Argentina: their nature, seriousness, and means of overcoming them. There is reason to believe that these legal obstacles might, if the Argentine Government were disposed to take vigorous and sustained action, be overcome with respect to the remaining enemy properties and persons—much as they were overcome in the other American republics and as Argentina has herself overcome some of them in specific instances involving both properties and persons.

As General Eisenhower indicated to General von der Becke, the normal means of resolving the remaining questions concerning performance, both that pertaining to the legal obstacles and that having to do with specific persons and business enterprises, should be discussed and resolved by the Argentine Foreign Office and the American Embassy at Buenos Aires.

SPRUILLE BRADEN

835.24/5-1746 : Telegram

The Acting Secretary of State to the Chargé in Sweden (Ravndal)

SECRET

WASHINGTON, June 13, 1946—5 p. m.

1027. Urtel 870 May 17.⁴⁶ Dept policy re armament shipments to Arg remains as stated Deptel 57 Jan 11 6 p. m.⁴⁷ except as regards embargo on capital equipment destined for Arg armament industry.

⁴⁶ Not printed.

⁴⁷ Not printed, but see circular telegram of January 18, 1946, 10 a. m., p. 186.

In view practical administrative difficulties and doubt as to British cooperation in this respect, Dept has recently reconsidered and is now using as principal criterion for implementation its policy list of arms, ammunition, and implements of war (except commercial and private aircraft) contained President's Proclamation Apr 9, 1942⁴⁸ plus related items not contained therein the export of which it appears should be prohibited in special cases. Specifically, Dept has recently indicated it would not object to conclusion contracts for installation of plants: (1) for repair of aircraft at Córdoba for which it is understood Swedish and British interests have likewise been consulted, and; (2) for manufacture of artillery shells.

In view of British position Dept also now will permit export to Arg, regardless of purchaser, of aircraft, except tactical planes and advanced trainers.

Dept appreciates Swedish cooperation thus far and suggests that you urge Swedish Govt to continue to act along similar lines pending broader international solution this problem. Comment upon press reports re existence such understanding will continue to be refused and it is felt that Swedes might also refuse comment.

Ref urtel 931 May 29⁴⁹ copy press release May 29 containing Secy's statement before Congress on Inter-American Military Cooperation Bill⁵⁰ being sent via airmail for your info.

Sent to Stockholm. Repeated to BAires and London.

ACHESON

711.35/6-1546

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

[Extracts]

SECRET

BUENOS AIRES, June 15, 1946.

MY DEAR MR. SECRETARY: I arrived in Buenos Aires on the evening of May 22 by commercial plane and in accordance with the arrangements made by the Argentine Government, presented my credentials to then President Farrell at eleven o'clock on the morning of May 23. . . .

. . . I have now been here about three weeks and as a result of my unremitting activity and continuous study, I am in a position to give you some conclusions which, while they are necessarily still somewhat preliminary, are sufficiently definite to bring them to your attention and consideration.

In the first place, I think that the President and you and the Depart-

⁴⁸ Department of State *Bulletin*, April 11, 1942, p. 323.

⁴⁹ Not printed.

⁵⁰ House Document No. 548, 79th Cong., 2d sess.

ment and all interested agencies of our government as well as our people are in accord that the basic objective of our policy in this hemisphere has to remain as before, and more than ever, the consolidation of the closest collaboration in the political, economic, social and defense field among all of the American republics. We cannot conceive of such close collaboration on the proper and effective scope unless the whole-hearted collaboration of the Argentine, as of every other American republic, is included in that picture. This we have not had for many years and have not had up to today and it is necessary in our interest and that of the Argentine and of every other American republic, as well as in the interest of world peace and security, to bring that about.

At the outset I would say that I think our basic objective in the present situation with regard to Argentina must be twofold. We must endeavor to get the Argentine to turn her eyes away from Europe, to which they have always been directed in practically every field, and to turn them to this hemisphere. She has in many ways considered herself in the past as more closely tied to Europe than to the Americas and has looked with a certain amount of deprecation on her American neighbors. She has in many respects not been an American country. This is one of the basic reasons—of course not the only one—why the Argentine has taken such a difficult position in practically all inter-American meetings. As a result of the repercussions of the first world war, and of the second, and as a result of the present world situation which at least to a measure is understood here, there is an increasing realization on the part of the Argentine Government and people that their orientation must be to this hemisphere rather than to Europe. This current must be accentuated and consolidated for until the Argentine Government and people realize that they must turn their eyes somewhat from Europe and more to the Americas, little real progress could be made. Some has already been made and particularly in recent months as the result of the intransigent attitude of Soviet Russia.

Our second objective must be to get the wholehearted and loyal collaboration of the Argentine Government and people, in the political, economic, social and defense field. I believe that the Argentine Government and people are prepared for this more than they have been at any time in a century.

I know that it is a primary policy of our government, which is very close to the heart of the President and of yourself, as it is to mine, and I believe to the great mass of our people at home, that this collaboration among the American States is essential to our peace and security in this hemisphere, that it is the first line of defense for us and all of

this hemisphere, and that this collaboration among all of the American States can be one of the firmest bulwarks in the world structure for security and peace.

After examining the situation very carefully, I have come to the conclusion that there are only three fields in which the Argentine has not met her inter-American commitments.

The first of these is in the field of enemy property, which I consider the most important. In this field there has been a greater measure of compliance, I find, than she has been given credit for, and emphasis has been placed by us on those things in which there has not been compliance and little credit has been given for what has been done. For the sake of the Argentine and her own economy and for purposes of hemisphere security, it is essential that the Argentine do take adequate measures in the field of enemy property.

The second important question remains, that of action with respect to enemy aliens and, particularly, enemy agents. In this respect, the performance of the Argentine Government has not been adequate but, again, she has not been given any credit for what she has done, and some of the difficulties in the way of her acting adequately have not been given due consideration and recognition. In this field, too, more adequate action by the Argentine Government is necessary.

The third field in which some action may still be necessary is that of German and Japanese schools and institutions. I find from my study in this field that the Argentine has perhaps complied as effectively as any of the American republics except ourselves in the matter of schools and institutions. What remains to be done in this field seems to be very secondary, but I am giving this further study.

There is a good deal of talk about this Southern bloc in which the Argentine has been interested and there is no doubt that it has been in the minds of some Argentines for many years. There is a tendency to make it appear that this is an idea of President Perón, and in all justice to him it must be recognized that this idea of a Southern bloc is just as much nourished by some of his most angry and powerful enemies as it may have been and be nourished by Perón.

Whatever intentions the Argentine may have had in this respect or whatever thoughts Perón may have had in this respect, the question is not now an active one although it is one which we must always bear in mind. Such a regional bloc of course would be disadvantageous for American unity and cannot be tolerated and it is just as dangerous as the idea which persists among a good many of the Latin Americans that Latin American collaboration comes first, and American collab-

oration second. These are ideas which must be combatted by all of the American republics but if we carry through the defense pact, keeping in mind the two major circumstances as above indicated, any thoughts which anyone in the Argentine may have with regard to a Southern bloc are out. Incidentally, in this connection, Perón was asked a good many questions by the Chileans and others during the recent inaugural ceremonies about his attitude on a Southern bloc. He very emphatically stated that he had no thoughts in that direction. Personally I doubt whether he has abandoned them but, in any event, he is going to have too much to do in the next few years to think about that, and in the meantime we can get this defense pact enacted and in effect, and that will serve as a partial antidote to any regional blocs in this hemisphere.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

711.35/6-1546

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

CONFIDENTIAL

BUENOS AIRES, June 15, 1946.

DEAR MR. SECRETARY: Supplementing my long letter on the Argentine situation⁵¹ which you will receive at the same time as this letter, I wish to make the following brief comment.

Whatever errors were made in the Argentine situation began long before Braden had anything to do with the problem, and so far as we are concerned, they began with certain naive assumptions by Sumner Welles.⁵² All the errors that have been made were made in good faith, whoever they were made by, and I do not think that we can make recriminations.

So far as Braden is concerned, he did make mistakes but they were all made in good faith and he was acting with the approval of the Department. There are some who nourish the thought at home that Braden should retire or could retire from the Department at this time, and I wish to tell you that it is my considered opinion still that any thought of this kind should be discounted completely. No matter what the criticism may be of Braden, I can assure you that it would do us infinite harm in the whole American picture and injure our program if he were to retire from the Department now, either voluntarily or at request. If sometime Mr. Braden wants to retire from the Department at an appropriate moment, that is another matter, but I do

⁵¹ *Supra.*

⁵² Under Secretary of State, 1937-1943.

not think he could leave his post in the Department now or should be permitted to leave it now even if he so desires because I think the effects would be contrary to our program and the major objectives which we are seeking.

I am familiar with some of the personal feeling which exists on the part of a number of people on this matter, but I think in any matter of this kind we have to leave out of consideration all personal feeling for the issues at stake are too important. I personally have sincere friendship and high regard for Braden, and I have the greatest sympathy for him in the present situation, but I have made the above statements about not being able to leave the Department now or in the presently foreseeable future in cold blood.

Whatever errors he may have made were through overzealousness, but they were made with the best intentions and he was proceeding with the knowledge and the approval of the Department.

I believe we have a way out of this situation with all decorum and dignity and with all maintenance of principle, but I think we have to proceed keeping all the factors in mind and cannot complicate the problem which is already sufficiently difficult by creating any unnecessary difficulties or situation. It is for this reason that I have written this note as I think it is so important that Braden remain in the picture.

I am sending him a copy of the long letter on the Argentine situation which I have written you.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

810.20 Defense/6-1846 : Telegram

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

SECRET

WASHINGTON, June 19, 1946—6 p. m.

US URGENT

840. There follows summary of conversation yesterday between ActSecy Acheson, Asst Secy Braden, von der Becke, and Ferrer Vieyra.⁵³ Ref Braden telephone conversation June 19, Deptel 833 June 18.⁵⁴

Von der Becke first read from memo exposition of views which briefly were that as soldier he is deeply impressed with urgent necessity formulation without delay of hemispheric defense measures, such measures of course to include provision for modernizing Arg army on basis US matériel. To this end he feels it important that Arg-US

⁵³ Enrique Ferrer Vieyra, Counselor of the Argentine Embassy.

⁵⁴ Not printed.

problems be eliminated and agreement for joint hemispheric defense reached with utmost rapidity.

Gen then handed Secy memo containing text of Arg FonOff release denying French press story re alleged statement by von der Becke that hemisphere defense depends upon three principal bases—Canada, US, and Arg (Embtel 1647 June 18⁵⁶) he added personal denial. Secy indicated he had not even heard of matter and gave it no importance.

Von der Becke then handed Mr. Acheson three point memo in Eng reading textually as follows:

a) The submitting to Congress of the Arg adherence to the Act of Chapultepec establishes a constitutional requirement for its ratification; therefore, any other consideration shd be rejected as unfounded.

b) The Arg Govt has taken no steps towards making any purchases nor has it received any offer of arms from Russia.

c) The Arg Govt, in recent statements, has estab clearly its intentions to live in harmony and peace with all the countries of the world.

Requesting that Secy do him "great favor" which would immediately solve all outstanding differences von der Becke handed him memo reproducing note given Eisenhower at end of interview with him and quoted in Deptel 770 June 6,⁵⁶ observing that issuance as public statement by Mr. Acheson would solve all problems.

Von der Becke repeatedly stated "all cases" now in hands of Justice; he endeavored to lead discussion into details of individual cases; and he asserted again and again Arg's devotion to democracy, constitution, justice, and rights of habeas corpus.

For their part Secy and Mr. Braden refused to acknowledge "all cases" in courts and insisted that in any event Amb Messersmith in full possession of facts and fully qualified to discuss matter with Arg FonOff. Mr. Acheson stated that, while he, of course, as lawyer had respect for constitution and courts and would not even pretend to discuss Arg procedures in relation therewith, he was compelled in all friendliness to point out in connection von der Becke's suggested statement that there actually were pending matters between the two govts. He indicated that best manner to proceed with defense of hemisphere was energetically to endeavor to reach solution in these pending matters. Moreover, Mr. Acheson assured von der Becke that he would find US entirely cooperative and reasonable and that we would not expect the last case to be resolved by courts providing there was genuine and effective progress. He pointed out, referring to von der Becke's pleas for speed that these matters had been pending since 1942. Von der Becke was told he could perform constructive patriotic service

⁵⁶ Not printed.

by urging on his Govt the great importance of compliance with Mexico resolutions.

There was some discussion why Arg felt Congressional ratification Mexico City agreements necessary when other signatories had not; likewise why idea had been put forward only within last few weeks with no prior indication such necessity.

In reply to von der Becke's repeated implications that action desired by US insignificant in comparison with hemisphere defense agreement, Secy explained such action important in itself and as guarantee of compliance with any defense pact. Secy made it clear throughout (1) action expected not only important in itself but as guarantee effectiveness of hemispheric pacts; (2) discussion shd be centered in one place; (3) Amb Messersmith and Arg FonMin could best conduct discussions.

It seemed evident from von der Becke's insistence on need for court procedure in all cases, which he admitted might take "2 or 3 years", and his agreement that hemisphere defense could not be so delayed, that Arg Govt is endeavoring to have US abandon insistence on effective compliance, leaving it entirely to Arg courts what action shall be taken, while at same time proceeding with negotiation of Rio treaty. It seemed evident also that von der Becke (and therefore perhaps Arg Govt) is desperately anxious to reach agreement with US on defense and especially if it can do so without real compliance.

ACHESON

810.20 Defense/6-2046 : Telegram

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

SECRET

RIO DE JANEIRO, June 20, 1946—4 p. m.

US URGENT

[Received 5:20 p. m.]

1124. Deptel 818, June 19, 7 p. m.⁵⁷ In my first calls on President Dutra, Foreign Minister, Ministers of Navy, War, Air, Finance, President of Supreme Court and President of Constituent Assembly they have urged early understanding between US and Argentina. I specifically asked would there be slightest chance of criticism of US or chance that Brazilian Govt and Brazilian people would express objection if US invited Argentina to join in hemispheric defense plan which would call for assisting Argentina militarily, particularly in view of fact that Brazil was active participant in European phase of war and rendered valuable assistance to Allies with bases, etc. In every case the replies were to the effect that it was necessary and desirable to have Argentina participate but that Brazil should be

⁵⁷ Not printed.

kept fully informed of all discussions and when and by whom these discussions would be had.

Therefore, French news agency report published in Rio papers, as referred to in your above-mentioned telegram, naturally caused unfavorable news comment. But Govt officials have not taken this news agency report very seriously and denial made by General von der Becke and Argentine Foreign Minister⁵⁸ were very reassuring and were received here with considerable satisfaction.

In response to my inquiry on this subject, Foreign Minister has requested that I meet with him and other cabinet members at 5:30 today to discuss subject in detail but has dismissed this aspect of it as being comparatively unimportant. Will report further. Suggest you keep us currently advised of discussions and negotiations with Von der Becke and Argentine Embassy in order keep officials here informed and thereby avoid uneasiness and misunderstandings.

PAWLEY

810.20 Defense/6-2046

*Memorandum by Mr. Horace K. Fleming, Special Assistant to the Director of the Office of American Republic Affairs*⁵⁹

CONFIDENTIAL

[WASHINGTON,] June 20, 1946.

Just before staff meeting this morning I went down to the press room where the correspondent of *France Press* allowed me to see the original cable version of his story on the von der Becke interview. What happened seems to have been substantially as follows:

General von der Becke emphasized to the correspondent the importance of having three self-sustaining defense zones in the western hemisphere. He pointed out that if a sudden foreign attack, by atomic bomb or otherwise, should cripple the U.S., South America would be separated from the other available zone—Canada. Hence it was essential that there should be a third zone in the south.

I am inclined to doubt that the General omitted from his discussions any mention of Brazil. However, no matter what he may or may not have said on this score Brazil certainly faded into the background when he produced a table (the same that was given to Eisenhower) showing that Argentina has an industrial machine, transport network and general commercial potential, virtually equivalent to that possessed by all the rest of South America combined (including Brazil).

⁵⁸ Juan Atilio Bramuglia.

⁵⁹ Addressed to the Director of the Office of American Republic Affairs (Briggs) and to the Deputy Director of that Office (Butler).

In the light of the General's statements about the necessity of a third zone the *France Press* correspondent drew from this table the not unexpected inference that von der Becke at least thought that the headquarters of the third zone should be established in Buenos Aires rather than Rio. It is, of course, true that the figures may have had another purpose—to impress Eisenhower with the power of Argentine should it happen to swing its weight elsewhere. However, whatever the purpose, it is quite evident that had von der Becke thought about it for a moment he would have realized the effect on Brazil of such a tabulation, presented under such auspices and to such a person (Eisenhower).

Where *France Press* went wrong was less in essentials than in details—viz. in quoting the General as referring to three “arsenals” instead of zones (which is quibbling) and assuming that von der Becke said more to Eisenhower on this subject than he actually did.

H. K. FLEMING

711.35/6-2446

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

CONFIDENTIAL

BUENOS AIRES, June 24, 1946.

No. 219

[Received July 5.]

Subject: Transmitting Memorandum of Conversation with the Foreign Minister on Concrete Aspects of Argentine Compliance with her Inter-American Commitments.

SIR: I have the honor to refer to my despatch No. 88 of June 6, 1946⁶⁰ covering a call which I made on the Argentine Minister of Foreign Relations. I also have to refer to my secret letter of June 15 to Secretary Byrnes in which I gave a full statement of the conclusions and observations which I have reached with respect to the Argentine situation and its composition up to this time.

I now have to transmit herewith a copy of a memorandum⁶⁰ covering a two and a half hour conversation which I had with the Minister of Foreign Relations on June 20 which is self-explanatory. It will be noted that I stated to the Minister that my observations were as yet preliminary, but that I felt that they would have the approval of my Government.

In spite of the difficult nature of the subject matter, the conversation was most cordial and conducted in a very amicable manner throughout. It is my opinion that the Foreign Minister is desirous of reaching a settlement of these matters as soon as possible and that he realizes the importance of rapid solution and at the same time, of adequate solu-

⁶⁰ Not printed.

tion. There is in my mind no doubt that the Foreign Minister has been in almost daily contact with President Perón on these matters and that the President also is desirous of doing the appropriate things to bring about a composition of the situation.

I think it would be a mistake to assume, as is being assumed by some, both here and at home, that the Argentine Government is desirous of composing this situation only in order to get military material. The Argentine Government is now fully aware, and as a result of the visit of General von der Becke to the United States has no illusions, concerning the situation. It realizes that its relations with the United States must be conducted through regular and normal channels and that we will permit no deviation thereof. I think I have made it amply clear through my conversations here that we also are desirous of composing this situation and that we also wish the Rio meeting⁶¹ to take place so that there may be full collaboration in defense matters under the defense pact. It has also been made abundantly clear that we do not want such a defense pact unless it is based on complete good faith of all the parties concerned and that this involves, by the Argentine, the meeting of certain obligations under her Inter-American commitments in an adequate form. I have made this clear in conversations with the President and the Foreign Minister.

There are reasons other than military material as well as of Argentine pride which impel the Argentine to have this desire to compose this situation. The Argentine is in need of many materials aside from military materials. It knows that the United States is the best and the most desirable source of these materials. It realizes that even though export restrictions may no longer exist on non-military material from the United States that exports badly needed in the Argentine will be facilitated if there is a complete return to normal relations between the United States and the Argentine.

I am further of the opinion that there is the beginning of real understanding in the Argentine that its course during the first world war and the second world war was not in the interests of the Argentine and that there is at least a sound basis for belief that the Argentine desires to look less towards Europe and more towards the United States and the American countries.

While there is no doubt that the Argentine has failed to meet so far obligations which she took under her Inter-American commitments, and in an adequate manner, there is also reason to believe that a careful study of the facts will show, as it has convinced me, that her relative performance as compared with most of the other American Republics is better than she has been given credit for by us and by public

⁶¹ For documentation on this proposed conference, see pp. 1 ff.

opinion. We cannot ask the Argentine to do more than we are expecting from others of the American Republics, and this too is a factor which we must keep in mind in our final judgment as to Argentine compliance.

I am not yet in a position to determine what can or will be done here in the matter of compliance. I believe there is a sincere desire on the part of the President and of the Foreign Minister and of high officials of the Argentine Government to comply adequately and also to orient themselves more fully into the American picture. I realize, however, that there is very great disorganization in the Government and that it is made up very largely of persons inexperienced in Government and many of whom are very inept and inexperienced as well as those elements which are trying to use the new situation for their personal advantage. This means that with the best will in the world, even if it is there, the Argentine Government will have considerable difficulty in carrying through such good intentions which it may have, for anyone who is familiar with Government knows that it not only needs the will and decision at the top, but also adequate administration and instruments to carry through policy. This administrative machinery and adequate elements are still presently lacking in an unhappy degree in the present administration, and a great deal will depend upon the manner in which the Argentine Government can function under the new "constitutional" administration.

After my conversation with the Minister of Foreign Relations on June 24, I will report further.

Respectfully yours,

GEORGE S. MESSERSMITH

711.35/6-2546

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

SECRET
No. 230

BUENOS AIRES, June 25, 1946.

[Received July 5.]

SIR: I have the honor to refer to my confidential despatch No. 219 of June 24 entitled "Transmitting Memorandum of Conversation with the Foreign Minister on Concrete Aspects of Argentine Compliance with her Inter-American Commitments." I now have to transmit herewith a copy of a memorandum of conversation⁶² which I had with the President of the Argentine before an informal dinner in his home on the evening of June 24. This informal dinner was arranged for the sole purpose of my being able to have a long conversation with

⁶² Not printed.

the President in his home rather than at the Casa Rosada where such conversations are subject to constant interruption.

The appended memorandum of conversation is self-explanatory. I merely wish to add that the President was cordial and I believe, sincere. He was very frank in expressing to me the difficulties which he is having in organizing the new machinery of government, and he did not conceal any of the embarrassing situations with which he has to deal. He said that so far as these questions of enemy property, enemy aliens, and enemy institutions are concerned, he is determined to find a way to liquidate them in spite of the constitutional, statutory, and court difficulties which stand in the way, and he said in the most categorical way that he was giving these matters his constant personal attention.

I called on the Minister of Foreign Relations this morning in order to present a note informing him of our release of the Argentine gold in the United States. Although the conversation had to be short as I had engagements in the Chancery which I had to meet, the Minister, after expressing appreciation of our action with regard to the gold, said that the President had informed him of my conversation with him the evening before. He went on to say that he had had a long meeting with the Junta de Vigilancia as he had informed me he would. He said that he was giving study to all of these matters affecting enemy property and enemy aliens and that he was devoting a great deal of time at his home to going into these matters. He said that they had made their definite determination to nationalize a number of the more important firms; other important firms they would sell to Argentine interests; others less important they would liquidate; and some he thought were so small that they would not be of any interest to anyone and certainly were not a danger to anyone. He said that as soon as he and the Junta de Vigilancia had completed the segregation of these firms which they were making indicating the disposition which they thought should be made of them, he would get in touch with me, and he hoped to do so within a week. He wished to consult me before they proceeded with final action on these lists as he wished to determine whether in my opinion the action which they were taking was complete and covered the really significant firms. I told him that I was prepared to do so at any time convenient to him.

He went on to say that the court difficulties and the pending suits, both with respect to property and aliens, made their situation very difficult but that so far as property was concerned, they hoped to avoid the court suits by direct settlement with resident owners; with the non-residents, of course, they would simply put the money into the fund. He said that he hoped that some of the pending suits with respect to enemy property could be voluntarily withdrawn by the

direct action which they hoped to take between the Government and the former owners.

With regard to enemy aliens, he said that he was going into these cases individually and that he was going to press the Minister of Justice to take rapid action. In this connection I called his attention to the fact that I was somewhat disturbed about the effect on public opinion in my country and in the other American Republics if it became known that some forty of these aliens who were among the more important and dangerous had been released under surveillance. I said that I thoroughly appreciated the action of the Argentine Government, but that I thought that their action might be misunderstood, particularly by the press. The Minister said that he thoroughly appreciated this, but that he wanted me to know, and he wanted our Government to know, that this action had been taken in the most complete good faith and that justice had to follow constitutional procedures and that the action which had been taken in holding these people in custody while their cases were pending in the court was arbitrary and could not be justified. He said that they were employing over two hundred people to watch these people and they were taking good care that nobody got beyond the jurisdiction of the court. Personally, I am completely convinced of the good faith of the Argentine Government in the matter and there is not any doubt that in the United States under similar circumstances we would have done exactly the same that the Government here has done on return to constitutional procedures.

As a matter of fact, I learned that the arbitrary action which was taken in these cases which is not justifiable under the Argentine constitution and laws, was stimulated by suggestions from this Embassy. While these suggestions were made to the Argentine authorities in good faith by this Embassy and while the Argentine authorities undoubtedly acted out of a desire to show their willingness to comply, there is no question that the action was arbitrary and an invasion of the judicial power by the executive. This is the point of view which we have to take on it because the last thing we can do is to ask another government to do away with its constitutional and statutory and court procedure which action could easily set an unhappy precedent for disorderly government against interests of American and other foreign residents here.

My conversation with the Minister of Foreign Relations above mentioned was short as I had to return to the Chancery, but there is no question from what he said that he is giving this matter his attention constantly and urgently, and everything which he said fitted into what the President had said to me the previous evening.

I will keep the Department fully informed as to developments.

Respectfully yours,

GEORGE S. MESSERSMITH

711.35/6-146 : Telegram

*The Acting Secretary of State to the Ambassador in Argentina
(Messersmith)*⁶³

SECRET

WASHINGTON, July 2, 1946—6 p. m.

898. In regard to compliance with International Commitments, Argentine views as expressed by von der Becke, Perón and others are obviously premised on the proposition that the commitments are fully satisfied when the Executive Branch places the matter for implementation before the Legislative or Judicial Branches. Both because it makes Argentine commitments illusory and because as a precedent it would undermine the foundations of structure of international relations based on mutual obligations of Governments, this position is unacceptable. Not with the Executive Branch alone were our agreements with Argentina. Although the known constitutional limitations on the power of the Executive Branch to bind Government as a whole are universally understood as to most modern Governments, the assumption of obligation implies representation and auxiliary obligation that the Executive Branch will take every possible step needed for timely performance by the Government as a whole, and that the Executive Branch is unhampered in this by conditions undisclosed to the obligee Government. Argentina has sought and enjoyed the benefits of the agreements to adhere to Chapultepec and obtain admission to UN without any indication to the world that their concomitant obligations not also assumed by Argentina and binding, and, in justified reliance that the obligations and benefits of the agreements were reciprocal, benefits were given by U.S. and other Governments. From the beginning, we had been assured by responsible Argentine officials, including Vice President Perón, that these agreements fully binding of the Argentine Government and had in fact embarked on actual substantive performance of specific obligations (reDeptel 1124, dated June 1, 1945⁶⁴) thereafter, as required by provisions of Argentine commitments, Argentine Government apprehended and deported certain German agents, seized German assets, intervened and liquidated certain firms, closed certain schools, etc. Without ever having raised any question concerning the binding effect of obligation on Argentine side or precedent necessity of obtaining any further ratification or implementary action, to have accepted the benefits of commitments from this Government and other United Nations must lead

⁶³ Copy missing from Department files. This copy is printed from a paraphrase copy in the Buenos Aires Embassy files.

⁶⁴ Not printed.

to the conclusion either that fundamental misrepresentation was made to the United States or that reference to other branches of the Argentine Government is essentially a form of callous violation and repudiation. If at all dependent on congressional ratification, the original obligation required the Argentine Government immediately to convoke congress or take the necessary steps of congressional convocation before acceptance of the benefits and not so to conduct self as to constitute representation in fact that the commitments were then binding in full. Therefore, failure to convoke Congress constitutes an unacceptable method by which Argentina disables own performance or is a deception of a serious nature. Re cases to Judicial Branch, similar considerations apply. Although no requirement interfering with the exercise by courts of judicial function may be imposed under law with respect to pending cases, all Branches, and especially Executive and Legislative, must be deemed obligated by international commitments to take every step necessary to insure the speediest possible performance by the Argentine Government of the obligations thereunder either by passage of expediting legislation or by the exercise of administrative discretion. The Department, specifically, cannot admit propriety of further postponement of determination of cases of expulsion or replacement for allegedly normal period routine court calendar or drawnout procedures where expedition is in fact possible now. It is expected by us that the Argentine Government provide expedition as, for instance, by preferential calendar treatment by administrative action or legislation of setting up, with limits permitted by the constitution or law, of a special court. Under existing Argentine law these forms of expedition are possible, according to the Department's information. Obligations require the Argentine Government, moreover, through executive or judicial agencies to pursue vigorously and thoroughly litigation all issues of pact and law by competent counsel and before thoroughly impartial judge. Throughout at every stage, sincerity and good faith of litigation and presentation of facts and arguments must be evident.

For your information the foregoing statement of the thinking of the Department on this subject is sent to you. Of course, if there is prompt and adequate performance by Argentina these questions will not arise. Your comments on the above are requested, nevertheless. It is also requested that you explore the domestic aspects of Argentine law covered above with a reputable and wholly impartial Argentine lawyer.

ACHESON

835.00/7-2246

Memorandum by the Acting Secretary of State to President Truman

[WASHINGTON,] July 12, 1946.

I hand you herewith a memorandum on the Argentine situation⁶⁵ prepared by Assistant Secretary Braden pursuant to your suggestion during your recent talk with him.

I have read the memorandum and recommend it for your approval.

[Enclosure]

Memorandum on the Argentine Situation by the Assistant Secretary of State for American Republic Affairs (Braden)

SUMMARY OF CONCLUSIONS

There is both a long-term and an immediate Argentine problem.

The essence of the long-term problem is that Argentine Governments have long aspired to create and control an anti-United States bloc of Latin American states and to become the dominant power in South America. Perón's aim, already partially accomplished, of forming a totalitarian-type state, with almost absolute power in his hands, increases the danger which this traditional Argentine policy represents to the inter-American system.

There is no quick, easy way to change this attitude which is the root cause of Argentina's obstructionist role in every phase of inter-American politics and of Argentina's so called "neutrality" in both World Wars. But by continuing to stand for the principle that agreements must be honored by performance; by continuing to identify ourselves with economic progress, democracy and liberty rather than with opportunism and totalitarianism; and by continuing, within the framework of the good neighbor policy and on a practicable basis, a constructive program for improvement in living, health and educational standards throughout the hemisphere, we can demonstrate the vitality and utility of democracy and lay the foundation for a sound and enduring solidarity of governments and peoples.

The immediate problem is whether we should sign a military pact with Argentina and furnish that country with arms and munitions before Argentina has performed its inter-American agreements to liquidate key German business enterprises and repatriate dangerous German nationals.

Since 1942 our consistent policy has been to insist on performance of these undertakings. To waive real compliance by Argentina prior

⁶⁵ *Infra.*

to the negotiation of a mutual assistance pact would not be a just and honorable compromise within our principles. It would be an abandonment of the principles and declared policies of Presidents Roosevelt and Truman and Secretaries Hull and Byrnes.

An abandonment of this policy now would be interpreted as proof of our vacillation, weakness and defeat. It would seriously impede a lasting solution of the important long-term problem referred to because:

a) Argentina will have demonstrated her ability to violate her agreements

i) to regard an act of aggression against the United States as an act of aggression against Argentina (Declaration of Havana ⁶⁶),

ii) to eliminate Axis influence and activities in Argentina (Rio, Washington and Mexico City Agreements ⁶⁷),

and nevertheless force us to sign still another agreement—a military pact;

b) It will appear to contiguous Latin American states that they cannot safely rely on *consistent* United States support in resisting Argentine pressure;

c) It will encourage the Argentine Government to continue to demand tribute under the threat of associating itself with a European power;

d) It will encourage the Argentine Government to proceed with its current National-Socialist program with all the attendant dangers for United States capital investments and influence; and

e) It will mean loss of political prestige and moral influence throughout the hemisphere; and it will be regarded as an abandonment by us of democratic elements and encouragement to others to adopt Peronista-type programs in their own countries.

The postponement of the signing of a military pact until Argentina has performed need not delay the separate program for standardizing arms throughout the other American republics.

By continuing to stand on our announced policy we will effectively demonstrate that, if Argentina is to enjoy the fruits of equal partnership in the inter-American system, it must honor the principles of that system and its freely contracted obligations thereunder.

⁶⁶ For text, see Resolution XV of the Final Act of the *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), p. 20. or Department of State *Bulletin*, August 24, 1940, pp. 127, 136.

⁶⁷ For the Rio Agreement see Recommendation V of the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15–28, 1942, Department of State *Bulletin*, February 7, 1942, p. 124. For the Washington Agreement, see Resolution I of the Inter-American Conference on Systems of Economic and Financial Control, June 30–July 10, 1942, summarized in *Foreign Relations*, 1942, vol. v, pp. 60–62. For the Mexico City Agreements, see Pan American Union, *Final Act of the Inter-American Conference on the Problems of War and Peace, Mexico City, February–March, 1945* (Washington, 1945), p. 55.

Treaties are of no value unless they rest upon the good faith of the parties involved. In a treaty such as the contemplated mutual assistance pact, which would affect the security of the United States and the defense of the Hemisphere, the Government of the United States must be in a position to assure the American people that it has not entered into any such treaty as long as a doubt exists about the good faith of any of the other parties thereto.

ALTERNATIVE COURSES OF ACTION

There are three possible courses of action :

A. Acceptance of the Argentine thesis that there are no outstanding problems between the two governments and agreements to provide arms and to collaborate with Argentina in a military defense pact.

B. Acceptance of a majority decision of the other American republics as to whether or not we should require compliance by Argentina.

C. Strict adherence to Secretary Byrnes' statement of April 8⁶⁸ that "there must be deeds and not merely promises" before we will sign a military treaty and deliver arms to Argentina.

Each of these alternatives must be analyzed by reference to our national interest.

A. *Appeasement of Perón by giving him arms and offering him military collaboration before there has been compliance with international obligations would mean:*

(1) A daring Argentine victory over and a body-blow to the inter-American system. Argentina alone of all the republics would have succeeded in repudiating obligations jointly undertaken to meet the threat of a common enemy.

(2) That a nation can ignore its solemn commitments, not only without detriment to itself but that it can even participate in the benefits to be derived from the very agreement whose obligations it has discarded. To acquiesce in establishing such a precedent would endanger the sanctity of all international agreements.

(3) The loss of United States prestige and moral influence throughout the Hemisphere by the abandonment of a policy enunciated by President Roosevelt and Secretary Hull and confirmed by President Truman and Secretary Byrnes.

(4) Proof that the persistent Argentine strategy of playing off a non-American power against the United States pays dividends and the conviction that the same game can be successfully repeated again and again for even higher stakes.

⁶⁸ For text, see circular telegram of April 1, 11 p. m., p. 10.

(5) Encouragement to Perón to go forward with the program of domination of South America.

The governments of the other American republics fully understand, as we do, that the traditional aim of Argentine foreign policy has long been to control a bloc of South American states in opposition to the United States. To the extent that we fail to adhere consistently to our declared policies, the ability of neighboring states to withstand Argentine pressure is lessened. Bolivia and Paraguay are already in the Argentine orbit and pressures have been exerted on Uruguay and others.

(6) Perpetuation in this hemisphere of a powerful German economic and political machine and the defeat of our repeatedly announced policy to destroy German militarism and Nazism wherever it is found. In addition to other dangers* this would be inconsistent with and detrimental to our policy to press for elimination of German influence in Europe as we are now doing in the Safehaven negotiations⁶⁹ with Switzerland and Sweden and in respect of German property in Spain, Portugal, Turkey and Ireland.

(7) Abandonment of the liberal and democratic elements in Argentina and other American republics (who potentially constitute the only true friends we can count on for the long pull) and encouragement to military and reactionary leaders (who are innately inimical to our way of life) to follow Peronista-type programs in their own countries.

(8) Encouragement to Perón and other nationalistic leaders to believe that, since we are impotent to require compliance with inter-governmental obligations, we will be equally impotent to protect the rights of our own nationals.

B. Acceptance of a majority decision of the other American republics as to whether or not we should require compliance by Argentina.

This course would submit for decision by the other American republics the Argentine proposition that no further compliance should be required. If a majority of the other republics accepted this proposition, then irrespective of our own convictions, we would be obliged to sign the mutual defense treaty at Rio with Argentina.

Without our leadership and support many of the republics would be powerless to resist Argentine pressure. Argentina has already used its control of food supplies to put pressure on Uruguay, Bolivia,

*The Germans in Argentina constitute a large, wealthy, unassimilated, politically influential group which enjoys a virtual monopoly in various scientific and industrial fields. Their representatives continue to advise with the Argentine Government. The extraordinary power which this group wields in Argentina continues to be used against the United States. [Footnote in the original.]

⁶⁹ See *Foreign Relations*, 1945, vol. II, p. 852 ff.

Peru, Venezuela, and even Brazil.⁷⁰ Most of the republics—and particularly those in geographic proximity to Argentina—are afraid to incur Argentine enmity by taking a strong stand, particularly since they fear being left to face Argentina alone as a result of a change in United States policy. Should the United States evidence the slightest willingness to abandon its position, each in its own immediate self-interest might vie with the others for Argentine favor.

Since 1942 our policy that Argentina must honor her agreements by performance has been repeatedly stated in the most unequivocal terms. The attitude of the other American republics, induced by fear of Argentina, is also known. Were we therefore to declare now that we are prepared to accept a majority decision of the other American republics, they would immediately understand that the United States accepts defeat.

They would believe that we were seeking to spread the onus for defeat at the last moment by reference to a majority decision. We would thereupon suffer all the ill consequences listed under Alternative A. Our prestige would suffer disastrously at home and abroad. The American people would be bewildered by such a reversal of our policy.

C. Strict adherence to Secretary Byrnes' statement of April 8 that "there must be deeds and not merely promises" before we will sign a military treaty and deliver arms to Argentina.

This is our policy today. It is consistent with our world policy: We are prepared to compromise within our principles but we will not abandon those principles.

There is a possibility that the almost desperate desire of the Argentine armed forces for modern equipment and materiel will induce "the deeds" which we have been requesting since 1942. This would solve the immediate problem of Argentine compliance and on the basis of the April 8 statement would pave the way to conclusion of the military pact.

We are, however, bound to acknowledge the contingency of continued resistance from Perón, and with it, postponement of the mutual assistance treaty contemplated by the Act of Chapultepec. The charge will then again be heard that our policy is breaking Hemisphere solidarity and that we are jeopardizing continental security. It is ironical that Argentina, which did break hemisphere solidarity and jeopardize continental security throughout the war, should be exculpated and we blamed. For the United States to assume a defensive attitude in these circumstances would be unpardonable.

The argument that a refusal promptly to include Argentina in a

⁷⁰ See the documentation on the wheat-rubber problem of Argentina, Brazil, and the United States, pp. 111 ff., and references to wheat crisis under countries named.

military assistance pact will destroy Hemisphere unity does not bear analysis.

"Hemisphere unity" which is achieved by waiver of solemnly contracted obligations can never be the basis for an enduring inter-American system. Security in the Americas is dependent upon the maintenance of the integrity of the inter-American system. If Argentina or any other one nation is held to be above the rules, then the rules have no meaning and insecurity takes the place of security. The people and the government of the United States desire to continue their efforts to create a genuine solidarity in the Americas. But a solidarity resting upon a failure to correct the conditions that undermine that solidarity would be worse than useless.

Delay in the negotiation of the permanent military treaty has not and should not block other substantial and important inter-American undertakings. Cooperation among the American republics is going forward today, with participation by all the republics, on a dozen fronts. The Governing Board of the Pan American Union has never been more active. That body recently sent a comprehensive draft "Charter of the Americas" to all the governments in preparation for the conference in Bogotá, Colombia, next year.⁷¹ The Inter-American Economic and Social Council⁷² is meeting regularly at the Pan American Union on a score of new assignments. Other inter-American organizations and committees are at work, and conferences, such as that on Copyright held during the past few weeks, are being convened on schedule and with attendance by all of the republics.

A further argument against postponement of the treaty is the claim of jeopardy to our national security. It is contended that our security requires that, irrespective of the consequences of appeasement by waiver of international obligations, we immediately conclude the treaty and enter upon a program of full military collaboration with Perón.

The primary interest of the United States in the mutual assistance treaty is the undertaking that an attack against any American republic by a *non*-American power shall be considered as an attack against all of the republics. This interest is, however, already safeguarded by:

(1) The Declaration of Havana, quoted at p. 12 above, which is binding, without time limit, upon all the republics and which was acted upon by all except Argentina in World War II.

(2) The Act of Chapultepec which is binding on all the republics until the state of war is formally terminated.

(3) All the security provisions of the United Nations Charter, which, it will be recalled, had not been agreed upon when the Act of Chapultepec was signed by the American republics.

⁷¹ The Ninth International Conference of American States which met from March 30 to May 2, 1948. For preliminary discussions concerning the Conference, see pp. 28 ff.

⁷² See *Foreign Relations*, 1945, vol. ix, pp. 172 ff.

In these circumstances there would seem to be little justification for the somewhat panicky insistence that our national security requires one more formal promise of mutual aid, immediately and irrespective of Argentine compliance with earlier promises of such assistance. Moreover, in respect of the security of the other republics against attack by a non-American power, they are well aware that, apart entirely from treaty obligations, the United States would, under the Monroe Doctrine and for its own security, immediately go to the assistance of any American state attacked by such a power.

A secondary interest in the proposed pact has been to induce the other republics to standardize their equipment with ours, thus facilitating the establishment of our military and naval missions throughout the Hemisphere and excluding those of non-American powers. This objective can be attained in all republics except Argentina immediately upon the enactment of the Truman Bill ⁷³ and without waiting upon the treaty. In the case of Argentina, it must not be overlooked that under our present policy, by reason of effective agreements with Great Britain, Canada, and Sweden, we are preventing the export to Argentina not only of our own arms and matériel but also those of the countries mentioned. Although a military treaty which included Argentina would open the way to deliveries of planes, tanks, and guns by the United States, the treaty would also terminate our understandings with the countries mentioned. And no agreement is contemplated under which Britain, Sweden or Canada would respect our desire to standardize military equipment in Argentina.

Since early in the war it has been the primary objective of the Argentine armed forces to regain ascendancy over the forces of Brazil and Chile. In mid-1943 when we needed every plane and gun against the enemy, the Argentine government requested military aid to restore "continental equilibrium." Perón's objective is the same today. He wants "equilibrium" plus as against Brazil and Chile, and he seeks to participate in the military pact because he is aware that only through such participation will he be able to obtain modern military equipment from all of the exporting nations. There is no reason to believe that Perón will permanently abide by an agreement to standardize or to limit arms if such agreement would in any degree prejudice the relative strength of his forces. Standardization would, in other words, be attained only by our acceptance of Perón's quantitative criteria.

This evaluation of the Argentine purpose in relation to the pact also bears upon the interest of the other American republics in treaty protection against attack by any American state. Since the Mexico City Conference, such protection has been provided through the secu-

⁷³ Concerning Inter-American military cooperation; see Department of State *Bulletin*, May 19, 1946, p. 859.

rity provisions of the United Nations Charter. It is also assured by the Act of Chapultepec until the war emergency is formally terminated. In view of these binding undertakings, it may well be questioned whether the security of the other republics, and particularly of the immediate neighbors of Argentina, would be promoted by another promise of assistance—a promise to be obtained in this instance only at the cost of immediate modernization of Perón's armed forces. Argentina's neighbors are well aware, as we should be, that a modernized army, even though it were never employed in open aggression, would greatly strengthen Perón's hand in promoting a southern bloc through economic pressure and political penetration, modern techniques of aggression which, unfortunately, are not readily checked either through the United Nations or through a military assistance treaty.

CONCLUSION

Because of the anticipated attitude of the other American republics under alternative B, that alternative is, for practical purposes and in end result, the same as alternative A. Both of these courses would make possible the early convening of the Rio Conference and would create the appearance of military solidarity throughout the Hemisphere.

It is not here maintained that alternative C, which may mean postponement of the mutual assistance treaty, will entail no disadvantage.

It is maintained that:

(1) Alternative C is clearly and beyond all doubt preferable to any other course since the price of an immediate treaty would be abandonment of principles for which the war was fought and on which an enduring peace must be built;

(2) The only hemisphere solidarity worthy of the word is one based upon a proved common loyalty;

(3) If we were to waive Argentine default upon inter-American obligations and to subsidize the default by supplying her with arms, we would invite the contempt of Argentina herself, and of all the peoples who are looking to our country for leadership in the establishment of principle and morality in the conduct of nations.

We have taken this leadership in the counsels of the great powers. To maintain the same leadership in the counsels of the small nations will often be difficult in the extreme, because our enemies will question our motive and the recalcitrant will charge abuse of our power. Yet we know, and must not be afraid to declare, that security for the small nation is wholly dependent upon the integrity of the international system and that if any one nation, be it large or small, is held to be above the rules, then the rules have no meaning, either for the great or for the small.

It is fitting here to recall that President Roosevelt acknowledged no difference in responsibility as between the great and the small when he declared in respect of Argentina :

“Unless we now demonstrate a capacity to develop a tradition of respect for such obligations among civilized nations, there can be little hope for a system of international security, theoretically created to maintain principles for which our peoples are today sacrificing to the limit of their resources, both human and material.”

810.20 Defense/7-1646

The British Embassy to the Department of State ⁷⁴

AIDE-MÉMOIRE

My Government have noted with sympathetic interest the proposals submitted to Congress for Inter-American Military Co-Operation, and particularly President Truman's covering message of 7th May.⁷⁵

2. In their desire to co-operate, as far as possible, in the announced object of preventing a competition in the supply of arms and equipment to Latin America, they would greatly appreciate it if they could receive, in confidence, such detailed information as may be agreeable to your Government with regard to :

a) the proposals for furnishing, or exchanging, standard United States equipment against existing non-standard armaments in Latin America ;

b) the percentage of Latin American forces which it is proposed to equip and train under the Hemisphere Defence proposals now before Congress.

3. It will be remembered that British equipment and training have long been predominant in several of the Latin American Navies: a matter of importance from the point of view of maintaining the traditionally friendly relations which have always existed between Britain and the countries concerned.

4. As this satisfactory state of affairs is believed to be of common advantage in furthering Anglo-American policy in Latin America, my Government would be glad to know whether they are correct in their belief that the Hemisphere Defence Forces whose equipment and training it is proposed to standardise represent about twenty-five per cent. of the total armed forces of each Latin American country concerned?

5. If this, or some other, percentage is envisaged, my Government would propose to supply at least a part of the remainder; especially to the Latin American countries referred to above. The manifest ad-

⁷⁴ Handed by the British Ambassador (Inverchapel) to the Under Secretary of State (Acheson) on July 18, 1946.

⁷⁵ Department of State *Bulletin*, May 19, 1946, p. 859.

vantages of their so doing are apparent inasmuch as arms, equipment, or training thus supplied to Latin America can be controlled and kept under observation. The alternative—as was recently indicated in Buenos Aires—might well be the supply of arms from other European sources including Soviet Russia, Czechoslovakia and Sweden.

6. In these circumstances my Government would be grateful to learn whether Argentina is, or is likely to be, included amongst the countries who, under the terms of the Inter-American Military Co-Operation Act, would be furnished with a percentage of standardised United States equipment? If so, the sale of United States armaments to Argentina would naturally release my Government from the "Gentlemen's Agreement" relating to that country; under which British arms, munitions of war, or other goods particularly adapted for warlike uses have steadily been denied—especially to the Argentine Navy and Air Force. The arguments presented in paragraph five above apply with particular force to the Argentine Navy in view of the importance of perpetuating its traditional sympathy, which was of considerable value to the cause of the United Nations in wartime; in marked contrast to the attitude of the Argentine Army, whose German training and armament have reaped results well known to both Governments. For this reason especially my Government are desirous of resuming supplies to Argentina of the above-mentioned character; without, at the same time, conflicting with the United States plans under review.

7. In the particular conditions obtaining in Santo Domingo, my Government would also be glad to consult with the United States Government regarding requests for certain minor items of armament for which applications have been received.

8. In short, while retaining their liberty of action in a matter of great and many-sided importance to Great Britain, my Government are anxious to co-ordinate their policy with that of the United States Government as regards the rearmament and equipment of Latin America. The arrangements herein discussed must, it is recognized, be of a provisional character; pending conclusion of definite international arrangements with regard to traffic in arms.

WASHINGTON, 16 July, 1946.

835.24/7-1646 : Telegram

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

SECRET

BUENOS AIRES, July 16, 1946—10 a. m.

[Received 10:47 a. m.]

1841. No information has leaked out here regarding Argentine Soviet Trade Mission negotiations but member of Soviet Mission said

to correspondents several days ago they were considering "several" agreements. I think it most likely that Soviet Mission has made proposals to Argentine Govt along line mentioned in Deptel 938, July 13.⁷⁶

Publication information with date line other than Moscow or Buenos Aires may have deterring effect on Argentine military at this time if they should be favorable to such purchase Soviet or German equipment.

There is little doubt in my mind that Argentine military would be interested in getting German war plant equipment.

MESSERSMITH

740.35112 RP/7-1846 : Telegram

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

SECRET

BUENOS AIRES, July 18, 1946—10 a. m.

[Received 3:47 p. m.]

1858. ReEmbtl 484, Feb 14. Argentine Supreme Court on July 16 sustained Appellate Court decision vacating lower courts orders which restrained Vigilance Board from further action against Staudt and Co and other enemy firms until final decision of pending litigation affecting control and liquidation decrees. Court reasoned that in case of decisions adverse to Government aggrieved parties could be adequately indemnified by cash payments. The Board now appears free to proceed with liquidations and sales of enemy assets. President Perón had previously informed me of his intention of indicating to Minister of Justice importance of rapid decisions and of having forced proceed thereafter with rapid disposition of enemy assets. Full report follows.

MESSERSMITH

610.20 Defense/7-1646

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

[WASHINGTON,] July 18, 1946.

Participants: The British Ambassador
Mr. Hadow, Counselor of the British Embassy
The Under Secretary of State
Assistant Secretary, Mr. Braden

The British Ambassador and Mr. Hadow called at the Ambassador's request. Mr. Braden received them with me.

The Ambassador handed me the attached *Aide-Mémoire*⁷⁷ and asked

⁷⁶ Not printed; it repeated telegram 2164, July 12, 1946, from Moscow concerning the possible dispatch of German arms to Buenos Aires (835.24/7-12).

⁷⁷ Dated July 16, p. 278.

me to read it, which I did. In reply to the questions raised in the *Aide-Mémoire* I made the following points:

This Government has in mind several objectives in the Inter-American Military Cooperation Program. First, from the military point of view, a common action in the defense of the Hemisphere will be greatly facilitated if throughout the American Republics there should be standardized equipment and common types of military organization and training. It is obvious how this would facilitate combined action both from the supply and operational points of view in the event of any threat to the Hemisphere. Accordingly, the idea contained in the *Aide-Mémoire* that the cooperation extended to only a percentage of the force of each country was new to us. It did not seem that the purposes could be achieved if the forces of any of the Republics were equipped and trained partly in one way and partly in another.

Second, as the *Aide-Mémoire* pointed out, the presence of German military missions had proved both a danger and a handicap during the past war. Accordingly, another of the purposes of the program was to avoid these hazards in the future.

Third, it was desired to prevent an armament race either because of the external pressure of sellers of armaments or because of internal competition among the various countries. To this end, both under the Chapultepec arrangements and the contemplated treaty staff conversations and cooperation were envisaged for the purpose of keeping armaments to a minimum and to coordinate effort. Mr. Braden stressed our hope that armaments could be reduced rather than increased by this program.

So far as Argentina was concerned, I said that it was our purpose not to engage in discussions for supplying arms to Argentina until the political problems between us had been straightened out. At present it looked as though little progress is being made in this direction in the light of Peron's retreat from the Mexico City agreements by placing them before the Congress for their action. Until this matter was clarified we saw little hope of making progress. Therefore we hoped that the gentlemen's agreement would be continued in effect.

In response to Santo Domingo, I stated that we had declined to ship further armaments to that country and that we hoped that the British would take the same attitude. Mr. Hadow mentioned that Santo Domingo had obtained some arms from Brazil. We re-iterated our view that under present circumstances we thought arms from any sources were undesirable and we urged the British not to ship any.

Mr. Hadow inquired whether we had had any confirmation of the report that Argentina was attempting to get German equipment

through the Soviet Union. Mr. Braden replied that a cable from Mr. Messersmith indicated that there was foundation for this report. Mr. Hadow stated that, if through Russian help Argentina were able to get equipment from the Skoda Company in Czechoslovakia or other German or Russian sources, the Argentines might become quite independent of help under the Inter-American Bill. Mr. Braden stated his intention of following this matter closely.

DEAN ACHESON

835.00/7-2246

*Memorandum by President Truman to the Under Secretary of State (Acheson)*⁷⁸

SECRET

WASHINGTON, July 22, 1946.

I spent yesterday reading the Argentine report⁷⁹ and it seems to me that we should stick to specification "C" on page twenty-eight⁸⁰ of the Alternative Courses of Action—that backs up the Secretary of State in his statement of April eighth, as set out on page twenty-three.

H[ARRY] S. T[RUMAN]

862.20235/7-2446

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

[Extracts]

CONFIDENTIAL

BUENOS AIRES, July 24, 1946.

No. 429

[Received August 2.]

SIR: I have the honor to transmit herewith a translation of a Note dated June 15, 1946⁸¹ from the Ministry of Foreign Affairs and Worship forwarding a list of schools, both German and Japanese, which have been closed by the Argentine authorities.

I do not wish in this despatch to cover the question of enemy property and enemy subjects as these will be covered in separate despatches. I shall confine myself in this despatch to schools and institutions.

After a very careful study of the basic data I now can inform the Department that a full survey of the situation with respect to German and Japanese schools and institutions in the Argentine leads to the

⁷⁸ In a letter of July 30, 1946, Assistant Secretary of State Braden advised Ambassador Messersmith that the Argentine report was requested by the President and that he was delighted with the President's response (835.00/7-2246).

⁷⁹ *Ante*, p. 270.

⁸⁰ See p. 272.

⁸¹ Not printed.

definite conclusion that the Argentine Government has substantially complied with its commitments in this respect under Resolution VII of the Final Act of the Mexico City Conference. I am unable to state definitely to the Department why in this particular field the Argentine Government proceeded with more vigor and more effectiveness than it has so far in the field of enemy property and subjects, but I venture the opinion that it was because it was easier under Argentine law and procedure to take this action than against enemy property and subjects.

I may say that, in addition to the fifty-three German and Japanese schools listed in the enclosure to this despatch, which cover the important schools, this Embassy has information that twenty-five others have been closed or intervened or have voluntarily ceased activity. All Japanese schools in the Argentine known to this Embassy are included in the foregoing figures.

A survey by the Office of the Legal Attaché shows that an additional forty-two German schools were also closed and there is reason to believe that probably the major number of these were closed voluntarily and not as a result of direct action of the Argentine Government but rather as a result of the direct action taken against more important schools.

The information in the possession of the Legal Attaché of the Embassy and of the Embassy shows that some sixty Axis institutions, not including organizations which existed merely for the operation of schools, have been intervened, taken possession of, or their corporate licenses cancelled. As a matter of fact, we have reason to believe that there may be even more such institutions in this category in which action has been taken but on which complete data are not available in the Embassy. I would like to state in this connection that the institutions and organizations mentioned in this paragraph include the important German clubs in the Argentine.

The information in the possession of the Embassy with respect to a few schools would indicate that the action taken may not have been as complete as might be desired, but there is, however, no evidence that Nazi principles or doctrine are being taught in any of the existing schools under their new organization and operation. In these several cases the Embassy has informally brought to the attention of the Foreign Office the facts as known or reported to the Embassy, but the information in the possession of the Embassy has not been of a sufficiently definite character to indicate that the action taken by the Argentine authorities has not been adequate. It should also be pointed out that in the case of these few schools they are licensed and supervised by the Government, succeeding former German schools, and it must be assumed in the absence of evidence to the contrary that ade-

quate safeguards have been taken with respect to the operation of and the teaching in these schools.

From time to time the Department has sent information to the Embassy which it has gathered from various sources which would indicate that there were some 215 Axis schools (15 Japanese and 200 German) in the Argentine. The Embassy is inclined to doubt the accuracy of this figure of 215 schools, as it has been able to locate, after careful inquiry and surveys, only about 125 of this number and in which adequate action, as above indicated, has been taken. There is good reason to believe that most of the remainder were small, what are known here as "family" schools, which are not required to register with the Argentine school authorities. It will be remembered that outside of the few large centers of population in the Argentine the population is very sparse and scattered, and these so-called "family" schools exist where instruction may be given to a very small group of students, sometimes only the children in a particular family. It is believed that some of these "family" schools were undoubtedly in the Province of Entre Rios, as in 1937 a Nazi Party publication referred to 3500 students and 100 teachers in that province and indicated that a large proportion were in such "family" schools. I would like to observe in this connection that the statement of 3500 students and 100 teachers in this Nazi Party publication could not be taken too seriously.

So far as the remainder of these schools (believed to be mostly "family" schools) are concerned, there is reason to believe that they are no longer in existence, as the information which we have is that most of these small German schools closed voluntarily with the rupture of diplomatic relations, Germany's defeat and the discontinuance of the financial support of such organizations as the Auslandsinstitut.

Respectfully yours,

GEORGE S. MESSERSMITH

835.24/7-2546

Memorandum of Conversation, by the Acting Chief of the Division of River Plate Affairs (Mann)

CONFIDENTIAL

[WASHINGTON,] July 25, 1946.

Participants: Mr. Stone, Counselor of the Canadian Embassy;
A-Br/S-Mr. Spaeth;
RPA-Mr. Mann

On July 19 Mr. Stone called at his request on Mr. Braden to discuss Argentina's desire to buy two corvettes and a frigate from Canada. It was decided to look further into the facts and to await the outcome

of the Department's conversation with Mr. Hadow of the British Embassy on the same general subject before coming to a final conclusion. On July 25 Mr. Stone called on Mr. Spaeth and Mr. Mann and said that the Canadian Government intended to remove all arms from the three vessels in question; that they were capable of conversion into coastal freighters and refrigerator ships and, in fact, others were now being operated in commercial traffic; and while the Canadian Government could in no case control the end use in Argentina, it has no reason to believe that these vessels, already obsolete from a naval standpoint, would be put to naval use. Mr. Stone said that his information was that by removing a boiler, room could be made for a hold, and that this would reduce speed to about 10 knots which was average for commercial type vessels.

In view of the above and Mr. Stone's statements that his Department was under pressure from the Canadian surplus property people, he was informed that no objection was perceived to the sale of these vessels and that the Department appreciated his government's cooperation in prohibiting the sale of armaments to Argentina.

It was agreed that "gray cases" would have to continue to be considered *ad hoc*; that we would continue to consult concerning these cases; and that in each case it would be necessary to decide whether all the available information indicated that questionable items would probably be put to a commercial rather than a military use. The conversation did not cover replacement parts and items designed to improve existing military and naval equipment.

711.35/7-2646

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

[Extracts]

TOP SECRET
No. 438

BUENOS AIRES, July 26, 1946.

SIR: I have the honor to acknowledge receipt of the Department's telegram No. 898 of July 2, 1946, 6:00 P.M. in which it makes a statement of the Department's thinking on the question of Argentine performance and compliance and requests my comment with regard to the statement. This telegram arrived in the Embassy on July 3 and it was my intention to make an immediate reply thereto but I was obliged, on July 5, to remain in the Embassy residence under the care of my physicians as I was taken with a stomach ailment which made it necessary for me to remain in bed for several weeks and to abstain, under instructions of the doctors, from any but the most essential

duties. I am very pleased to be able to state that I am now much better, and although I am still working from the Embassy residence, I hope to be able to return to the Chancery next week.

I think that I should frankly state that during all of my long service with the Department I have not received a communication from the Department which has caused me in certain respects more concern. I am not able to determine why this telegram was sent and there are certain phases of the telegram which I am not able to understand.

In the first place I should frankly state that it would appear from this telegram that I was not familiar with the Department's views and attitudes. When I accepted this mission at the request of the President and Secretary Byrnes, I did so only because I felt it was a matter of duty to accept the mission. I accepted it because of my understanding of the world situation and of our American problem and of the importance of the Argentine situation in connection therewith. Before leaving for this post I had the opportunity for conversations with the President and with Secretary Byrnes and with Under Secretary Acheson and Assistant Secretary Braden with regard to my mission and with regard to our policy. There was, I believe, complete understanding with respect to the task with which I was entrusted.

I will now briefly comment on various aspects of the Department's telegram under reference.

The Department states at the outset of the telegram that the views of the Argentine with respect to compliance with international commitments as expressed by President Perón, General von der Becke, and others are obviously premised on the idea that the commitments of the Argentine are fully satisfied when the executive branch of the Argentine Government places various matters involving compliance before the legislative or judicial branches of the Government for implementation. The Department states that such a position is unacceptable, and I am in thorough agreement that such a position would be unacceptable if it exists.

I am, however, unable to determine on what the Department bases the statement that Argentine views with reference to compliance are premised on such a proposition. I do not know of any statement made by President Perón since my arrival in Buenos Aires on May 22, 1946 which would in any way indicate that President Perón believes that Argentine compliance with its commitments is met when various matters with respect thereto are placed before the legislative or judicial branches of the Government for implementation. There is nothing which President Perón has said in official addresses, in statements to the press, or in private statements to me which would indicate any such attitude or position by him.⁸² On the other hand, the Presi-

⁸² See the memorandum of July 16, by Assistant Secretary Braden, p. 22.

dent has indicated to me in the clearest manner that he is thoroughly understanding of the fact that in the matter of enemy property, enemy subjects, and enemy institutions and schools the Argentine must meet the obligations which it undertook in adherence to the Agreements of Mexico City and of San Francisco.

So far as General von der Becke is concerned, the Department is aware from the despatches and reports of this Embassy and from statements of the President of the Argentine that General von der Becke did not proceed to the United States with an official mission from the President or the Ministry of Foreign Relations. He went at the request of the Minister of War. He had no authority to speak for the Argentine Government. As this matter has been so fully covered in despatches and letters from this Embassy and as the nature of the mission of General von der Becke, its origins and all attendant circumstances, are so well known to the Department, it does not seem necessary to go into this matter further here. I am, however, unable to determine why, under these circumstances, the Department should refer to statements made by General von der Becke with respect to compliance for it is so obvious, and must have been obvious when this telegram was sent this Embassy, that General von der Becke was not speaking with any authority.

The Department's telegram in referring to these statements with respect to compliance refers not only to statements by President Perón and General von der Becke, but also to "others." I do not know what persons may be included within the term "others", but so far as this Embassy is aware, we are not in possession of any information that any responsible officer of the Argentine Government has made statements such as those to which reference is made in the first part of the Department's telegram under reference.

With reference to the observations made by the Department in the telegram under reference concerning the constitutional limitations on the power of the executive branch, but the nevertheless implied obligations of the Executive, I am unable to determine why this reference is made in this telegram unless it be based on the fact that President Perón informed the Congress that the Acts of Mexico City and San Francisco and other international pacts and agreements entered into by the provisional government would be submitted to the Congress for their judgment and ratification. It is not for me to enter here into an interpretation of the Argentine Constitution. It is a known fact that the Government which gave its adherence to the Acts of Mexico City and San Francisco was a provisional government. Elections were held and a President and a Congress were elected early this year. When the Congress met, the newly elected President informed the Congress in an address made just before his taking the oath, that the

Government of which he was about to become the head was a constitutional government representing the will of the Argentine people as expressed in a free election. He stated that consequently all the decrees and laws, as well as all international understandings and agreements entered into during the period of the provisional government, would be submitted to the Congress for their discussion and action. The President stated that this was a necessary procedure under the constitutional practice of the Argentine. Later when he addressed the Congress after having taken the oath of office as President, he set forth the legislative program of his administration and stated that all these international agreements and understandings would be submitted to them for approval.

The Minister of Foreign Affairs, Dr. Bramuglia, came to see me this morning and spent several hours with me. He brought with him complete documentation with regard to enemy property, enemy aliens, and enemy schools and institutions. He informed me of the decisions which have been taken by the Government. With respect to enemy property, the Government has decided to proceed with the nationalization, Argentinization, or liquidation of German property having an estimated value of well over 200,000,000 pesos. The firms in which he indicated they would take definite and prompt action covered, so far as I could see during our conversation, all of the important enemy firms. He expressed willingness to discuss certain other firms not included in the present program if we had information which we believed showed that action should be taken. With respect to enemy aliens, he indicated a program which the Government was going to take to facilitate the action of the courts and carry through deportations, denaturalization, etc. which was much more adequate than anything I thought we would be able to get. With respect to enemy institutions and schools, I informed him that I had already informed my Government that in this particular field I believed that the Argentine Government had taken adequate action, but we agreed to continue to maintain liaison and exchange of information with respect to such schools and institutions in accord with the agreements of Mexico City.

I do not wish in this despatch to go into my actuation since I assumed charge of this mission on May 22. I can only say that I have been in constant touch with the President and with the highest officials of the Argentine Government since my arrival. I have had many formal and informal conversations with them in which every phase of these problems has been explored and discussed in a spirit of complete frank-

ness and directness. I would not be reporting accurately if I did not state that I have found a desire of the Argentine Government to carry through its obligations and to incorporate itself more fully into the American picture, and also to normalize its relations with the United States.

I shall keep the Department fully informed of developments.

Respectfully yours,

GEORGE S. MESSERSMITH

711.35/7-2746

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

TOP SECRET

BUENOS AIRES, July 27, 1946.

No. 448

SIR: . . .

After a study of the list appended hereto³³ in which the Minister³⁴ has stated immediate action will be taken, and after the study of the long list of some hundreds of firms (which is not transmitted herewith as I do not believe it has any interest to the Department, and time would not permit in any event because of its length to send a copy by this mail), we are convinced that if the Argentine Government proceeds with appropriate action in the firms listed in the list herewith transmitted it will have adequately fulfilled its obligations in the matter of enemy property, and I make free to say that, if it does carry through this program adequately as set forth in the appended list, it will have carried through its obligations as fully as if not more fully than any one of the other American republics. I am sure the Department will be of this view also.

An examination of the list hereto appended will show that it covers almost all of the firms in which our Government and the British Government have evinced any interest. Notably, however, it contains no reference to the Staudt firms. I am unable to explain at this moment why the Minister should have omitted from this list the Staudt firms, but it is probably due to the fact that the Staudt interests have caused more difficulty to the Argentine Government in its liquidation program than any other. Most of the court suits which have been instituted against the Government in the matter of enemy property action have come from the Staudt interests.

We are giving this whole matter very careful study in the Embassy. Our preliminary opinion is that, if the Argentine Government pro-

³³ Not printed.

³⁴ The Minister for Foreign Affairs, Juan Atilio Bramuglia.

ceeds with the nationalization, Argentinization or liquidation of the firms mentioned in the appended list as the Minister has indicated it will do, it will have performed adequately in the matter of enemy property. The Department will realize from its knowledge of what has been done in other American countries, that, if the Argentine Government carries through this program according to the appended list, it will have done relatively more than most and perhaps any other of the American countries.

This Embassy is now, however, studying what further observations we shall make to the Minister and we are presently of the opinion that we should bring to his attention very definitely the Staudt interests for liquidation or complete Argentinization, as well as some 15 or 16 of the firms of secondary importance which are contained in the long list of hundreds of names not transmitted with this despatch, for the reasons already indicated above.

The Minister indicated in a very categorical manner that he had already given the most definite instructions to the new Junta to proceed rapidly with respect to the firms mentioned in the appended list. He did not indicate whether he had already discussed this matter with the President and with the Cabinet, but I am of the opinion that the Minister would hardly have made such categorical statements as those which he made to me and delivered to me these confidential documents, of which I could make copies, returning the originals to him, if he had not so discussed the matter with the President and the Cabinet in the most definite manner.

Respectfully yours,

GEORGE S. MESSERSMITH

810.20 Defense/7-3146

*The Secretary of War (Patterson) to the Secretary of State*⁸⁵

CONFIDENTIAL

WASHINGTON, July 31, 1946.

DEAR MR. SECRETARY: I have Mr. Acheson's letter of 23 July 1946⁸⁶ inclosing a copy of the *Aide-Mémoire* submitted by the British Ambassador expressing the interest of the British Government in the Inter-American Military Cooperation Bill. I suggest that in replying to the British Ambassador the following information be considered.

The War Department does not know of any plan whereby only twenty-five percent of the military and naval needs of the various

⁸⁵ The Secretary of the Navy (Forrestal) addressed a similar letter on August 6 to the Secretary of State.

⁸⁶ Not printed; in it the Under Secretary sought the comment of Mr. Patterson on the British *aide-mémoire* of July 16, p. 278.

republics of this hemisphere would be furnished by the United States. On the contrary, the plan contemplates comprehensive standardization of all military and naval equipment and training in the republics of this hemisphere. A plan whereby any percentage would be furnished from sources outside the hemisphere would defeat entirely the purpose of the plan for standardization of equipment.

The program of standardizing military equipment and training in all of the republics of America, including the United States, is an outgrowth of the desire of these republics, as declared in the Act of Chapultepec, to consult among themselves in order to agree upon the measures to be taken in the event of aggression. Since these republics agree that standardization of equipment, organization, and training within the hemisphere is a necessary advance step to provide for common defense and internal security, the introduction of military or naval equipment manufactured outside the hemisphere would not be compatible with the expressed desires of these republics. Nor would the introduction of equipment produced outside the hemisphere be to the best interests of the United States, since it could only lead to a situation similar to that which we faced at the beginning of World War II when the other American Republics were stocked with European equipment. At that time, replacements and ammunition were not available for the then standard equipment and a considerable amount of men and materiel had to be diverted from United States' forces for the training and equipping of armies of the other American Republics so that they could protect their own coastlines and could furnish some units for transfer to the more active theaters of operation.

In view of the basic purposes of the military collaboration program, it does not appear desirable to apportion it among the nations of the world. Any action leading to the contribution by any other nation to the armaments of the other American Republics, who look to us for leadership and guidance, can only lead to a renewal of the unfortunate prewar situation by serving as an incentive to other non-hemispheric nations to renew attempts to sell large amounts of armaments to the American Republics.

Insofar as Argentina's participation in the program is concerned, I feel that the decision as to whether or not she receives such equipment rests largely with the State Department. I feel that it would be most desirable to include that country in the program of military standardization as soon as she adheres to her hemispheric commitments. Moreover, I would consider it most unfortunate from the viewpoint of the military security of this hemisphere if Argentina were to receive military or naval equipment from sources outside the hemisphere.

Sincerely yours,

ROBERT P. PATTERSON

711.85/7-3146

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

[Extracts]

TOP SECRET
No. 471

BUENOS AIRES, July 31, 1946.

SIR: I have the honor to make the following report on a conversation which I had with President Perón on Monday evening, July 29, 1946, and with the Foreign Minister, Dr. Bramuglia, on Tuesday afternoon, July 30, 1946.

I said that I was particularly happy to know from what the Foreign Minister had said that it had been decided to proceed rapidly with the ratification of the Acts of Mexico City and San Francisco. I said to the President that I wished to reiterate, not only in my official capacity, but in a purely friendly way, that I thought it was highly desirable for the Congress to proceed with the ratification of these Acts as soon as possible. I recalled to the President that every one of the American countries was watching what the Argentine would do in the matter of ratification; I said that I was sure that all of the countries of the United Nations, and particularly those which were fully independent and self-respecting, were watching such action in the same way and with the same interest. I said that if the Senate did not approve these Acts under the present constitutional regime and therefore ratify the act of the provisional government in having adhered to the Acts of Mexico City, on the basis of which to a large extent the Argentine had been admitted to the United Nations meeting in San Francisco, there would be created a most damaging situation with reference to Argentine prestige and the international situation of the Argentine. . . .

I also said that in a purely unofficial way I wished to state that the lack of ratification in the near future might lead to serious inconveniences for the Argentine as questions might be raised about its continued presence in the United Nations. I said that if the Argentine did not ratify the Acts of Mexico City and San Francisco, it was quite possible that some country would raise the question as to whether the Argentine was properly in the United Nations Organization and that without doubt such an initiative would meet with a good deal of sympathy in a number of quarters.⁸⁷

⁸⁷ The Ambassador reported in telegram 2041, August 20, 6 p. m., that the Argentine Senate unanimously approved the agreements of Mexico City and San Francisco (835.00/8-2046).

. . . The conversation with regard to this point closed with the President stating that he would immediately the following morning take up this question of speeding up ratification and that he would make his position in the matter again unequivocally clear to the Senate which was one of desire for immediate ratification.

I then asked the President whether the Foreign Minister had fully informed him with regard to our conversation of July 25 on enemy property, enemy aliens, and schools and institutions. The President said that the Minister had fully informed him and that he was in complete accord with what the Minister had said. I said to the President that since that conversation I had examined the supplementary lists of some hundreds of firms which the Foreign Minister had left with me on July 25, and that I had found that in the opinion of this Embassy most of the firms in that list were either of no importance or were firms on which this Embassy and the British Embassy had no information. I said that a careful examination of the list by us showed that there was a total of eighteen firms among these hundreds which I thought required the attention of the Argentine Government, in addition to the 69 firms on the list given me by the Foreign Minister on June 25 and with respect to which firms the Minister had said immediate action was being taken, to meet compliance by the Argentine Government in the matter of enemy property. I said that I was confident that if the Argentine Government proceeded with the nationalization, Argentinization, or liquidation of the 69 firms mentioned in the list which the Foreign Minister had left with me and if appropriate action was taken in the case of the 18 firms on the list which I was going to submit to the Foreign Minister where such action was found to be justified by the ownership, and activities, of the persons in these firms, my Government would consider that the Argentine Government had complied fully in the matter of enemy property under its inter-American commitments. I said that I had not discussed this phase of the matter with the British Embassy, but as the information which the British Embassy and we had was identic and as we had collaborated in these matters, I was sure that such action would be satisfactory so far as the British Government was concerned.

The President said that instructions had been given to the Junta to proceed with the appropriate action in the case of the firms on the list which the Minister had given me and that all attention would be given to the observations which this Embassy would make with regard to the 18 firms I had referred to in addition.

With respect to enemy aliens I said to the President that the Minister had discussed this matter with me fully but that there was a list of several hundred aliens concerning which the Minister wished to

consult this Embassy and of which list the Minister had only one copy and had not yet sent me a copy. I said, however, that as the Minister had indicated that the Argentine Government was prepared to act under its laws and procedures with respect to the German agents and practically all those persons of any importance to whom their attention had been drawn by this Embassy and by the British Embassy, it was my hope that the action taken by the Argentine Government in the field of enemy aliens would be as satisfactory as that outlined by the Minister in the matter of enemy property. The President said that the Argentine Government had no interest in these enemy aliens and that he wished to have as rapid a liquidation of the matter as possible.

In the matter of enemy schools and institutions, I told the President that so far as I could see, and I have so informed my Government already, I felt that the Argentine Government had taken adequate action.

Respectfully yours,

GEORGE S. MESSERSMITH

835.24/7-2946: Telegram

The Acting Secretary of State to the Minister in Sweden (Dreyfus)

SECRET

WASHINGTON, August 1, 1946—7 p. m.

1274. Urtels 1190 July 29 and 247 Feb. 1.⁸⁸ Re Swedish intention terminate present understanding re export of arms to Arg following considerations made known verbally Counselor Swedish Legation who called yesterday pursuant instructions his Govt.

Dept policy re armament shipments Arg remains same stated Dep-tels 57 Jan 11 and 1027 June 13.⁸⁹ This policy based SecState statement Apr 8⁹⁰ to effect Arg compliance inter-American commitments must be implemented by deeds and not merely promises before US willing sign military pact or deliver arms Arg, and has no relation whatever to projected arms standardization program as suggested by Swedes.

Even if so-called Truman Bill⁹¹ enacted we would not furnish arms Arg unless and until Arg has complied with its international commit-

⁸⁸ Neither printed.

⁸⁹ Neither printed, but see circular telegram of January 18, 10 a. m., p. 186.

⁹⁰ Statement of April 1, released April 8; for text, see circular telegram of April 1, 11 a. m., p. 10.

⁹¹ The Inter-American Military Cooperation Bill, House Document No. 548, 79th Cong., 2d sess.

ments. Impossible now predict re Arg compliance but upon compliance, gentlemen's agreement would terminate.

Similar agreements with British and Canadians remain in force and relaxation Swedish controls would seriously prejudice these agreements. Dept greatly appreciates Swedish cooperation thus far and view factors outlined hopes it will be possible Swedish Govt continue act in accordance understanding now in effect.

Foregoing should be communicated FonOff with renewed assurance that any contemplated change our policy will be made known immediately Swedish Govt. Pls cable report.

Sent Stockholm, repeated Buenos Aires.

ACHESON

835.24/8-746

Memorandum of Conversation, by the Assistant Chief of the Division of Northern European Affairs (Trimble)

SECRET

[WASHINGTON,] August 7, 1946.

During the course of a conversation with me this afternoon, Mr. Aminoff ⁹² said that on the basis of the recommendations which he had made to his Government following his conversation with Mr. Spaeth, Mr. Brown ⁹³ and myself several days ago, the Foreign Office had instructed the Legation to inform the Department that it would delay, for "technical reasons" issuance of export licenses covering armaments manufactured by Bofors for the account of the Argentine Government until the latter part of September, but that it would probably have to make "token" shipments at that time. I told Mr. Aminoff that this delay would be useful but that I hoped it might be possible to extend further. In this connection, I pointed out that the manifests of all ships arriving at Buenos Aires are published and, hence, even if a Swedish vessel should bring only ten machine guns, the news that Sweden was resuming arms shipments to Argentina would spread all over the country and would naturally have an extremely adverse effect on our efforts to prevent the British and Canadians from shipping arms and munitions to that country. I, therefore, ventured the hope that additional "technical reasons" could be found to postpone such shipments and told Mr. Aminoff that we would let him know as soon as the Argentine Government has taken action looking toward the nationalization or sale of Nazi firms in Argentina and the actual deportation of the Nazi agents there.

W. C. T[RIMBLE]

⁹² Swedish Chargé.

⁹³ Walter Brown, Special Assistant to the Secretary of State.

810.20 Defense/8-846

Memorandum by the Acting Assistant Chief of the Division of International Security Affairs (Elliott) to the Chief of the Division (Johnson)

[WASHINGTON,] August 8, 1946.

Item No. 6 appearing on page 3 of the July Report of the Secretary's Staff Committee (SC/M/10)⁹⁴ relates to the so-called "Arms Standardization Bill". For the purpose of briefing you on developments in this matter, I am outlining below the present status of this matter together with the principal steps which have been taken.

During March and April the proposed legislation was reconsidered by the Subcommittee of SWNCC for Latin America. When the War and Navy members of this Subcommittee again urged that a favorable report be submitted to SWNCC, the State member, largely due to SPA's refusal to concur except after consideration by the Secretary's Staff Committee, referred the question to the Secretary's Staff Committee where, after considerable discussion, it was decided to approve a much revised draft of the bill. SWNCC approval was obtained on April 25, 1946 (SWNCC 246/6).⁹⁴

The draft then went to the President together with a draft message for Congress. A copy of the message together with the draft bill is attached.⁹⁵ The marked portions of the message were included at the suggestion of IS.

The bill was considered first by the House Foreign Affairs Committee at which time the Secretary testified in favor of it. This Committee reported the bill out to the House by unanimous vote, but it did not reach the House calendar before adjournment. The Senate held one hearing on the bill in the Senate Foreign Affairs [*Relations*] Committee where Senator Tunnell⁹⁶ expressed positive disagreement with its provisions. The Senate Committee failed to report the bill out before adjournment.

Due to the adjournment of Congress, the action on the bill is suspended indefinitely. It is interesting to note that, when considering recently the measures pending in Congress on which the Department desired action to be taken, the Secretary's Staff Committee decided that this bill should not be pushed by the Department of State. General Hilldring⁹⁷ was instructed to tell the Army and Navy that, if they wished the bill to be passed, pressure for enactment would have to originate in the War and Navy Departments as this Department was not prepared to press for its passage at this session.⁹⁸

⁹⁴ Not printed.

⁹⁵ Neither printed.

⁹⁶ Senator James M. Tunnell of Delaware.

⁹⁷ Gen. John H. Hilldring, Assistant Secretary of State for Occupied Areas.

⁹⁸ For the relation of Argentina to this measure and the position of the Department of State with respect to an inquiry from the British Embassy, see the *aide-mémoire* of August 26, p. 307.

711.35/7-2646

*The Assistant Secretary of State for American Republic Affairs
(Braden) to the Ambassador in Argentina (Messersmith)*

[Extract]

TOP SECRET

WASHINGTON, August 9, 1946.

DEAR GEORGE: I am terribly sorry that the Department's telegram No. 898 of July 2, 6 p. m. (to which you refer in your letter to me of July 26⁹⁹ and in the Embassy's despatch No. 438 of July 26) caused you the slightest annoyance or gave you the impression that there is any doubt here in respect of your understanding of the basic elements of the problem of Argentine compliance.

We were concerned exclusively as to the possible attitude of the Argentine Government and your assurances in this particular give us the answer. I am sure you will appreciate our desire to be as thorough and prompt as possible in bringing to your attention any and every doubt or reservation which we may entertain at any time on this difficult problem. Only in this way can we obtain the benefit of the Embassy's views to correct misapprehensions that may develop. I say this because in thirty odd years of cable communications between the United States and Latin America, on important matters, both personal and official, I have learned that it is necessary to spell things out in the simplest and fullest terms and frequently to say what appears to be obvious; otherwise misunderstandings inevitably arise.

It was in this spirit that I gave careful consideration to the cable before it was sent and must accept my full share of responsibility therefor. The cable was discussed with and approved by Briggs, Butler, Spaeth and Mann, and signed by the Acting Secretary.

Faithfully yours,

SPRUILLE BRADEN

835.00/8-1546

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

[Extracts]

SECRET

BUENOS AIRES, August 15, 1946.

No. 583

[Received August 26.]

Subject: Observations on our Relations with the Argentine and with
Particular Reference to a Memorandum Prepared by Assistant
Secretary Braden for President Truman

SIR: I have the honor to refer to a secret letter dated July 30, 1946⁹⁹ with which Assistant Secretary Braden transmitted to me four enclosures. The first of these enclosures is a "Memorandum on the Ar-

⁹⁹ Not printed.

gentine Situation" which Mr. Braden states in his letter to me of July 30, 1946, was prepared at the request of President Truman. The second enclosure is a memorandum dated July 12 from Acting Secretary Acheson to the President transmitting this memorandum and in which the Acting Secretary states that he has read the memorandum and recommends it to the President's approval. The third enclosure is a memorandum dated July 22, 1946 from President Truman to Mr. Acheson as Under Secretary of State, in which the President states that he spent the previous day reading the appended report and that it seems to him that we should stick to Specification "C" on page 28 of the Alternative Courses of Action—which specifically backs up the Secretary of State in his statement of April 8, as set forth on page 23 of the memorandum of Mr. Braden. The fourth enclosure is a memorandum dated July 22 from the President to Assistant Secretary Braden¹ attaching a copy of his memorandum of July 22 to Under Secretary Acheson.

Before proceeding with this comment I wish to refer to the three Alternatives of Procedure—A, B, C, which Mr. Braden has set forth on page 28 of this memorandum. In my opinion, Alternatives A and B are not feasible or desirable, and I think in the memorandum itself Mr. Braden has set forth some of the important reasons why Alternatives A and B could not be carried through by us.

Alternative C, as stated by Mr. Braden in the memorandum, is "strictest adherence to Secretary Byrnes' statement of April 8 that there must be deeds and not merely promises before we will sign a military treaty and deliver arms to the Argentine". I wish to state that I have always been and am now in complete accord with Secretary Byrnes' statement of April 8, and as my reports and despatches before I came to the Argentine and since I am here as Chief of Mission will show, I have supported this point of view, and my actuation as Chief of Mission in the Argentine since May 22 has been controlled thereby.

President Truman in his memorandum of July 22 to Under Secretary Acheson states that he has read Mr. Braden's memorandum and that it seems to him "that we should stick to Specification C on page twenty-eight of the Alternative Courses of Action—that backs up the Secretary of State in his statement of April 8, as set forth on page twenty-three. In his statement of the President in his memorandum of July 22 to Under Secretary Acheson I would gather that the President is not expressing complete accord with every statement made in the memorandum of Assistant Secretary Braden but is confining him-

¹ Not printed.

self to the statement actually made in the memorandum that we should continue to base our policy with reference to the Argentine on the statement of Secretary Byrnes of April 8.

. . . The Department has given careful study to these factors as has this Embassy and it is my understanding that the Department and this Embassy are in accord that Argentine compliance necessary for the normalization of relations is dependent upon four major factors. These are:

1. Ratification by the Argentine Congress, as required under her constitutional procedure, of the Acts of Mexico City and San Francisco;
2. Adequate action with respect to enemy property;
3. Adequate action with respect to enemy aliens;
4. Adequate action with respect to enemy schools and institutions.

I made these points definitely clear to the Argentine government, as the despatches of this Embassy since my assumption of this mission will show. There has been, therefore, no deviation by this Embassy in carrying through the policy of our government but rather emphasis thereon, and the action of this Embassy has been in complete accord with Secretary Byrnes' statement of April 8. The action of this Embassy, therefore, has been and is also in accord with President Truman's statement in his memorandum to Under Secretary Acheson of July 22, "that we should stick to Specification C which backs up the Secretary of State in his statement of April 8".

The memorandum of Secretary Braden on the Argentine situation would seem to carry at least the indirect inference that we were considering a change of policy or the abandonment of principles to which we are attached. I do not know on what such an assumption could be based, but it does not appear from any knowledge of mine that there has been any thought of sacrificing principles to which we are attached, and must remain attached. If the purpose of the memorandum of Assistant Secretary Braden was to seek reaffirmation of Secretary Byrnes' statement of April 8, I am unable to determine what basis there should be for concern in this respect. If it was based on any actuation of myself or this Embassy, I believe that the despatches and letters which I have written to the Department since my taking charge of this mission will show that there has been no such action.

On the other hand, if it is assumed that, even if the Argentine complies with her inter-American commitments, we must keep our **relationships with her on anything but a cordial basis** and that we must carry on our relations with her on a basis other than that of complete collaboration, I am in complete disagreement, for this would assume

that we have a quarrel with the Argentine which we do not wish to compose. It is my assumption, and I am sure that I am correct in this for we could not base our policy on any other consideration, that it is our desire to normalize completely our relations with the Argentine and to collaborate with her in every field in the same measure and in the same cordiality and with the same effectiveness that we collaborate with every one of the other American republics.

On page 4 of Mr. Braden's memorandum³ reference is made to the fact that many Argentines believe that they are entitled economically and even politically to control Uruguay, Paraguay, Bolivia, Chile and parts of Southern Brazil. There is no doubt that this idea has persisted and still persists among many Argentines. On the other hand, the existence and persistence of such an idea cannot be an obstacle to our carrying on normal relations with the present Argentine Government, for it must be borne in mind that among the very considerable number who voted against Perón, there were the leading proponents of the idea. This pretension of the Argentine is not a policy of the present administration in the Argentine and, if there were to be another government in the Argentine composed of the elements which opposed President Perón in the last election, it is not improbable that this idea would be stressed more strongly. In this connection it is necessary to observe that, for as much as it may be worth, the present Argentine administration has declared that it does not have any thought of forming a Southern bloc or of carrying through any pretensions in the economic or political field against neighboring countries. As a matter of fact, in the past month this attitude of the present administration has been translated into some concrete acts and there is no present proved indication of the Argentine Government intervening in the political affairs of its neighbors.

On page 5 of the memorandum reference is made to some sweeping decrees with reference to government control of commerce, finance, et cetera. There is no doubt that the present Argentine administration has issued several decrees which are of a far-reaching character, but when one considers that economically as well as politically the Argentine has been living in the world of 1910 and before, it is understandable that some of these measures come as a considerable shock and may be too far-reaching. I think before we form a definite opinion as to the objectives of the present Argentine Government in the social and economic field, it will be necessary to observe the manner in which these decrees are actually implemented and the degree to which new measures along the same line may be undertaken. . . .

³ This portion of memorandum not printed.

The implication in this part of the memorandum ⁴ of Assistant Secretary Braden is that we have yielded something to the Argentine in permitting exports of goods other than war material and in releasing the gold and blocked funds. As a matter of fact, we had absolutely no reason whatever for withholding goods, except war material, from the Argentine with the end of the war. The war was over. We had not been at war with the Argentine. Even though she had been a poor partner in the war, she had declared war against our common enemies. In removing the restrictions on exports to the Argentine of manufactured goods, et cetera, other than war material, we were not yielding anything to "Perón and his associates". We were simply carrying through a sound and proper policy in our interest and which we had to carry through. There was no basis whatever for not shipping goods other than war material and every obvious reason for doing so.

So far as the release of the gold and the unblock[ing] of the balances are concerned, we had no reason whatever for holding on to the gold which was the property of the Argentine Government and the Treasury and the Department of State realized that we had held on to the gold longer than we should have. In releasing the gold we were carrying through a belated action of justice and equity and we were certainly not doing it to please any government.

So far as the unblocking of the funds of the two banks is concerned, we did so when we had the adequate assurances that any German assets therein would be blocked by the Argentine Government and our action was only the proper and necessary and equitable action for us to take.

I am unable to say why the memorandum should state that these steps were taken on my recommendation as this statement carries a certain implication. I did recommend these steps but I recommended them as just and equitable and necessary steps, and I am sure that there is no one of understanding in the Treasury or in the Department of State or in the Department of Commerce or in any agency of our government who would question that these steps were imperative and equitable.

What the course of events in the Argentine will be, no one at home or here is presently able to tell. That the Argentine will comply with her inter-American commitments seems now more likely than in the past. That the Argentine will incorporate herself more fully into the American picture and system also seems more likely. These changes are the result of a combination of circumstances. In some respects the Argentine is just beginning to live in the present. To a very considerable extent she is still living in the past. Out of this

⁴This portion of the memorandum on "The Immediate Situation", not printed.

grew many of her political, social and economic ills. My own feeling is that the Argentine will have to go through some very definite suffering economically and perhaps politically before she will grow up to the stature of a country of her resources and live in her time. There is at present no reason to take any developments in the Argentine either too tragically or too pessimistically. If the Argentine will continue to give cause for concern to her neighbors and to us, she will also be giving concern to herself. So far as the present government is concerned, we have presently to give faith and confidence to its acts until it shows that such faith and confidence is not justified. The constitutional government has been in power only several months. It is struggling with great difficulties, many of them growing out of the circumstances through which it came to power. As we have nothing but friendly sentiments towards the Argentine people and as we have nothing but the most sincere desire for the development of the Argentine economy and as we desire her collaboration in the concert of the American nations, our attitude must certainly be one not of present condemnation and opposition and antagonism, but one of understanding what is happening in the country, observing carefully what is happening, and guiding our actions by the performance of the Argentine of her obligations. We have no quarrel with the Argentine and none of our procedures must give the slightest indication that we have a quarrel with the Argentine. To take such an attitude would be to create a situation for the long-range future which can be of no advantage to us nor to the Argentine nor to the other countries of the Americas, and if we took any attitude except one of receptiveness towards collaboration we would be destroying the basis of the whole American system and destroying the confidence in us of every one of the other American republics.

Respectfully yours,

GEORGE S. MESSERSMITH

111.12 Braden, Spruille/8-1646

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

[Extract]

PERSONAL AND SECRET

BUENOS AIRES, August 16, 1946.

DEAR MR. SECRETARY: . . .

There is no doubt that I started my mission with a tremendous handicap for there was, of course, great resentment here on the part of the elected government for the attitude assumed by then-Ambassador Braden during the electoral campaign. I will not go into this specifically, but whether then-Ambassador Braden acted under his

own initiative, or whether he had the approval of the Department does not make much difference because the fact remains that he was considered in the Argentine, both by the adherents of now-President Perón and those opposed to him, as the leader of the opposition to Perón. Mr. Braden and the Embassy became specifically identified with the electoral campaign, and no matter how correct the activities of Mr. Braden may have been and no matter how much they may have had the support of our Government or not, both sides in the Argentine consider that we were intervening in an internal electoral situation, and in every one of the other American countries they consider that Mr. Braden, if not we as a Government, did intervene, and they do not like it and have not forgotten it. The question is not who was right or who was wrong or the motivation behind the activity of Mr. Braden or any approval of our Government, but the question is that every one considers that we did intervene. The consequence is that the adherents of President Perón who were successful in the election hold it against us and those who were against Perón do not like us any the more because they lost.

I have had, therefore, to overcome this handicap which you will appreciate is a very real one, but I have, I think, to a very considerable extent succeeded in doing so, but because I have established friendly contact with the President and the Argentine Government which has been constitutionally elected, there are reasons to believe that from some sources in the State Department information is being given out to at least a part of the press and to certain commentators that I am "selling out", that I am "toadying" to Perón, that I am sacrificing principle, etc., and that this is being done is obvious from some of the newspaper articles and radio comment in the last month. All this, of course, is perfectly ridiculous because I have been doing my obvious duty which is to establish friendly contact with the constitutional government so that an atmosphere can be created in which we can really talk frankly about the problems at issue and find a solution, and this is what I have been doing.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

740.00112AEW/8-1646: Airgram

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

CONFIDENTIAL

BUENOS AIRES, August 16, 1946.

[Received August 26—12:30 p. m.]

A-858. Numerous inquiries by Argentine and American firms and their representatives necessitate clear understanding of Department

policy regarding trading with former Proclaimed List entities. Many such inquiries must be answered in writing. Problem relates to policy to be observed with reference to 1) firms deleted by group deletions; 2) firms still listed at discontinuance of PL.

It is the Embassy's understanding that, except where there has been specific blocking of funds by the Treasury, there is nothing to prevent American or Argentine firms dealing with former PL entities. It is recognized that to place the representation of American products on an exclusive basis with a former PL firm might be undesirable from many points of view. In the case of transactions involving solely the sale or purchase of merchandise, it would appear that there is less basis for discouraging trading with former PL firms. If American firms fail to supply merchandise required or fail to purchase merchandise offered, nationals of other countries will undoubtedly take advantage of the opportunities since it has already become a known fact that firms in several European countries are actively seeking connections with former PL firms, probably in some instances with official approval. Insofar as Argentine firms are concerned, a statement from the Embassy attempting to discourage transactions with former PL firms might be interpreted as interference by the United States in the internal affairs of the country.

In order to assist the Embassy in answering inquiries received regarding the firms described in the classifications indicated in the first paragraph, specific instructions would be appreciated regarding the attitude to be taken under the following conditions: ⁵

1. Is there any objection to Argentine firms engaging in buying and selling transactions with former PL firms?
2. Is there any objection to an Argentine firm acting as exclusive distributor or as purchasing representative for a former PL firm?
3. Is there any objection to the Argentine branch of an American firm purchasing part or all of a specific requirement (i.e., metal tubes for the packing of dental cream) from a former PL firm or selling a specific product (i.e., small electric motors for the manufacture of household appliances) to a former PL firm?
4. Do we consider as objectionable transactions involving sales or purchases by firms in the United States, either directly or through travelling representatives, where former PL firms are involved?
5. Do we consider as objectionable the appointment by distributors or agents in Argentina, whether American or Argentine, of former PL firms to act as sub-dealers or sub-agents?
6. Do we consider as objectionable the appointment of former PL firms as exclusive distributors or sole purchasing agents?

MESSERSMITH

⁵ The Department replied in airgram 816, September 30, p. 319.

835.00/8-1546 : Telegram

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

TOP SECRET

WASHINGTON, August 20, 1946—4 p. m.

1095. Dept is gratified to have your opinion that the Arg Govt will comply with agreements relating to repatriation of inimical persons and elimination of undesirable ownership in Axis spearhead enterprises. This morning's press account of Senate ratification of Mexico City agreements is encouraging indication of Arg Govt's intention to comply.

We agree that we shd not expect perfect performance. As regards property the level of performance by the other American republics—particularly those such as Brazil, Chile and Mexico which were faced with problems comparable to the one in Arg wd be a factor. In respect of persons the measure of performance by other American republics is pertinent but regard must be paid to the fact that few, if any, counterparts to worst Nazis in Arg were found in other American republics.

While our attitude and position must be reasonable we think you will agree that regard must be paid to the quality as well as quantity of persons and firms which are to be dealt with as well as the point of progress actually reached by Arg in accomplishing the objectives of both programs.

It is most difficult to determine now on a hypothetical basis whether there wd be substantial, over-all compliance if no measures were taken against certain prominent individuals (such as Freude) or enterprises. These questions can better be decided in the light of current circumstances and performance in other respects. Our feeling is therefore that we shd not at this stage attempt to blue print the precise point of progress which we wd regard as constituting deeds rather than promises.

Foregoing is a very gen. statement of some of the considerations which we had in mind in suggesting in Deptel 1082 Aug 15⁶ that clearance with the Pres and Secy is indicated. We are in process of further defining our views on these points and upon receipt of your despatches 561, 565⁷ and 583 we will airmail instr which we believe will show little if any disagreements between Dept and Emb on these important points. Every effort will continue to be made to assure that Pres and Secy have direct knowledge of your views, which as always will have careful consideration.

We also agree that it is not in our province to lay before Arg a blue print of what must be done. Precise names of persons and individuals

⁶ Not printed.

⁷ Neither printed.

have already been so often discussed that Arg Govt already has a gen knowledge of what we consider to be adequate performance. At same time our Govt cannot escape responsibility of deciding for itself whether there has been compliance with an agreement to which it is party particularly since our decision will determine whether we will enter into a military pact with Arg. That is essence of Secy's statement of Apr 8 and of Pres's directive.

We also agree that Dept shd continue, as it has since your arrival in Baires, to refrain from making any statement impugning the good faith or motives of Arg Govt since this wd only make your task more difficult. There have been instances where in response to direct inquiries from press—in almost all cases re stories emanating from Baires—it has been necessary to say that there has been no change in our Apr 8 policy. An example was the recent UP and Kluckhohn despatches from Baires alleging that a composition had already been reached under the terms of which the US agreed to deliver arms to Arg. *N.Y. Times* editorial (we have no record of *N.Y. Daily Post* editorial) referred to in your 2030 Aug 17⁹ and other editorials to same effect were spontaneous reactions to statements attributed by Baires press to the Arg official Peralta aggravated by quotations published here of alleged Perón speech of same day to leaders of his NR Party. We cannot give you our comment on these newspaper accounts until we have received a full report from the Emb.

ACHESON

862.20235/8-2246 : Telegram

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

CONFIDENTIAL

BUENOS AIRES, August 22, 1946—7 p. m.
[Received August 22—6 : 49 p. m.]

2060. Embtel 1836, July 15.⁹ Embassy advised by good source Supreme Court today reversed decision Appellate Court and sustained decision of court first instance in granting habeas corpus to number German agents, including Becker¹⁰ *et al.* Two of judges held that law of residence is unconstitutional while two others approved decision without going into questions of constitutionality.

While there is no official confirmation this decision, it is not improbable information correct.

It remains opinion Embassy that regardless these difficulties, Argentine Government has decided to proceed against considerable number on lists submitted by British and ourselves.

MESSERSMITH

⁹ Not printed.

¹⁰ Johannes Siegfried Becker, former head of the network of Axis espionage organizations in South America.

810.20 Defense/8-1546

*The Acting Secretary of State to the British Ambassador
(Inverchapel)*

WASHINGTON, August 26, 1946.

MY DEAR MR. AMBASSADOR: In acknowledging your note of August 15,¹¹ I enclose an *Aide-Mémoire* bearing on the inquiries that you made of me at our interview on July 18 and set forth in the *Aide-Mémoire* of July 16 that you left with me at that time.

I hope this information meets the purpose of your inquiries and will be helpful.

Sincerely yours,

DEAN ACHESON

[Enclosure]

AIDE-MÉMOIRE

On July 8 [18] the British Ambassador left with the Acting Secretary of State an *Aide-Mémoire* containing certain inquiries with respect to the plans of the United States Government under the program for Inter-American Military Cooperation submitted to Congress by the President. It specifically requests detailed information, to be held in confidence, regarding:

“(a) the proposals for furnishing, or exchanging, standard United States equipment against existing non-standard armaments in Latin America;

“(b) the percentage of Latin American forces which it is proposed to equip and train under the Hemisphere Defense proposals now before Congress.”

With respect to (a) above, operational plans and procedures have not yet been worked out, nor has a final conclusion been reached regarding any pattern for the actual furnishing or exchange of equipment. These matters are currently under consideration by the authorities of this Government. The objectives, however, are clear and may be stated as follows:

(1) Under the Act of Chapultepec and other inter-American agreements, the American republics have agreed that the military defense of the Hemisphere against any aggression from abroad is a matter of common concern to be achieved by political and military cooperation among them. This is in keeping with the provisions of the United Nations Charter respecting the right of self-defense and the institution of regional arrangements. It is generally understood among the American republics that the cooperation envisaged cannot be fully effective unless their respective military forces are designed to operate on the basis of standard organization, training and equipment. Such

¹¹ Not printed.

standardization is the immediate objective of the program for Inter-American Military Cooperation.

(2) This Government is hopeful that this program may be carried out in such a way that its effect will be to limit the size and cost of the military establishments involved. The increased effectiveness of these establishments for the defense of the Hemisphere, under such a program, should contribute to their economy. This Government appreciates, however, the danger that international competition among the suppliers of military equipment might tend to thwart the attainment of this objective.

With respect to paragraph (b), quoted above, this Government has at no time considered that the program of standardization would be applicable to any limited percentage of the armed forces involved, nor was it aware that there had been any thought to this effect until it received the *Aide-Mémoire* under reference. Such a limitation would appear to be in derogation of the objectives of the program stated above.

The *Aide-Mémoire* also contains the inquiry whether Argentina is, or is likely to be, included among the countries which, under the terms of the Inter-American Military Cooperation Act, would be furnished with a percentage of standardized United States equipment. This Government continues absolutely faithful to its policy of furnishing no equipment to the armed forces of Argentina while the Government of that country continues to be in default on its explicit commitments to the United States and the other American republics. Appreciating the cooperation of the British Government in this policy, under the "Gentlemen's Agreement", it considers itself bound to notify that Government immediately should a change in the circumstances appear to warrant a change in the policy. Meanwhile, it understands that the "Gentlemen's Agreement" continues in effect.

The *Aide-Mémoire* also refers to the question of furnishing items of armament for the military forces of the Dominican Republic. This Government continues to adhere to its policy of not furnishing such items to the Dominican Republic, and welcomes the cooperation of the British Government in this policy. Again, should a change of circumstances suggest the discontinuance of this policy, this Government would be glad to inform the British Government forthwith.

This Government appreciates the understanding and cooperative attitude of the British Government with respect to these matters. It stands ready to discuss them further at any time on the continuing basis of mutual confidence and helpfulness between the two Governments.

In particular, this Government recognizes that the arrangements under discussion must be regarded in the light of such international

agreement with respect to the traffic in arms as may be reached in the future.

WASHINGTON, August 26, 1946.

835.00/8-1646

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

[Extracts]

SECRET

WASHINGTON, August 29, 1946.

DEAR GEORGE: Two days ago I received your letter of August 16¹² enclosing copies of your letters to the Secretary and to the President. In accordance with your request, these letters were immediately forwarded by pouch to the Secretary and the President.

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Second, as to our policy toward Argentina. It seems to me that there is no difference of opinion or doubt as to the objectives of the policy. The Secretary has stated it, the President in his recent note has reaffirmed it, and both you and Braden stated it the same way. For the present, therefore, we are all going forward with the objective of looking toward the ratification of the agreements and the performance of acts of implementation prior to either setting the date for or holding the Rio Conference. So far, there is no disagreement. It is when we come to determining whether or not there has been adequate compliance that you foresee a difference of view. From the many talks which I have had with Braden, I do not think that he holds the view, as you fear he does, that there must be completion of all acts of compliance before we are ready to go forward. I do think that there is probably a difference in approach and emphasis between you two as to what you would each think amounted to sufficient compliance. Certainly, in this preliminary stage, there is probably a difference in the generalities which you would each use to describe a satisfactory situation. Whether there would be any difference when a concrete program was laid out and put into effect, I do not know.

However, I think that it is borrowing trouble to believe that this is a real difficulty. In the first place, it is much easier to disagree in formulating a general statement than in appraising a concrete program; and secondly, the determination that acts taken as of any particular date indicate compliance with obligations in good faith is a

¹² Not printed.

decision which will not be made by Braden or me but by the Secretary and the President.

As we have cabled you, the President has taken a direct and continuing interest in the Argentine situation. As we have also assured you, the President receives your despatches, letters and telegrams. If, when the time comes, the decision is open to doubt, he will unquestionably wish to discuss the matter with you. From considerable experience, I know that the President listens to the views of his advisers and then makes up his own mind.

To sum these comments up, I do not believe that Braden or anyone in the Department is undermining you publicly or privately. I have thought that you have had our full support. I shall do my best to satisfy myself that this is and will remain the case. On the matter of policy, it seems to me that we are all clear as to the policy laid down by the President and are trying to carry it out. When it comes to deciding whether, under that policy, there has been bona fide compliance, that decision would be made by the President, who is getting all the information and who I am sure will wish to hear from all concerned in the decision.

I appreciate fully the difficulty and importance of your task. I have been doing everything I can to assist you in it. I feel sure that, with all of us working together, it can be successfully achieved.

With warmest regards,

Sincerely yours,

[DEAN ACHESON]

835.24/9-1046

The Ambassador in Argentina (Messersmith) to the Assistant Secretary of State for American Republic Affairs (Braden)

[Extract]

SECRET

BUENOS AIRES, September 10, 1946.

DEAR SPRUILLE: I have to acknowledge receipt of your secret letter of August 23¹⁸ in which you state that you fully share the concern expressed in my letter of August 2 and the accompanying despatch¹⁹ regarding the recent action of the Swedish Government in informing us of its intention to lift the embargo against arms exports to the Argentine. I appreciate your sending me the copies of the letters which Secretary of War Patterson under date of July 31 wrote to the Secretary of State as well as the copy of the letter of Secretary of Navy Forrestal to Mr. Acheson under date of August 6 on this

¹⁸ Not printed.

¹⁹ Neither printed.

matter. I have also read with much interest the *aide-mémoire* dated July 16, 1946 which the British Embassy left with the Department on this matter.

I note that this whole matter is being considered by General Hill-dring's Munitions Control Committee and that you will inform me promptly as soon as a decision is reached. I note that we have decided to ask the Swedish Government to continue the embargo.

In my opinion the Swedish Government will be willing to exercise a little delay but not much, and that to all intents and purposes the gentlemen's agreement with Sweden may be considered as ineffective.

So far as these arms which the Argentine purchased in Sweden are concerned, I even doubt whether we are serving any useful purpose in reality in endeavoring to delay shipment of these particular arms. I think if we can get the Swedish Government to agree not to accept further orders for the present it will be a very happy thing, but I do not believe that the arms which are being manufactured presently under orders placed several years ago by the Argentine in Sweden are of sufficient importance in volume or character for us to make much of the matter, and from the political point of view, I don't believe we are helping ourselves very much.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

835.00/9-2546

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

TOP SECRET
No. 252

WASHINGTON, September 25, 1946.

The Acting Secretary of State refers to various despatches from the Embassy on the subject of Argentina's compliance with inter-American agreements.

There does not appear to be any disagreement between the Embassy and the Department in respect of the general principles which govern the question of the kind of performance which should be expected of Argentina in order to achieve the mutually desired speedy solution: That is to say, perfect performance should not, on the one hand, be expected or required; and, on the other hand, the Department should expect that positive steps will be taken of such a character as to constitute substantial performance as distinguished from mere promises to perform in the future. There is also agreement that per-

formance is to be measured by both the quantity and the quality of the persons and firms selected for repatriation and nationalization, respectively, as well as by the point of progress actually reached in carrying out both programs.

The immediate and difficult task—and one in which the Embassy's advice is particularly needed—is in the application of these principles to the facts.

The recent ratification of the Final Act of the Mexico City Conference by both branches of the Argentine Congress suggests the necessity for formulating more precise views regarding this immediate problem. To this end, it would be most helpful to have the views of the Officer in Charge with respect to the following statements and questions. Some of the information requested is not in the Department's files; and in the instances where reports already exist, a fresh report covering recent developments or more explicit or complete information is needed. The questions have been formulated with a view to facilitating short replies wherever this is feasible. If the Embassy is not able promptly to furnish answers to all of the questions, it is requested that an interim reply be made promptly, followed later by a more complete report.

I. BUSINESS ENTERPRISES

1. The business enterprises which appear to qualify for inclusion in the Argentine replacement program fall into five groups:

a) As of June 21, 1946 there were a total of 69 spearhead enterprises which the Argentine Government had already decided to deal with without delay. Of this total the liquidation of 8 had then been begun; 22 were then in condition to be liquidated immediately; 16 were then in condition to be transferred immediately to the State or to private interests; 1 was then in condition to be liquidated within 90 days; 21 were in condition as of that date to be transferred within 90 days to the State or to private interests; and action in 1 was awaiting decision of the courts. What progress has been made toward the liquidation or sale of these firms since June 21, 1946?

b) The Argentine Government has since July 30, 1946 had under study 26 additional concerns, including 8 Staudt subsidiaries. It is not known whether a decision has been taken by the Argentine Government in respect of this group. In this connection, the Department will be pleased to receive the list of enterprises which was prepared by the Argentine Government and from which the 26 names in this group were selected by the Embassy.

c) There are the following eleven firms which are connected with, or subsidiaries of, the enterprises listed in paragraphs *a)* and *b)* above and which are not listed in either of those groups. Is it correct to assume that these eleven firms are included in the two preceding groups?

[There follows a list of the eleven firms.]

d) There are the following 18 additional firms reported to be owned from Germany or Japan which the Argentine Government apparently does not have under consideration:

[Here follows a list of firms in this category.]

d) [*e*] Finally, there are the following 7 enterprises which appear to be spearhead in character by reason of ownership or control by certain individuals residing in Argentina and which the Argentine Government apparently does not have under consideration:

[Here follows a list of firms not under consideration.]

2. It will be appreciated if the Embassy will indicate which, if any, of the enterprises referred to in paragraph 1, sections *c*), *d*), and *e*) it no longer regards as spearhead together with a brief summary of the facts on which the Embassy's conclusion is based.

3. Does the Argentine Government intend to proceed on a basis of liquidating or selling the entire enterprise or only the interests of the undesirable owners thereof? If the latter:

a) Will all owners resident in Germany be regarded as undesirable?

b) Is the Argentine Government disposed to consider certain Argentine nationals (including naturalized Argentines Freude, Martens, and Staudt and native-born Argentine Delfino) as undesirable?

c) In determining ownership, will the Argentine Government look to the real instead of the ostensible owner where the latter in reality is only a cloak?

d) Will German nationals residing in Argentina who were responsible for the operation of major spearhead enterprises during the war be considered undesirable owners?

4. Would transfers and liquidations under present Argentine law and procedure effectively divest all the former owner's right, title, and interest in the enterprise in question?

5. What safeguards have been adopted by the Argentine Government to prevent sales to cloaks of former undesirable owners?

6. In view of the recent ratification of the Mexico City Act, will it be necessary for the Congress to ratify either or both of the existing enemy property decrees or to pass new enemy property legislation in implementation of that Act before the program can get under way?

7. Will it be necessary to delay further the initiation of a large scale program because of any constitutional or legal questions; if so, of what do they consist?

8. After all legal obstacles to performance have been removed, approximately how much time will be required under Argentine procedures, assuming the exercise of diligence:

a) to complete the liquidation proceedings?

b) to complete the transfer of titles and interests?

(It is recognized that it is not possible to be precise; it will be sufficient if the Embassy will make its estimate in approximate round figures such as, for example, 6 weeks or 6 months.)

9. Would the Argentine Government be disposed to vest the titles of the undesirable owners in the enterprises in question in order to expedite a solution of this problem? If the vesting of enemy property is still considered by the executive to be unconstitutional, on what precedents and provisions does this opinion rest?

10. It will be appreciated if the Embassy will indicate as precisely and in as much detail as possible the exact point of progress in the contemplated replacement program which he would regard as constituting deeds within the meaning of the Secretary's statement of April 8.

II. PERSONS

11. Approximately 700 names have been presented by the Embassy to the Argentine Government for consideration as possible candidates for repatriation.²⁰ It is understood that the Argentines have prepared a list of several hundred names as a basis for further discussion. When the Argentine list is received by the Embassy, it will be appreciated if the Embassy will promptly forward a copy thereof to the Department.

12. Upon the Embassy's receipt of the Argentine list, it will be appreciated if the Embassy will indicate:

a) Whether the list includes the most important of those who have propagated Axis doctrines in schools and institutions. If there are any omissions, please forward a list of them together with a brief summary of the pertinent evidence regarding each such person.

b) Whether the list includes the most important economic leaders in the Nazi and Japanese business communities. What are the Embassy's views in respect of the repatriation of the key Axis economic leaders?

c) Whether the list includes the names of the following Nazi agents and, if not, whether the persons whose names are omitted should, in the Embassy's opinion, be repatriated by the Argentine Government:
[A list of the agents follows.]

13. The Department understands that the candidates for repatriation fall into three principal groups:

a) Aliens, nearly all of whom are German nationals, who are under indictment and awaiting criminal trial in the Argentine courts. This group, while numerically small, includes many of the most important Axis agents.

b) Aliens, nearly all of whom are German or Japanese nationals, who are subject to immediate repatriation if and when the evidence against them is determined to be sufficient to warrant deportation. This group is by far the largest numerically. In this group fall eco-

²⁰ For documentation on the repatriation of Germans throughout the world, see vol. v, pp. 794 ff.

conomic leaders and those who have propagated Nazi doctrines in schools and other institutions and most of the lesser enemy agents.

c) A few who have become naturalized Argentine citizens. Freude, Staudt, and Martens are principal names in this group.

14. Does the Argentine Government propose to proceed with the criminal trials of the Axis agents referred to in group *a*), paragraph 13 above? If so

a) When does the Argentine Government propose to commence criminal trials?

b) In cases of conviction where a prison sentence is imposed, will the Argentine Government require that the Axis agents first serve sentence in Argentine penal institutions before they will be subject to repatriation?

c) In cases where, for technical or other reasons, Axis agents are found to be innocent of any crime under Argentine law and the evidence none the less seems sufficient to justify deportation because of activities on behalf of the enemy in wartime:

i) Will it be necessary to have an additional hearing to determine whether deportation is warranted under the Law of Residence?

ii) Will an acquittal on the criminal charges be a defense in the deportation hearing on the allegation of double jeopardy or some other ground?

15. It is understood that those included in group *b*), paragraph 13 above are entitled to a hearing, the purpose of which will be to determine whether the evidence is sufficient to justify deportation under the Law of Residence:

a) Is it correct to assume that, if the evidence is found sufficient to justify deportation, the Argentine Government will not require that they first stand criminal trial for offenses against Argentine law?

b) Is there a real danger that the Law of Residence will be held unconstitutional; if so, have plans been made to have the question definitely settled by the Supreme Court?

c) What are the essential facts which the Government must establish to make out its case on the deportation hearings?

d) Approximately when does the Argentine Government propose to initiate deportation hearings?

16. Is it correct to assume that the Argentine Government will require that those who fall in group *c*), paragraph 13 above first be denaturalized? If so:

a) Does the Argentine Government propose to institute promptly denaturalization proceedings against the worst offenders in this group?

b) Are the principal issues which must be established in such proceedings those specified in Decree 6605, August 27, 1943; and must this decree be ratified by the Congress?

c) Assuming that such proceedings result in the denaturalization of the defendant, would:

i) the Argentine Government require that the defendant then stand trial for any offenses against Argentine law and that he serve any sentence that might be imposed? If not,

ii) would it be necessary to grant the defendant a hearing to determine whether the evidence is sufficient to justify his deportation under the Law of Residence?

17. It will be appreciated if the Embassy will indicate as precisely and in as much detail as possible the exact point of progress in the repatriation program which it would regard as constituting deeds within the meaning of the Secretary's statement of April 8.

III. SCHOOLS AND INSTITUTIONS

18. It would be appreciated if the Embassy would forward a final and complete list of the German and Japanese schools:

a) which have been closed or intervened by order of the Argentine Government and which are not now operating under the same or a different name;

b) which have been voluntarily closed and are not now operating under the same or a different name;

c) which, whether previously closed or intervened or not, have resumed or continued operation under the same or a different name, indicating those

i) which have eliminated objectionable teachers, and

ii) which have not eliminated objectionable teachers.

It is not intended that the foregoing paragraphs *a)*–*c)* inclusive, shall include parochial schools or family schools having an enrollment of less than 30 students.

19. Which, if any, of the German or Japanese schools referred to in paragraph 18 now employ teachers whose names are included in repatriation lists which the Embassy has furnished the Argentine Government?

20. It would be appreciated if the Embassy would forward a final and complete list of the Axis associations and institutions other than schools

a) which have been voluntarily or involuntarily closed;

b) which are still operating

i) under the control of the Argentine Government;

ii) without such control.

835.00/8-2046

*The Chief of the Division of River Plate Affairs (Mann) to the
Ambassador in Argentina (Messersmith)*

TOP SECRET

WASHINGTON, September 30, 1946.

DEAR MR. AMBASSADOR: Thank you for your letter of August 20²¹ regarding the necessity for ratification by Argentina of the United Nations Charter and of the Final Act of the Mexico City Conference.

I believe there has never been any doubt in anyone's mind about the necessity of Argentina's ratifying the United Nations Charter in whatever way its Constitution requires. Article 110, paragraph 1 of the Charter expressly provides:

"The present charter shall be ratified by the signatory states in accordance with their respective constitutional processes."

The question was whether, in the absence of an Argentine Congress, Argentina could legally ratify the United Nations Charter by mere executive decree or whether congressional consent to ratification was necessary because of the provision in the Argentine Constitution which reserved to the Congress the exclusive right to approve "treaties".

This question was important in 1945 because it related directly to the question of whether Argentina was a member in good standing of the United Nations. You will recall that Mr. Braden's position was, in substance, that it was a mistake to admit Argentina to the United Nations before it had discharged its inter-American obligations. He suggested that the ground lost at the San Francisco [Conference] could, in part at least, be recovered by holding that Argentina was not a member in good standing because it had not obtained congressional ratification as required by its constitution and Article 110 of the Charter. The documents mentioned in your letter and in your despatches 565 and 583 of August 13 and August 15, 1946²² all appear to relate to this particular question. Certainly this is true of the Embassy's telegrams 2113 of September 8, 1945 and 1498 of July 11, 1945 and Cabot's despatch 436 of July 31, 1945.²² If the other documents to which you refer bear on other questions, I would appreciate having copies of them or, if they are already in the Department, their numbers and dates so that we can locate them. (The documents which we are not able to find are the Department's telegram of August 3, 1945; the Embassy's reply thereto; the Department's telegram inquiring "what stage such action constitutes in the ratification processes under the con-

²¹ Not printed.

²² None printed.

stitutional processes of the country"; Post's memorandum of July 2, 1945; and Dr. Ameghino's July 28, 1945 statement to the press.)²⁴

The Department's statements to which you refer related to a very separate question of whether it was also necessary for the Argentine Congress to ratify the Final Act of the Mexico City Conference.

The Final Act of Mexico City, unlike the United Nations Charter, does not specifically provide for ratification. As a matter of fact, the only basis, of which I am aware, upon which an argument could be built that congressional ratification was necessary is that the Mexico City Act was a "treaty". It is interesting to note in this connection that none of the other American republics—all or nearly all of which have constitutional provisions reserving to Congress the right to ratify treaties—found it necessary to obtain congressional consent to ratification of the Mexico City Act, which is a pretty clear indication that none considered the resolutions, declarations, and recommendations of Mexico City to be "treaties". Moreover, I believe the customary practice has not been to regard resolutions, declarations, and recommendations of inter-American meetings of Foreign Ministers as treaties requiring congressional ratification. If there are exceptions to this practice, I am told they are based on domestic political expediency rather than constitutional necessity or arise out of the special nature of isolated resolutions which seem to have treaty characteristics. I do not know of any precedent that the wartime resolutions relating to enemy property and persons have special treaty characteristics, and I believe that the Argentines themselves did not submit to their Congress similar resolutions of the Rio and Washington Conferences.

In view of these considerations, there was some surprise at the suggestion that the replacement and repatriation programs in Argentina were dependent upon congressional ratification of the Mexico City Act. The surprise was somewhat accentuated by our recollection that the United States had sponsored Argentina's admission to the United Nations in the belief that Argentina was already bound by its signature of the Mexico City Act to the same extent as were the other American republics. I believe that the Argentine Government itself did not suggest that congressional ratification was necessary until more than a year after Mexico City.

It would appear that the most probable explanation of the Argentine attitude in this respect is that the Government, for reasons of domestic politics, wished to spread the responsibility for carrying out the programs which had already been agreed to. At least that is the impression one gets from Foreign Minister Bramuglia's statements of August 21, 1946 to the effect that congressional action was really neces-

²⁴ None printed.

sary only in the event special laws should be needed to carry out the program envisaged in the resolutions. He said, *inter alia*:

"In the case of the Final Act of Chapultepec, the adherence of Argentina has been legislatively approved by the Senate. No treaty was concluded in Mexico. The Conference passed nothing but resolutions, recommendations or declarations, but none of these required or requires the approval of Congress, unless the case should arise that the Executive Power need the legislative sanction of special laws for the defence of the American States and of the Hemisphere, if some of the recommendations or declarations rendered this necessary in the event of anti-American acts.

"This situation has not arisen, but all the same the voice of the people must be heard through the words of their representatives."

This, of course, is a matter which would have had real importance only if the Congress had failed to ratify. I have, however, sketched our line of reasoning rather fully in an effort to clear up the confusion to which you have referred.

We are naturally pleased with the ratification because it indicates in a concrete way that the Argentine Government has serious intentions of moving the programs along. I hope, as I know you do, that real progress can be made promptly so that we can put away once and for all the question of compliance with the pertinent wartime agreements.

With best wishes,
Sincerely yours,

THOMAS C. MANN

740.00112A EW/8-1646: Airgram

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

CONFIDENTIAL

WASHINGTON, September 30, 1946.

A-816. Reference your airgram no. A-858 of August 16, 1946 concerning undesirable trade contacts.

Your understanding that there is nothing except the blocking of certain funds by Treasury to prevent American or Argentine firms from dealing with former Proclaimed List entities is correct. (Such blocking, however, applies only to German-owned firms, and does not effectively prevent transactions with the blocked firm.) The Undesirable Trade Contacts program is a service to American firms, and no effort is made to police relations with ex-PL firms, or to force American exporters to follow the recommendations of the Commerce Department.

Inquiries received by the Commerce Department from American firms are answered with the form letter sent under transmittal slip,

July 10, 1946. You should note that the form letter states only that non-merit deletions from the Proclaimed List are "not recommended as agents or distributors for American firms". The form letter is sometimes supplemented with an oral indication of the nature of the adverse information concerning the firm involved. Concerning transactions involving merely purchase or sale of merchandise the Commerce Department takes no position, but in response to inquiries from American firms with respect to such transactions, it likewise often indicates orally the nature of the evidence against such firms. Inquiries received by you from American firms should be answered in line with the form letter under reference, and you may in your discretion confidentially inform American firms of the reasons for considering a specific firm as undesirable.

The Department believes that inquiries in the nature of the specific questions raised on page 2 of your airgram no. A-858²⁵ may generally be handled in accordance with the foregoing policy and procedure. As an indication of how the Commerce Department's program may be made applicable abroad, however, answers to each of your inquiries are given seriatim below:

1. and 2. If Argentine firms and individuals inquire concerning either transactions or agency relationships with "merit deletions" they should be informed that the firm was deleted from the Proclaimed List without prejudice. If the inquiry concerns "non-merit deletions" the Argentine inquirer should be informed that the United States Government takes no position in the matter, in as much as it has no jurisdiction over the activities of Argentine nationals. You may, however, point out to the inquirer that in general firms which were deleted from the List for reasons other than merit are expressly "not recommended" to *American* firms as distributors or agents. In your discretion you may also indicate why the firm in question is considered undesirable as an agent or distributor for an American firm.

3. and 4. No concerted effort is being made to prevent purchase and sales transactions between American firms and ex-Proclaimed List firms. However, the United States Government naturally does not like to see close business relationships, even of a non-agency-distributorship character, develop between United States firms and spearhead firms. Wherever possible the Commerce Department discusses with American firms the possibility of obtaining their requirements from, and disposing of their merchandise to, friendly foreign firms. You should likewise, whenever it is feasible, attempt to direct American business toward Argentine firms which are politically satisfactory.

5. With respect to Argentine distributors appointing former Proclaimed List firms as sub-dealers, see answer to questions numbers 1 and 2 above. American firms, upon inquiry, should be informed that

²⁵ August 16, p. 303.

former Proclaimed List firms (hard core or non-merit deletions) are not recommended as sub-agents or dealers.

6. This problem is the crux of the entire Undesirable Trade Contacts Program. Such inquiries are, as indicated above, answered by a form letter stating that former Proclaimed List firms (other than those deleted without prejudice) are not recommended as agents or distributors for American firms. Please refer to Circular Instruction dated March 20, 1946 and Instruction no. 134, August 6, 1946.²⁶

ACHESON

711.35/10-246 AW

The Ambassador in Argentina (Messersmith) to the Acting Secretary of State

[Extracts]

CONFIDENTIAL

BUENOS AIRES, October 2, 1946.

DEAR DEAN: In a recent letter to one of the higher officers of the Department (I am not able to say at the moment to whom it was addressed as we are unable to lay hands on it immediately in the files), I stated that there were now two reasons in addition to the original one which made it so important for us to straighten out our relations with the Argentine.

In that letter I stated that the President and the Secretary and the Department of State had wished to straighten out our problems with the Argentine through securing compliance by the Argentine with her inter-American commitments as this was imperative for the strengthening of the American picture and to make possible the Río de Janeiro meeting and the negotiation of a defense pact, as well as the normalization of our relations with the Argentine being desirable for our general interest and that of this hemisphere. We were particularly interested in this because of the whole world situation which we had to face then and must face now.

I pointed out that it was my understanding of this situation which made me willing to accept this task.

As I pointed out in that letter, there are now two more reasons which make it desirable for us to straighten out this Argentine situation. One is that the Soviet Government is making this tremendous effort in South America and is doing everything to sabotage inter-American relationships. The blasts from Moscow against the proposed defense pact in the Americas, the criticism by Moscow and from certain quarters in the United States of the Bill submitted to the Congress which will enable us to implement the defense pact, and the

²⁶ Neither printed.

constant attacks which are being made by Moscow and Soviet-controlled foci in other places against inter-American collaboration and against us and against our "imperialistic" designs, are all part of a pattern. There is no doubt that the inter-American system will remain under constant attack from Moscow, and there is increasing activity on the part of Moscow in the countries of the Americas. Following the Soviet pattern, they are not working so much through their Missions, although they are active enough, as they are through local organizations—either communist or to the most extreme left. In a good many of the American countries the situation leaves much to be desired in this respect, and the Soviet activity in Chile, Bolivia, Venezuela, Colombia and Cuba must give us cause for preoccupation for the economic situations in some of these countries is such that there is fertile ground for their activity. The Argentine and Colombia are really the only two countries in the other Americas today which we can depend upon completely to combat Soviet influence and penetration, and in an effective way. . . .

For this reason, I think it is increasingly important for us to straighten out our situation with the Argentine, for the Argentine is one of the countries in the Americas which can be depended upon to prevent communist penetration, and she will be prepared to collaborate in any sound measures among the American States to prevent communist penetration. As long as our relations with the Argentine are not on the normal and completely collaborative basis that they should be, we are hampered in any collaboration in this important field.

The second new factor which has arisen since it was decided that I should go to Buenos Aires is the fact that the British position in some ways is stronger now than before. In a series of letters to Will Clayton,²⁷ I reported fully on the British-Argentine trade negotiation on sterling balances, meat prices, and the British railways. The negotiations almost broke down but, fortunately, a solution was found. Now that the solution has been found, the position of the British here has undoubtedly been strengthened. I am inclined to think that the British will play more fairly with us in the future than they have in the past in the whole American picture, and particularly in the Argentine, as I think the British have learned a lot and realize the importance of the American system to them in a way that they did not before. I think the new British Ambassador here, Sir Reginald Leeper, has done a good deal to make his government understand these situations better and I think Mr. Bevin²⁸ understands this situation better than some of his predecessors did.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

²⁷ Assistant Secretary of State for Economic Affairs.

²⁸ Ernest Bevin, British Secretary of State for Foreign Affairs.

111.12 Braden, Spruille/10-346

*The Ambassador in Argentina (Messersmith) to the Secretary of State*²⁹

[Extracts]

TOP SECRET

BUENOS AIRES, October 3, 1946.

DEAR MR. SECRETARY: I wish to tell you how much I appreciate Caffery's³⁰ telegram No. 15 of September 2, 9 a.m.³¹ in which he conveys your message to me stating, with reference to my letter, that there has been no change of policy since my talk with you in Washington and that no requirements will be made with respect to Argentine compliance in addition to those set forth in your statement of April 8. You state that in determining whether or not those demands are complied with you shall be guided by my recommendations and that we must be reasonable in our decision as to compliance. You state that our objective is to restore not to prevent friendly relations. You are good enough to congratulate me on the progress which I have made and hope that before long we will be able to secure such compliance with the requirements respecting enemy property and aliens referred to in my letter as will enable us to discuss with Brazil the date of the conference for the consideration of the defense pact.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

111.12 Braden, Spruille/10-1246

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

[Extract]

SECRET

BUENOS AIRES, October 12, 1946.

DEAR MR. SECRETARY: . . .

As you know the Argentine Government, through an act of the Congress, has ratified the Acts of Mexico City and San Francisco. It is the clearest integration of its policy into the American picture that has appeared from this country for decades. I can assure you that there is no doubt but that the Argentine Government wishes to collaborate with us more fully than with any other country and to that end it is prepared to do all that is necessary. The Argentine Government, however, will not accept dictation from us any more than we

²⁹ The Secretary was attending meetings of the Paris Peace Conference.

³⁰ Jefferson Caffery, Ambassador in France.

³¹ Not printed.

will from someone else, and it will not accept endeavors to impose conditions on it with respect to performance which go so far beyond what other American Republics have done. As you have well stated in your telegram to me from Paris dated September 2, 9 a. m.,³² we must be reasonable in our decisions as to compliance and our objective is to restore not to prevent friendly relations.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

S35.34/10-1546

The Ambassador in Argentina (Messersmith) to the Assistant Secretary of State for Economic Affairs (Clayton)

[Extracts]

BUENOS AIRES, October 15, 1946.

DEAR WILL: I have your letter of October 9 in which you refer to my letter of September 28³³ with which I sent you a copy of our despatch on "Desire of the Argentine Navy to Acquire Four Small Vessels in the United States".

You will recall that the Argentine Navy informed the Naval Attaché of this Embassy that the Argentine Navy must close this deal by November 3, 1946 or it will in all likelihood lose the vessels. As there is no indication that they desire them for improper purposes and other than the purposes indicated in the despatch, and as the armament which is on the vessels can be removed before being delivered, and delivered later after we have cleared up our situation, I hope very much that the appropriate decision has already been made in the Department and by the appropriate agencies of our Government to permit the sale of these four vessels to the Argentine Navy.

Unless we are going to be able very shortly to collaborate more fully with the Argentine Navy and the Ministry of Aeronautics we are going to lose our position definitely to the British in both fields. There is no reason that I can see why these four vessels should not be sold now and I think it is of the utmost importance that we facilitate this sale. The Argentine Navy is so keen on this that there is hardly a day passes that they do not bring it to our attention.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

³² Not printed.

³³ Neither printed.

835.00/10-1546

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

[Extracts]

SECRET

BUENOS AIRES, October 15, 1946.

No. 1004

[Received November 1.]

SIR: I have the honor to refer to a secret memorandum instruction dated September 11, 1946,⁵⁴ stating that the Acting Secretary of State transmits for the information of the officers in charge of our Missions in the American Republics, a copy of a memorandum on the Argentine situation which was prepared at the request of the President and submitted to him for his consideration. The memorandum instruction states that the President has approved alternative "C" on Page 28 as a course of action to be followed.⁵⁵

To this instruction is attached a memorandum entitled "Memorandum on the Argentine Situation", which Assistant Secretary Braden transmitted to me with a covering letter of July 30, 1946, stating that the President had asked him to give him a written report on our Argentine policy. The President, in a memorandum dated July 22 addressed to Mr. Acheson as Acting Secretary, stated that he had read this report and that it seemed to him "that we should stick to specification 'C' on Page 28 of the alternative courses of action—that backs up the Secretary of State in his statement of April 8 as set out on Page 23".

On the receipt of the letter from Assistant Secretary Braden dated July 30 transmitting this "Memorandum on the Argentine Situation" which he had submitted to the President, it was given careful study by me, and I found it necessary to transmit a secret despatch, No. 583, of August 15, 1946, to the Department, entitled "Observations on our Relations with the Argentine and with particular Reference to a Memorandum prepared by Assistant Secretary Braden for President Truman". In this despatch I stated that while the memorandum in some respects was useful, it was altogether inadequate as a presentation of the Argentine situation, in some respects incorrect, and that it did not take into account major phases which had to be considered in our relations with the Argentine. I will not enter into detail with respect to the comment which I made on this memorandum in my despatch No. 583, of August 15, as the despatch is available in the Department. I wish, however, to call particular attention to the

⁵⁴ Instruction of September 11 not printed, but see memorandum by the Acting Secretary of State to President Truman, July 12, and enclosure, p. 270.

⁵⁵ For the President's approval, see his memorandum to the Under Secretary of State, July 22, p. 282.

comment on the memorandum prepared by Assistant Secretary Braden which is contained on Pages 7, 8, 9, 10, 11, 12 and 13 of my despatch.

The Department will therefore appreciate my surprise when we received in this Embassy the instruction of September 11 under reference, with which is transmitted a copy of this memorandum originally submitted by Assistant Secretary Braden to the President, and concerning which I had made completely objective and altogether well-founded comment in my despatch No. 583, of August 15. The memorandum was transmitted without any revision and without taking any note of my despatch No. 583.

I consider that this is a matter of primary importance for several reasons. In the first place I do not see the reason why a memorandum on the Argentine situation is transmitted to our Chiefs of Mission at this particular time.

In the second place, I could see the purpose of sending such a memorandum on the Argentine situation to our Chiefs of Mission in the other American Republics if it presented a complete and adequate and up-to-date picture of the situation in our relationships with the Argentine, and this the memorandum as submitted to our Chiefs of Mission does not do.

The memorandum as transmitted would leave the impression that the President has approved the memorandum as a whole, although the covering instruction simply states that the memorandum was prepared at the request of the President and that "the President has approved alternative 'C' on Page 28 as a course of action to be followed". There is nothing new in this, for our policy has been based on the statement of the Secretary of April 8, 1946, and there has been no question, so far as I know, of any change in that statement.

Another factor which has to be considered in this connection is that this memorandum is being sent out by the Department as an official document with the impression that it has the approval of the President and it is therefore a document which, for our Chiefs of Mission will be considered for their guidance. In view of the inadequacies of the memorandum as a presentation of the Argentine problem I think that this is most unfortunate.

I therefore respectfully request the Department's consideration of either recalling the memorandum on the Argentine situation referred to in this despatch or substituting it with a memorandum which adequately takes into account the observations made in my despatch No. 583, of August 15, 1946. The Department will appreciate that I have no other course than to make this recommendation as the Chief of this Mission who is responsible to the Department for objective and

complete reports on developments in the Argentine situation from this post and I would be failing in my duty if I had not and do not again bring to the attention of the Department the inadequacies of the memorandum originally transmitted to the President.

Respectfully yours,

GEORGE S. MESSERSMITH

711.35/10-3046

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

SECRET

BUENOS AIRES, October 30, 1946.

DEAR MR. SECRETARY: . . .

The only sound rule we can follow is not to lay down to the other American republics which individual aliens must be deported, but to view performance to see if those against whom real evidence is available of improper activity are deported.

I mention this specifically because in connection with the Argentine the names of individuals, such as Ludwig Freude and his son Rudolf Freude have been mentioned. Ludwig Freude has been named as "a spearhead", and, in some cases, "the spearhead" of German espionage activities in the Argentine. Ludwig Freude was born in Germany and has been in the Argentine for decades. He is now well advanced in years—I believe in his 70's. He is an Argentine citizen. The records of the British Embassy and of this Embassy and all the available records we can consult show no concrete evidence against Freude of having engaged in espionage or of having had contact with espionage agents. The only thing in the record with regard to him is that, when the German Embassy was closed here it left with him some 40,000 pesos in money which represented a balance of funds they had. There is no evidence whatever that Freude used this money to aid German espionage or to aid the enemies of our cause.³⁶

On the other hand, Ludwig Freude has played a constructive role in the Argentine economy and was one of the citizens of the Argentine with money who contributed to the campaign of new President Perón. It was, also, in the house of Freude, with whom new President Perón has had a friendship for many years, that President Perón took refuge at one time when he was threatened with arrest.

The only way in which the Argentine Government could take action against Ludwig Freude would be on the basis of denaturalization pro-

³⁶ For further information on the charges against Freude, see Department of State, *Consultation Among the American Republics With Respect to the Argentine Situation* (Washington, 1946), pp. 58-60.

cedures, and after the most careful investigation the Argentine Government has found no evidence against him, and an official decree has been issued in the last few days stating that an examination of the facts shows no evidence that he took any action detrimental to the Argentine or to the United Nations.

There is, therefore, no possible basis for us to ask that any further action be taken with regard to Ludwig Freude, for we cannot produce any evidence which would be helpful to the Argentine Government. As a matter of fact, I know that Ludwig Freude has recently been most helpful in making clear to certain people in the Argentine Government the importance of deporting those Germans against whom evidence exists of improper action.

In spite of the foregoing, there are those, I understand, who would make our recognition of Argentine compliance with her inter-American commitments dependent upon the deportation of Ludwig Freude. Of the injustice and absurdity of such an attitude I need make no further mention.

Similarly, much has been said in the press concerning Ludwig Freude's son, Rudolf Freude, who is a native-born Argentine citizen in his late 20's. He is one of the personal secretaries of President Perón. There is absolutely no evidence in the possession of the British and ourselves and, so far as I know, of anyone, to the effect that Rudolf Freude committed any act against the Argentine or the United Nations during the war. As a matter of fact, I know that, in his capacity as a private secretary to President Perón, he has been very useful to the American press and that he has been useful in the program with regard to enemy property, schools and institutions, and aliens. He is exactly in the same position as hundreds of thousands of native-born Americans of German origin.

Similarly, there has been a tendency to take an attitude with the Argentine Government that it must deport or take certain drastic action with respect to Ricardo Staudt,³⁷ who is one of the most important business men in the Argentine and who has been an Argentine citizen since shortly after the end of the first World War. While Staudt may be a person who is personally objectionable to many people in the present Government of the Argentine, the Argentine Government cannot take action on such a basis, for Staudt is a clever man and took good care to see that, if his sympathies were with the Germans during the second World War, he did not get into a position of doing anything which would interfere with his Argentine citizenship. Although the most exhaustive investigations have been made by the British and

³⁷ See *Consultation Among the American Republics With Respect to the Argentine Situation*, pp. 60-64.

ourselves and by the Argentine Government, it is obvious that nothing can be done with reference to Staudt, except that, so far as his business interests are concerned, 570 shares which represent the interest of his three sisters in Germany and are therefore enemy property, will be taken over by the Argentine Government.

I will not go into this further, but I have wanted to make it clear that we cannot lay down a blueprint with regard to persons or firms. The question is whether action is taken where the British and we and the Argentine Government have adequate information on which action can be taken: the question is whether or not in all good faith the Argentine Government takes action in such cases where the evidence is available.

With all good wishes [etc.]

GEORGE S. MESSERSMITH

740.35112 RP/11-446

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

TOP SECRET
No. 1140

BUENOS AIRES, November 4, 1946.
[Received November 13.]

SIR: . . . I have to refer specifically to Section 1 of the Department's top secret Instruction No. 252 of September 25, 1946. Supplementing the information already transmitted in the above mentioned despatches, the following information is submitted as a preliminary reply to Section 1 entitled "Business Enterprises" of the Department's Instruction No. 252.

For the purpose of clarity and for the convenience of the Department, the questions in Section 1 of the Department's Instruction No. 252 of September 25, 1946 are hereunder repeated with the appropriate information following.

"1. a) What progress has been made toward the liquidation or sale of these firms since June 21, 1946?"

[Here follows a list of firms liquidated or in the process of liquidation, 22 in condition for immediate liquidation, 16 in condition for transfer to the State or to private interests, and 21 yet to be transferred in this manner. The great majority were or would be referred to the Central Bank.]

"b) The Argentine Government has since July 30, 1946 had under study twenty-six additional concerns, including eight Staudt subsidiaries. It is not known whether a decision has been taken by the Argentine Government in respect of this group. In this connection,

the Department will be pleased to receive the list of enterprises which was prepared by the Argentine Government and from which the twenty-six names in this group were selected by the Embassy."

[Here follows a list of 26 firms indicated as intervened or under investigation.]

"c) There are the following eleven firms which are connected with, or subsidiaries of, the enterprises listed in paragraphs *a*) and *b*) above and which are not listed in either of these groups. Is it correct to assume that these eleven firms are included in the two preceding groups?"

Such an assumption is not correct as will be seen from the following report of status of these firms:

[Here follows a list of 11 firms with status indicated.]

"d) There are the following eighteen additional firms reported to be owned from Germany or Japan which the Argentine Government apparently does not have under consideration".

The status of the following eighteen firms is as indicated.

[Here follows list of 18 firms with status indicated.]

In respect of all of the above enterprises where it is indicated that intervention or investigation is to be lifted, as well as those on which definite action is not clear, discussions between the Embassy and the Ministry of Foreign Affairs are proceeding actively and in detail. The Embassy, of course, is urging action of a positive character in all cases where it is possible to submit evidence establishing enemy ownership or control.

"2. It will be appreciated if the Embassy will indicate which, if any, of the enterprises referred to in paragraph 1, sections *c*), *d*), and *e*) it no longer regards as spearhead together with a brief summary of the facts on which the Embassy's conclusion is based."

While it is recognized that some of the above firms have been considered as spearhead in the view of the Department and the Embassy on the basis of information heretofore available, no reorganization thereof into new categories has been made by the Embassy. However, various important considerations make it impractical to press complete liquidation of all of these firms; in fact, in the case of some of them there is not adequate information available to press for any action, and although the Argentine government has made independent investigations on its own, supporting evidence has not been found.

"3. Does the Argentine Government intend to proceed on a basis of liquidation or selling of the entire enterprise or only the interests of the undesirable owners thereof?"

From data supplied the Embassy by the Ministry of Foreign Affairs, it would appear that in firms where the enemy interest repre-

sents less than fifty percent of the capital, controls will be lifted upon payment into a block account in the Central Bank of the sum representing the enemy interest. In most instances where the enemy interest exceeds fifty percent of the capital, the Embassy is of the opinion that the firm will be liquidated, sold, or nationalized in accordance with its importance to the national economy.

“If the latter:

“*a*) Will all owners resident in Germany be regarded as undesirable?”

On the basis of a resolution passed by the Junta in the case of Curt Berger y Cía. in which the interests of Argentine nationals were not frozen, it is presumed that mere residence in Germany does not, in itself, denominate a person as undesirable, particularly if that person is an Argentine national. It is believed that this attitude is necessary under existing Argentine law.

“*b*) Is the Argentine Government disposed to consider certain Argentine nationals (including naturalized Argentines Freude, Martens, and Staudt and native-born Delfino) as undesirable?”

There are indications that certain Argentine nationals may be considered as not in all respects desirable by the local authorities, but in the absence of legal basis for revocation of citizenship or conviction for offenses against the state, the government is helpless with respect to seizure of their property or their elimination from local enterprises. This situation in the Argentine does not differ in any way from the situation in the United States and in others of the American countries, and in fact, in all countries.

With respect to Ludwig Freude, an Argentine citizen of German origin, a despatch is going forward to the Department covering the Freude situation, and therefore no complete reference thereto will be made here except to state that the Argentine government cannot take any action in the case of Freude or his enterprises on the basis of the information which has been given it by the British and ourselves or which it has been able itself to secure. The Argentine government after a full investigation has issued a decree to the effect that Freude has not committed any acts against the Argentine state or the United Nations. The denaturalization proceedings which had been started against him at the instance of this Embassy by the Argentine government are about to come to a close, and I understand that within a relatively short time, and perhaps by the time this despatch reaches the Department, the court will confirm the naturalization of Mr. Freude. So far as the commercial interests of Mr. Freude are concerned, they are his and of persons against whom there is no information, and there is, therefore, no basis on which the Argentine government could

take any action with regard to his business concerns, and the Embassy is therefore not in a position to press any action.

With respect to Staudt and the Staudt interests, I would refer to my despatch No. 990 of October 14, 1946³⁸ which presents the considered views of this Embassy. In view of the fact that Staudt is personally distasteful and is a man of highhanded methods, the Argentine government made every effort in order to find evidence on which action could be taken with respect to Staudt and his firms. It was, however, as indicated in the above mentioned despatch, impossible to find any evidence on which Staudt could be denaturalized or action taken against his firms beyond the taking possession by the Argentine government of the 570 shares of the over-all Staudt company which are owned by the three sisters in Germany and therefore an established German interest.

With respect to Martens, he is an Argentine citizen born in Germany who is supposed to have taken over some espionage work, but it is the considered opinion of the Embassy that we have not furnished adequate information to the Argentine government on which denaturalization proceedings could take place and my last information from the Argentine authorities is that they have not found adequate information on which denaturalization procedures could be prosecuted.

So far as Mr. Delfino is concerned, he is a native born Argentine citizen, and as such, the question of denaturalization does not arise. If action were to be taken against him and his property, it would be necessary to prove acts by Mr. Delfino against the Argentine state and the United Nations, and the evidence which our government and the British government have presented is not sufficient as a basis for such proceedings, and the evidence which the Argentine government on the basis of very careful investigations has, is not sufficient. It may be taken, I think, for granted, therefore, that the Argentine government can take no action against Mr. Delfino and could not be expected to do so.

Respectfully yours,

GEORGE S. MESSERSMITH

835.34/9-2846 : Telegram

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

CONFIDENTIAL

WASHINGTON, November 6, 1946—6 p. m.

1340. Urdes 876 Sept 28.³⁹ Dept considers release of four demilitarized frigates would seriously prejudice continuation of embargo agreement with British. These vessels are unsuited commercial uses

³⁸ Not printed, but see letter of October 30 from Buenos Aires, *supra*.

³⁹ Not printed.

and easily rearmed. Export license accordingly denied Sept 18 pending further clarification compliance problem.

Dept concurs your recommendation re Victory ships (urtel 2372 Nov 4 ^{39a}). However, only application so far received by Maritime from Flota ⁴⁰ is for three regular Victory ships for cargo purposes. Navy unaware objection cited urtel.

ACHESON

862.20235/11-646

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

CONFIDENTIAL

BUENOS AIRES, November 6, 1946.

No. 1166

[Received November 13.]

SIR: . . .

The Argentine Government has been going into the matter of Mr. Ludwig Freude for a number of months with a great deal of care to the knowledge of this Embassy. I now have to transmit herewith (enclosure 1) a translation of a decree ⁴¹ published in the *Boletín Oficial* of October 23, 1946, signed by the President, the Foreign Minister, and the Minister of the Interior, as is necessary in the case of such decrees, which clears Ludwig Freude of any charges brought against him to the effect that he had lent himself to anti-Argentine activities and the decree directs the return to him of such property, real and personal, which had been embargoed by the Argentine Government through the Junta de Vigilancia y Disposición Final de la Propiedad Enemiga.

Respectfully yours,

GEORGE S. MESSERSMITH

111.12 Braden, Spruille/11-1946

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

SECRET

BUENOS AIRES, November 19, 1946.

MY DEAR MR. SECRETARY: I am sure I need not tell you that I have given very considerable thought to your personal letter of October 29, to which I replied very briefly in my personal letter to you of November 6, ⁴² your letter having reached me that morning. I cannot escape the conclusion, after all the thought I have given to your letter, that there must be some very serious misunderstandings in your mind, and possibly in that of the President, with regard to my actuation and my attitudes. How these misunderstandings could have arisen I am not able to say but that they exist there seems to be little doubt.

From the point of view of the position with which I have been en-

^{39a} Not printed.

⁴⁰ Flota Mercante del Estado, Argentine Government-controlled shipping organization.

⁴¹ Translation not printed.

⁴² Neither printed.

trusted here by you and the President this is, of course, an unhappy and undesirable situation, because if our relations with the Argentine and with the other American republics do not have the importance which I believe they have, and which opinion I believe you and the President share, then there is little reason for me to come here to undertake the task entrusted to me. It is this phase of the problem which gives me the greater concern and which leads me to write you at this time further.

From the purely personal point of view I am, of course, deeply distressed, as I have been in the Foreign Service for thirty-three years and during that time I have, I believe, given myself as unselfishly and as fully to the interests of our Government as anyone could possibly do with the capacities which he may have. During all of that time I do not believe that my loyalty, sincerity and correctness of actuation have ever been questioned and I think the record will show and does show that my actuation at every post with which I have been entrusted has been constructive.

Therefore, from both the official and personal point of view, I am deeply distressed that what I am sure are certain misunderstandings exist. There is much that I could say in this letter from the personal point of view but I have not been accustomed to consider these personal factors in connection with my work and I do not intend to occupy your time with any consideration of personal aspects in this letter. As I said in my letter of November 6, I am confident that when we have an opportunity to see each other I can in five minutes clear up any of these misunderstandings which exist with regard to my actuation.

However, from the point of view of the mission with which I have been entrusted I must write you briefly with regard to this problem which we have with respect to the Argentine and in a measure with some of the other American republics. My stay here of now almost six months has convinced me more than ever of the importance of our putting our whole house in the Americas in order, which involves the reestablishment of normal relations with the Argentine and this latter involving by the Argentine the reasonable fulfillment of her commitments. I am not accustomed to overestimate situations nor to overestimate the results which may have been achieved through any of my own efforts but I do know that since I came here a very great change has taken place in the Argentine, in the Argentine Government as well as among thoughtful persons here. I know that a great deal of progress has been made in laying the basis of better understanding and more full collaboration by the Argentine in the American picture. There are steps still to be taken by the Argentine Government and these I am confident will be taken in a measure which you and the President and the American public will find entirely adequate and satisfactory. I have endeavored to explain in my letters to you,

and of course more fully in my despatches to the Department, what the difficulties are which have to be overcome by the Argentine Government in carrying through these commitments. These difficulties have been so real that it is difficult to make them understood, even in the most complete reports, at this distance.

You will recall that in a previous letter I indicated to you that I thought it would be desirable for me to make a trip home, but that in some ways I preferred not to make the trip. One of the reasons I felt I should not make the trip was that I thought the long air trip might aggravate my stomach ailment, but happily I have so much improved that I am prepared to make the trip. The other reason I did not wish to take it was that I thought it might arouse speculation in the press of various kinds which might not be helpful.

I have given our whole problem very careful review and I have come to the very definite conclusion that it would be desirable for me to make a trip home so as to have an opportunity to talk with you about certain major aspects of this whole situation, for I feel that I need to discuss it with you, and certain aspects thereof with officers of the Department. As you say, and very properly so, the decisions in this matter of the Argentine will be made by you, but that you intend to consult the President, and I am inclined to think that it would be very helpful if after having had a talk with you at home we might together have a talk with the President, and in order that there may be no misunderstandings with respect to my attitude in this matter I would not see any reason why Mr. Braden, as the Assistant Secretary in direct charge of our relations with the American republics, should not be present at such a conversation.⁴³

With all good wishes [etc.]

GEORGE S. MESSERSMITH

835.00/11-2046

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

SECRET

BUENOS AIRES, November 20, 1946.

No. 1273

SIR: . . .

I now have to transmit herewith for the strictly confidential information of the Department for the present (enclosure 1)⁴⁴ a trans-

⁴³ The Ambassador indicated in telegram 2541, December 18, 1946, that he planned to leave Buenos Aires, December 20 and, according to a letter from the Secretary of State to the Chief of the Bureau of Medicine and Surgery of the Navy Department, dated December 26, 1946, he planned to enter a hospital for an examination (123 Messersmith, George S.).

⁴⁴ Not printed.

lation of a decree which has been issued by the Argentine government which is self-explanatory and in which are listed the names of the persons who are to be made the subjects of this special action. When the Foreign Minister handed me a copy of this decree, he stated that only four copies of the decree as yet existed and that he was giving me one of these but that I was to maintain the existence of the decree in complete confidence, as the Argentine government was presently doing, in view of the fact that the arrest of these individuals had to be carried through in such a way as to avoid possibility of escape of any of these individuals or their having the opportunity to have recourse to legal action in the way of habeas corpus. The Minister said that these aliens included in the decree were in process of being arrested and detained and would be given administrative hearings, and on the basis thereof, in view of the information in their possession, would be deported on a vessel, presumably of the Argentine Navy or Merchant Marine, which is being prepared for the purpose. He said that the decree would not be published until the departure of the vessel.

The Department will note from Article 1 of the decree that there are listed therein the names of 52 persons, most of them being Germans. The Minister explained that this list did not represent all of those in the lists which the British and we had submitted to the Argentine government for investigation in which action may eventually be taken. He stressed that this list contained the names of most of those whom the British and we had indicated in our lists as being the most important enemy aliens in the lists and those concerning whom the Argentine government had been able adequately to definitely establish the fact of acts against the State and the United Nations. He said that it was the desire of the Argentine government to get this particular group out of the country and to continue its investigations with regard to other persons on our lists.

The Minister pointed out that the procedure being followed was the same which had been followed in the case of those deported on the *Highland Monarch*. He pointed out that it was the only way that the Argentine government presently saw of getting these more important enemy aliens out of the country without prolonged action in the courts permitted under the Argentine law on behalf of these persons.

It is quite obvious that this action of the Argentine government is to be an expression of its good faith in dealing with this problem of enemy aliens in which it has encountered so many difficulties which have been brought out fully in despatches of this Embassy.

The Foreign Minister said that it was hoped to get this ship carrying these aliens on its way during the course of this week and that the departure of the ship would depend upon the ability of the police to locate and detain the persons in the lists. He informed me on the

morning of November 18 that the police had already been able to locate and detain some 40 persons. He said that several who were not of German nationality had already been able to escape surveillance and proceed to Chile but as they were not of Chilean nationality, it was the opinion of the Ministry that they would be able to be located in Chile and eventually deported.

Respectfully yours,

GEORGE S. MESSERSMITH

862.20235/11-646

The Secretary of State to the Ambassador in Argentina (Messersmith).

SECRET
No. 378

WASHINGTON, November 27, 1946.

SIR: Reference is made to despatch No. 1166 of November 6, 1946, concerning the exoneration of Ludwig Freude by the Argentine Government and to the attached summary of the evidence concerning Freude's activities on behalf of the Axis.

The testimony of the German General Wolf and the German Military Intelligence agent Schlueter establishes that Freude was designated as one of the custodians of German Embassy espionage funds in anticipation of Wolf's departure; that Freude's instructions were to pay such funds to persons in the possession of a secret password; and that in the interim between Argentina's severance of diplomatic relations with Germany and Argentina's declaration of war against Germany, Freude in a very secretive manner and on at least three separate occasions made payments to Schlueter who used a substantial part of the funds for espionage purposes.

In sum, the exoneration of Freude cannot, in the light of the facts, be regarded as a step in the direction of compliance by Argentina with its international agreements. On the contrary, it can only be interpreted as a lengthy stride in the opposite direction. If, however, as you suggest, the Argentine Government has acted in this matter in entire good faith and no particular importance is to be attached to former Foreign Minister Cooke's statements that Freude cannot be touched, there would appear to be no reason why a further approach should not be made to the Argentine Government on the basis of the evidence set forth in the attached memorandum.⁴⁵

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

⁴⁵ Not printed.

835.00/11-2946

The Ambassador in Argentina (Messersmith) to the Assistant Secretary of State for American Republic Affairs (Braden)

TOP SECRET

BUENOS AIRES, November 29, 1946.

DEAR SPRUILLE: I have to refer to my Top Secret Despatch No. 1169 of November 6⁴⁶ and 1273 of November 20 which I sent you with covering letters. You will recall that in order not to get any distribution not duly authorized by you, I sent the originals and copies of the despatches to you.

In spite of all the precautions which were taken here, there was a leak somewhere among the few people in the government who knew about this matter or from a subordinate and some of these agents were warned and escaped surveillance under which they were and it has been impossible up to the present to locate a fair number of them including Becker. They have some of the principal ones but some have so far eluded them. I know that the police in Buenos Aires and all over the country are concentrating on finding these people and it is my belief that they are making every effort to get them. The President and the Foreign Minister said yesterday that they were sure they would get them all.

The ship is ready to take them out but they want to wait until they have the lot they set out for. I am merely sending you this word for your personal information so that you may know the background.

The activity of the police in Buenos Aires and throughout the country has, of course, become known and is a matter of speculation but the press is not saying much about it any more as the publicity might be of help to these people who are in hiding. The American correspondents are very curious about what is going on and ask me questions but I tell them that I know that it is a matter on which only the Argentine Government can give any information and the Government is refusing naturally to make any comment with regard to the arrests and searches until they are ready to send the ship out. . . .

With all good wishes [etc.]

GEORGE S. MESSERSMITH

835.34/12-1346

Memorandum of Conversation, by the Chief of the Division of River Plate Affairs (Lyon)

[WASHINGTON,] December 13, 1946.

Mr. R. F. Willey, representative of the Bethlehem Steel Corporation, having been referred to me by Mr. Dreier,⁴⁷ IA, telephoned me

⁴⁶ Not printed.

⁴⁷ John C. Dreier, Acting Chief of the Division of Special Inter-American Affairs.

and said that the Bethlehem Steel Corporation had been requested by the Argentine Government to pass bids on the following Naval Ships:

- 1 cruiser
- 4 destroyers (of the Cleveland class)
- 3 submarines (of Italian design)
- 1 tanker (small)
- 1 troop ship
- 1 escort carrier
- 1 repair ship

Mr. Willey wanted to know what the Department's views on this were. I explained briefly to him our policy vis-à-vis Argentina and said that at present we are opposed to furnishing armaments to Argentina, that the above ships were obviously armaments, and that therefore, our position would be against furnishing these ships. Mr. Willey said that was the answer he had expected to receive, that he had conferred with the Navy Department which had referred him to us. Mr. Willey said that if this was the position our Government was taking, and that no other American firms would be able to obtain export licenses for armaments for these ships, he was going to tell his people that it would be impossible to complete bids on these ships within sixty days which was one of the requirements.

I explained to Mr. Willey that we had a "gentlemen's agreement" with Great Britain, and consequently, she wouldn't be able to build these ships, and asked whether any country would be able to. He said that Italy might, but that she didn't have the materials, and it would take five or six years at least. I stated that I didn't know what our policy was, but that I couldn't believe that we and the British would sit back and allow Italy to furnish these ships to Argentina. Mr. Willey's answer was "we won't."

Mr. Willey said he couldn't imagine what Argentina wanted all these ships for, and said that his Company did not need business badly enough to go against the wishes of the U.S. Government in this matter.

NEGOTIATIONS CONCERNING AN AIR TRANSPORT AGREEMENT BETWEEN THE UNITED STATES AND ARGENTINA

[Documentation on this subject is in Department of State file 711.3527. For the text of a statement issued on October 1 by the Department of State and the Civil Aeronautics Board regarding the suspension of negotiations, see Department of State *Bulletin*, October 13, 1946, p. 682.]

BOLIVIA

CONCERN OF THE UNITED STATES WITH RESPECT TO THE VIOLENCE ACCOMPANYING THE BOLIVIAN REVOLUTION AND THE PROBLEM OF RECOGNITION

824.00/5-646 : Telegram

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

CONFIDENTIAL

LA PAZ, May 6, 1946—2 p. m.

[Received 7:30 p. m.]

384. General belief is that yesterday's elections were bitter disappointment to MNR.¹ Rumors of impending state of siege, purpose of which will be clean up leading opponents of Government (and not with kid gloves either) have conservative, democratic, and liberal elements in state ranging from resentment to terror.

Minister of Public Works² once stated cryptically to AP friend that it made no real difference how elections turned out. Relations between military and MNR components present Government may become clarified result elections, but few days at least needed to determine this. Saturday night drunken MNR crowd including Minister of Labor and Agriculture shot off pistols at *El Diario* building. Report states same night in Trinidad³ opposition leaders were shot by MNR leaders, one dying immediately, one later and one badly wounded. Same night in La Paz at least one group distributing opposition pamphlets severely beaten and others prevented from distributing while pro-Government pamphlets were distributed freely from official cars.

Great discussion going on among chiefs of missions over emergency meeting of Diplomatic Corps. British Minister³ trying force meeting while Argentine and Ecuadoran representatives told Dean⁴ they would not attend. British, Argentine and Dean (Venezuelan) called on me this morning. I took position if meeting were called I would, of course, attend, always on understanding I could participate in no joint action.

British Minister wanted me to join him and two other colleagues in protest to Government on atrocities which I refused. Dean not anx-

¹ Movimiento Nacionalista Revolucionario (Nationalist Revolutionary Movement).

² Maj. Antonio Ponce.

³ Thomas Ifor Rees.

⁴ The Dean of the Diplomatic Corps, Esteban Chalband Cardona, Venezuelan Ambassador to Bolivia.

ious to call meeting and will do so only if British Minister formally insists.

ADAM

824.00/5-1246 : Telegram

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

RESTRICTED

LA PAZ, May 12, 1946—1 p. m.

US URGENT

[Received 7:13 p. m.]

408. First official preliminary election returns just announced by MinGovt.⁵ Of nine Senators, six went to MNR, two to other pro-Govts and one to Opposition (Liberal). Of 49 known deputies, 26 to MNR, 13 to Independent pro-Govt, 5 to Independent Opposition, 2 each to Genuine Republicans and Independent Socialists and 1 Plain Independent. Final canvas for deputies will be made last Sunday in May and the following Sunday for Senators.

Composition of new Congress as follows: Senate, 14 Opposition and 13 MNR and supporters. House, MNR and supporters 71, Opposition 30, Independent Socialists 3, Independent 1, with 6 seats still unknown.

MinGovt announced specifically Belmonte⁶ had won 3 seats (Sud Lipez, Carangas, and Camacho). As he can only fill one, continues announcement, properly qualified alternates must fill remaining two. Full election report in preparation and will go forward this week.

ADAM

824.00/5-3046 : Telegram

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

CONFIDENTIAL

LA PAZ, May 30, 1946—4 p. m.

US URGENT

[Received 7:20 p. m.]

477. As I suspected state of siege has been declared. Also arrested Enrique Hertzog,⁷ Nestor Galindo and Air Force officer named Etchenique. There are vague rumors of civilian uprising last night in Oruro and radio announcement of state of siege mentioned a revolutionary plot as basis of Govt's action. However, it may well be that any such revolutionary plot was Govt inspired so that some excuse for repressive action might be given.

There are continued rumors of revolutionary movements and these arrests may well be a fishing expedition to try and discover real au-

⁵ Col. Edmundo Nogales.

⁶ Maj. Elios Belmonte Pabón, a former Bolivian Attaché in Berlin. His activities were of particular interest to the United States.

⁷ Former Cabinet member.

thors as well as having secondary result of suppressing constant newspaper opposition.

Meanwhile La Paz remains completely calm.

ADAM

824.00/6-1446 : Telegram

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

RESTRICTED

LA PAZ, June 14, 1946—11 a. m.

U.S. URGENT

[Received 3:00 p. m.]

526. *La Razón* and *Ultima Hora* confiscated by Govt on grounds they incited to revolution. Both confiscations included the respective buildings. Widespread arrests going on with increasing number asylum seekers, including Ernesto Aranibar, head of Grace,⁸ Felix Ballivian, Panagra^{8a} traffic manager, David Alvesteguí, Director of *La Razón*. Panagra head Guillermo Elio expects to be arrested momentarily; states his father Tomas, ex-FonMin, already arrested.

Panagra unable operate as its communication system is blocked out by Govt. Panagra planes will not fly over Bolivia until adequate guarantees as to non-seizure are given. Embassy this morning making strongest possible representations to enable Panagra to maintain its schedules. Company understandably apprehensive as contracted bus seized and three chauffeurs arrested.

Cumbre appeared last night, *El Diario* and *La Calle* this morning.

Just received word Louis Zavala, UP representative arrested. Plan to mention informally to FonMin my disappointment at his arrest and attempt to arrest Grace Company manager.

Police reported seeking Carlos Victor Aramayo⁹ to arrest him.

Plot now appears sponsored largely by Frente Democrática Anti-Facista, poorly organized and united only in hate of present regime.

ADAM

824.00/6-1446 : Telegram

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

SECRET

LA PAZ, June 14, 1946—3 p. m.

[Received 8 p. m.]

531. For Briggs.¹⁰ British Minister Rees and your former colleague wishes me to join him in protest to President Villaroel over past events and perhaps thus avoid at least some executions. I told him I could do nothing along this line in absence of specific instructions.

⁸ W. R. Grace and Company.

^{8a} Pan American Grace Airways.

⁹ Bolivian tin magnate.

¹⁰ Ellis O. Briggs, Director of the Office of American Republic Affairs.

One more outrage came to my attention: Yesterday four police officers got in our station wagon and ordered the driver to take them to some place in the country. It was only with difficulty he succeeded in dissuading them from this mad plan.

ADAM

824.00/6-1446 : Telegram

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

RESTRICTED

LA PAZ, June 14, 1946—6 p. m.
[Received June 15—9:35 a. m.]

533. Jack Neathery¹¹ did unusually fine job this morning on Panagra matter. He succeeded in getting guarantees from responsible quarters that planes would not be bothered, permission to use their communication system and the passengers' bus back.

Planes have now landed and there is no reason to expect further difficulties. Sum total trouble caused Panagra by revolution was one plane rerouted via Antofagasta to Salta.

Paz Estenssoro¹² told Neathery, Grace and Company was a haven of anti-Government people and he was contemplating a protest to US Government. I assisted Ernesto Aranibar¹³ to escape to Brazilian Embassy this morning and he is of opinion American citizen manager for Grace is essential. I agree.

ADAM

824.00/6-1446 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

US URGENT

WASHINGTON, June 14, 1946—7 p. m.

323. Urtel 527, June 14, noon.¹⁴ If the police actually entered the premises occupied by the Chancery you should seek an immediate interview with the Minister for Foreign Affairs¹⁵ and deliver to him a formal note of protest reading as follows:

“Excellency: Pursuant to telegraphic instructions received from my Govt I have the honor to inform Your Excellency that my Govt has learned with surprise that on several occasions on June 13 last uniformed members of the Bolivian National Police entered the premises of the US Emb Chancery at (address). My Govt was further informed that on one occasion the police endeavored to mount

¹¹ United States Commercial Attaché.

¹² Victor Paz Estenssoro, Bolivian Minister of Finance and Chief of the M.N.R.

¹³ General Manager of Pan American Grace Airways in Bolivia.

¹⁴ Not printed.

¹⁵ Col. José Celestino Pinto.

a machine gun on one of the balconies of the Chancery. These actions are contrary to the inviolability of the Emb, to which it is entitled under international law.

If such invasion of the Emb's premises was directed or authorized by the Bolivian Govt, my Govt considers that it is incumbent upon the Bolivian Govt to make a suitable expression of regret and give assurance that it will not be repeated. If it was not so directed or authorized my Govt considers that steps should be immediately taken by the Bolivian Govt in order that the guilty police may be duly reprimanded and punished and that measures be taken to ensure that incidents of this kind shall not be repeated."

Upon receiving telegraphic report from you concerning the delivery of the foregoing message and any statement which the Foreign Minister may have made to you at that time, the Dept will summon the Bolivian Amb ¹⁶ and deliver to him a copy of note.

ACHESON

824.00/6-1546: Telegram

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

CONFIDENTIAL

LA PAZ, June 15, 1946—noon.

US URGENT

[Received 12:45 p. m.]

535. Dean Diplomatic Corps received formal promise from Acting Foreign Minister that no mass executions would occur and Government had taken ample measures to prevent recurrence November 1944 killings. Diplomatic Corps with exception Argentine upset over violations immunity and general rough treatment. For instance, Garland's ¹⁷ official phones deliberately disconnected. There are about thirty asiledos in various Missions; none in mine of course.

Just succeeded in getting UP representative Zavala out and a declaration that there are no charges against AP representative Valdez. Plan for formal note on Grace and Company affair as practically all its officials are arrested or in hiding.

Drunken celebration, shooting in town during night but no casualties. Six police again tried to force entry in Chancery to set up machine gun on roof but prevented entry by night watchman's bravery.

Informed British Military Attaché that now appears no army ground units as such took any part in revolt on either side. It was a police affair throughout.

Shall deliver formal protest to Foreign Minister on Monday, having already advised Sub-Secretary ¹⁸ to that effect.

ADAM

¹⁶ Victor Andrade.

¹⁷ Eduardo Garland Roel, Peruvian Ambassador in Bolivia.

¹⁸ Luis Felipe Lira Citrón.

824.00/6-1446 : Telegram

*The Acting Secretary of State to the Chargé in Bolivia (Adam)*¹⁹

SECRET

WASHINGTON, June 15, 1946—2 p. m.

U.S. URGENT

329. Urtel 531 June 14. In reply request Brit Min that you join him in protest to Bol Pres over recent events in effort avoid further loss lives you should suggest to him course action outlined following paragraphs:

1. Brit Min and you might discuss with Dean resident Diplomatic Corps possibility of collective representations to Bol Govt.

2. You should state to Brit Min and Dean Corps that you have been instructed by your Govt to point out that recent events will be viewed by world opinion in light of principles set forth in UN Charter and various inter-American agreements to which Bol has subscribed and that continued violence and loss of life cannot fail to influence adversely judgment of Bol adherence to those principles. If majority of members Diplomatic Corps agree, Dean should be requested to express orally to Bol FonMin collective views along these lines.

3. At meeting of Corps you should make statement as outlined preceding paragraph and add that your Govt has telegraphed text of this cable to US Embassies other American Republics and Great Britain with instructions to inform Foreign Offices those countries.

4. After receiving your telegraphic report on results foregoing suggestions Dept will send you additional instructions.

ACHESON

824.00/6-1446 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

CONFIDENTIAL

WASHINGTON, June 15, 1946—6 p. m.

US URGENT

330. Urtel no. 535. Explaining that he was speaking personally and as genuine friend Bolivia Assistant Secretary Braden expressed to Ambassador Andrade this afternoon his alarm recent developments as reported by you. After summarizing information contained your recent tels and concern apparent possibility executions following mass arrests, Braden described violation chancery premises June 13 and attempt following night. He said you had been instructed to submit note of protest and indicated contents thereof.

Ambassador replied without recent information developments in

¹⁹ Repeated to the diplomatic representatives in the American Republics and at London with the following introductory phrase: "For action stated in par. 3."

capital but desired express in own name and Govt's profound regret invasion Embassy together with assurances he would immediately telegraph La Paz full report conversation.

Braden then mentioned Belmonte possible return stating that obviously this is matter for Bolivian Govt decide but that, again as friend of Bolivia, he felt Ambassador should be aware extremely adverse effect return might have on public opinion this country and on attitude here toward Bolivian Govt.

ACHESON

824.00/6-1546 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

CONFIDENTIAL

WASHINGTON, June 15, 1946—6 p. m.

331. Representatives AP, UP and Grace have asked us express to you their appreciation your assistance (second paragraph urtel 535 and urtel 533).

For your confidential information we have recommended to Grace their company immediately dispatch responsible official American citizen to La Paz to take temporary charge and to investigate charges political activity by Grace Bolivian personnel. In latter connection Grace informed that while in absence proof we assumed no political activity their personnel we would view any such activity with extreme disfavor (see Dept press release of December 11, 1945 regarding attitude participation American companies in local political affairs).

ACHESON

824.00/6-1746 : Telegram

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

CONFIDENTIAL

LA PAZ, June 17, 1946—6 p. m.

[Received 9:03 p. m.]

544. ReDeptel 331. Have just seen Sub-Secretary for Foreign Affairs and handed him note on Grace and Co. text of which reads as follows:

"I have the honor to inform Your Excellency that I am frankly disturbed over the situation of Grace and Company and its subsidiary, Panamerican Grace Airways. The general manager, Mr. Ernesto Aranibar, has thought it best to seek refuge in the Brazilian Embassy and I understand that his house was searched, some damage done and the servants frightened. The Panagra manager, Mr. Guillermo Elio, has been arrested and is being held incommunicado. Other officials of the organization are in hiding and being sought by the police.

As this is the largest United States enterprise in Bolivia and as I feel a definite moral responsibility for its behavior, I should like to request Your Excellency to inform me of the charges against these officials so that I may, in turn, report to my Govt with a view to seeking remedial action, should it be deemed desirable under the circumstances."

I have offered to give my personal guarantees that general manager Aranibar will appear for questioning on Govts promise not to incarcerate him once he leaves Brazilian Embassy. I am still trying to get Panagra manager Elio out in some way or another so he can do his job. I have hopes that Aranibar will be back at his desk by noon tomorrow but am more dubious about Elio. Had long talk this afternoon with US citizen and Grace comptroller Noth who was instructed to consult me. We agreed that political situation here is such that although absolutely innocent, Aranibar cannot carry on in best interests of company. It is, therefore, suggested that Grace be advised that it would be in their interest to transfer Aranibar for a considerable period of time, replacing him with an American citizen. I am, likewise, in favor of an American citizen managing Panagra as I think Elio's position, although he is innocent too, makes his usefulness to the company extremely doubtful.

ADAM

824.00/6-1746 : Telegram

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

SECRET

LA PAZ, June 17, 1946—6 p. m.

US URGENT

[Received 8:11 p. m.]

545. I have just delivered personally to the Foreign Minister text of the note contained in Deptel 323 adding "the Yugoslav building" for address of Chancery.

Pinto said the police entered the building because of the general excitement of the first hours of the revolution and that they "took the measures which the circumstances required". He said furthermore the fact that the Chancery occupied a building along with other offices was partly responsible for the confusion. I informed him that we had a whole section of the building with our own entrance, a shield over the door and the only other tenant in this entire section was a lawyer with about eight or ten square feet of space. He said we should also remember that his police were ignorant and not of the caliber of those in the United States. He said another factor was that the Embassy had recently moved but I pointed out to him that we

moved well over a year ago. He made only the briefest statements of regret but did say that a full investigation would be ordered.

ADAM

824.00/6-1746 : Telegram

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

SECRET

LA PAZ, June 17, 1946—7 p. m.

[Received 9:42 p. m.]

546. ReDeptel 329. In conversation with Foreign Minister this afternoon, I mentioned grave apprehension on many sides over arming of civilians on the thirteenth instead of using the troops which were apparently not trusted by Govt. Pinto replied that they should have been provided with armbands and might have started shooting each other. He was silent on my question as to possible rancor within the Army at its neglect by the Govt.

In spite of specific assurances received this afternoon from Sub-secretary that there would be no illegal treatment of prisoners Legat has received definite assurances that cruel beating of prisoners is currently being carried out.

Have appointment with British Minister to see Dean of Diplomatic Corps tomorrow morning.

ADAM

824.00/6-1846 : Telegram

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

SECRET

LA PAZ, June 18, 1946—6 p. m.

[Received 10:58 p. m.]

555. Following is an interim report on progress in attaining collective action by Diplomatic Corps in pursuance instructions contained Deptel 329.

Immediately saw British Minister yesterday afternoon and this morning we called on Dean who is consulting other Chiefs of Mission individually and expects to call a meeting this evening or tomorrow. Our activity is somewhat handicapped by numerous official functions being held for Trujillo.²⁰

My personal opinion, or at least hope, is that Chiefs of Mission, with exception of Argentina and Paraguay, will look favorably upon these instructions.

ADAM

²⁰ José Vicente Trujillo, Ecuadoran Minister for Foreign Affairs.

824.00/6-1846 : Airgram

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

SECRET

MEXICO, June 18, 1946.

[Received June 25—10:23 a. m.]

A-926. The Counselor of the Embassy ²¹ called upon Dr. Tello, the Acting Minister of Foreign Relations, and brought to his attention, in accordance with instructions, those parts of the Department's circular telegram of June 15, 2 p. m., 1946, ²² concerning instructions sent to the Ambassador in Bolivia recommending discussions with the British Minister and with the Dean Resident of the Diplomatic Corps in La Paz concerning the possibility of collective representation to the Bolivian Government on recent events in that country.

Dr. Tello stated information from the Chargé d'Affaires ²³ in La Paz indicates that those elements which have opposed the interests of the Bolivian people have also opposed the present Government. He said no word has been received from the Chargé d'Affaires regarding the expression of any "collective views" by the Dean of the Diplomatic Corps as suggested in the Department's telegram. He said in any case the Dean of the Diplomatic Corps, in the opinion of the Mexican Government, could not express "collective views" on behalf of the other nations represented in Bolivia without the consent of those countries. He did not regard the situation in Bolivia sufficiently serious to warrant the suggested action by the Dean of the Diplomatic Corps on behalf of the other countries represented in Bolivia, which step, he said, the Mexican Government regarded as very grave, which would require the most serious consideration.

Although Dr. Tello expressed no disapproval of the method of action suggested in the Department's telegram, he appeared somewhat startled at the suggestion that the Dean of the Diplomatic Corps, acting on behalf of a majority of the members of the Diplomatic Corps, might undertake to express "collective views" to the Bolivian Foreign Minister, apparently feeling that under any circumstances the Mexican Government should be consulted upon what he characterized "so grave a step". From the conversation the impression was gained from Dr. Tello's attitude that he regarded the suggested action as a step in the direction of intervention which, as is well known to the Department, is an anathema to the Mexican Government.

THURSTON

²¹ Raymond H. Geist.

²² See telegram 329, June 15, 2 p. m., to La Paz, and footnote 19, p. 345.

²³ Salvador Navarro Aceves.

824.00/6-1946 : Telegram

*The Chargé in Bolivia (Adam) to the Secretary of State*SECRET
US URGENTLA PAZ, June 19, 1946—6 p. m.
[Received 10:02 p. m.]

559. The full Diplomatic Corps met at Venezuelan Embassy this afternoon. I gave in Spanish the sense of Deptel 329. In ensuing discussion Argentine Chargé²⁴ constantly endeavored to put over point that there had been no violence. He was successful. He was aided by the Dean who got completely hysterical and shouted wildly "I am the Dean and I state that no violence took place in Bolivia—nothing happened here". The Chilean Ambassador²⁵ took most heated opposition saying "that may be your opinion but I have informed my Govt that many things have happened here".

Out of the welter of discussion which it is of no use to repeat, it was decided that this amounted to a consultation among the American Republics under the terms of Chapultepec.²⁶ As there was obviously no chance of agreeing on the violence issue it was finally resolved that each Chief of Mission would consult his FonOff on the sole issue of freedom of the press.

There was general agreement with no voice raised in opposition that there was now no freedom of the press in Bolivia. Once a sufficient number of Chiefs of Mission have received instructions from their respective FonOffs we will meet again and decide on whether there will be a formal representation to the Bolivian Govt on this one issue or not.

ADAM

824.00/6-2046 : Telegram

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

CONFIDENTIAL

LA PAZ, June 20, 1946—3 p. m.
[Received 7:46 p. m.]

564. Had long and serious talk last night with Pinto and Paz Estensoro. They told me Aranibar has his freedom only because the President ordered it done as a personal favor to me. They consider that as long as he is in his position he is a threat to the stability of the Government. Under these circumstances he will have to be removed to another country when the Grace vice president gets here.

They stated emphatically that United States press services would have to be represented here by other than Bolivian citizens.

²⁴ Victor N. Fernández Bazán.²⁵ Osvaldo Vial.²⁶ See Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February–March, 1945* (Washington, 1945), pp. 40–44.

The Dept may wish to inform AP and UP of this situation with such recommendations as seem best to it. AP services have been shut down and none of their despatches appear in today's *La Razón*.

ADAM

824.00/6-1946 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

SECRET

WASHINGTON, June 20, 1946—11 p. m.

353. Reur 559 June 19. Dept considers discussions did not constitute consultation among American republics but that Diplomatic Corps was addressing itself to local immediate situation and deliberating measures that it could properly take. Ur 535 June 15 reports Acting Foreign Minister assured Dean, Diplomatic Corps, in effect there would be no excesses. We regard this assurance as sufficient for the present and do not consider that freedom of press issue calls for joint representation by Corps.

However, this Govt earnestly hopes that Bol Govt, consonant with principles subscribed to in UN Charter and Article XXVII Mexico City Conference, will restore freedom of press. If majority your colleagues favor such action you may associate yourself with collective expression this view Bol FoMin.

Andrade handed today copy note re Embassy invasion; also informed status Grace question.

ACHESON

824.00/6-2146 : Telegram

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

CONFIDENTIAL

LA PAZ, June 21, 1946—noon.

[Received 5 p. m.]

570. Notice appeared yesterday's *El Diario* that Government intervention was suspended afternoon June 19 and today new management under Mario Carrasco as Director and Rodolfo Nalapanca as Subdirector was announced. Former is son of paper's founder. Lead editorial said *Diario* would continue absolutely independent political views. Second editorial strongly attacked Government's seizure *La Razón* and *Ultima Hora* and expressed wish decree would be cancelled.

While it is always dangerous to pat oneself on the back, it is at least curious that intervention was ended while meeting of Diplomatic Corps called on Department's instructions was in progress.

It is assumed Department not rendering special assistance to any Bolivian paper on newsprint supplies at present time.

ADAM

824.00/6-2246 : Telegram

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

SECRET

LA PAZ, June 22, 1946—noon.

US URGENT

[Received 3:20 p. m.]

574. Just handed memo accusing US of unfriendly attitude based on Corps meeting. Told FonMin meeting was preliminary and secret and he was basing protest on information he had no right to possess. Further that I was a professional diplomat who rendered the most objective reports I knew how and followed and will continue to follow any instructions I receive to the letter. Further that the Corps has unquestioned right to meet as it wishes and we are meeting again Monday (postponed from Saturday) and any protest based on such a meeting before action agreed upon was decidedly premature. He said Dept was taking sides against Govt possibly influenced by anti-Govt visitors and that circularizing other FonOffs was an open enough action on which to base his protest. Ended by stating my admiration of Pinto personally and hoped nothing would disturb our really excellent personal relations.

Meanwhile to the best of my knowledge prison beatings continue and I am practically positive the one outstanding and fair judge in Bolivia Monje, President La Paz Supreme District Court, is in prison. Also nothing has been done about our protest over police entering premises.

Cancelled my courier trip to Arequipa.

Presidential notice today's paper promises strict legality in punishing conspirators. Many lives have probably been saved because of Corps awareness over past 10 days.

ADAM

824.00/6-1546 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

CONFIDENTIAL

WASHINGTON, June 22, 1946—2 p. m.

359. Andrade called on Asst Sec Braden yesterday and read tel from Bol Fon Ministry stating it had unofficially learned of Dipl Corps meeting convened "at your request under instructions from Dept" to consider question violence. Andrade directed express regret that campaign of enemies of Bol Govt may have echo in Emb, affect impartiality of American Govt and lead to assumption of intervention in Bol internal affairs. Tel mentions assurances given Dean Dipl Corps reported your 535, June 15 and adds particular attention given representations Dipl Corps especially by AmEmb "notwithstanding there being evidence that counter revolutionary elements used means

transport and communications of American concerns such as Grace and Panagra.”

Braden informed Andrade that meeting not called under instructions of Dept or at your instigation but as result of initiative another your colleagues. He said with respect comment by Andrade that there appeared to be hostile attitude part of Dept and Emb toward Bol Govt that every effort made maintain most friendly relations citing as example our treatment invasion Emb. He pointed out you have been entirely objective in reporting events in Bol and acquainted Andrade with paraphrase first part your 562²⁷ in evidence thereof.²⁸

Grace advised foregoing charges against it and Panagra and urged dispatch vice president immediately Bol.

ACHESON

824.00/6-2446 : Telegram

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

SECRET

LA PAZ, June 24, 1946—6 p. m.

U.S. URGENT

[Received June 25—3:19 a. m.]

580. Diplomatic Corps held second meeting this afternoon. As result instructions contained in Deptel 353 it was decided not make joint representation to Bolivian Govt on question freedom of press.

I complained of being singled out by Bolivian Govt as unfriendly because of previous meeting. My colleagues were all completely behind me in this and it was jointly agreed that Dean, accompanied by British Minister, would call on Foreign Minister at earliest opportunity to present following 3 points.

(1) That Diplomatic Corps had right to meet as it wished and that meeting far from mixing in Bolivian internal affairs actually was favorable to Government in that it was decided by majority no undue violence had occurred June 13. Further that it was improper single out one colleague regarding a meeting of entire Corps.

(2) British Minister was to explain that meeting was called on his, not my, primary initiative.

(3) Dean, at my request supported by colleagues present today, will ask Foreign Minister to name source of his “extra official” information on our last meeting.

Only colleague not to come to today’s meeting was Argentine Chargé who said he had been forbidden by his Government to attend. Meanwhile I have two cases with strongly indicative but not absolutely conclusive evidence that the Argentine has actually collaborated with

²⁷ Dated June 20. 3 p. m., not printed.

²⁸ In telegram 367, June 27, 1946, 7 p. m., the Chargé was advised that this statement by Assistant Secretary Braden was sufficient to close the incident (824.00/6-2546).

the Bolivian Foreign Office against Garland and me. He has gone so far in helping Bolivian Government that I understand he is having rather serious trouble with most of his subordinates here.

Today's meeting, in contrast to previous one, was completely orderly, short and exhibited no disagreements. I am quite satisfied over outcome and hope Department will not reply to Andrade's formal note of protest (if indeed it has been received) until I can cable results of interview between Dean and Foreign Minister.

ADAM

124.24/6-2746: Telegram

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

CONFIDENTIAL

LA PAZ, June 27, 1946—2 p. m.
[Received 8:28 p. m.]

601. Re recent correspondence regarding protest over police invasion Chancery premises. FonOff note in reply Embassy protest now received.

First paragraph of note is acknowledgment. Second paragraph reads in translation as follows:

"The Bolivian Govt deeply deplores these acts, doubtless caused by the confusion of the first moments and regrets that the relative individual enlightenment of the police officials could have permitted this error, as a result of which I beg Your Honor to present excuses to the United States Govt.["]

Third paragraph is attempt to put the blame on fact that Chancery is in a public building and that arms had been found that morning in another section of this same building.

Ultimate paragraph reads as follows:

"I trust that this explanation will serve, so that Your Honor be informed on the scope of this lamentable matter caused by the dullness of some subordinate police officials who have been severely warned."

Text being transmitted today's airpouch. Am taking no further action unless specifically instructed.

ADAM

824.00/6-2746: Telegram

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

CONFIDENTIAL

LA PAZ, June 27, 1946—2 p. m.
[Received June 28—7:07 a. m.]

602. Foreign Office reply now received my note to it on Grace Company, text of which was transmitted Embtel 544.²⁹

²⁹ Dated June 17, 1946, 6 p. m., p. 346.

Sense of reply is that Bolivian Government surprised by open interference of Grace and Panagra officials in recent counter revolution. Such an attitude does not coincide with US Government rules, forbidding American companies from mixing in internal politics. With regard to charges against Grace officials note states these are public knowledge and were basis for police action. Text of note³⁰ being transmitted today's air pouch.

This official note of Bol Govt strengthens my belief that at least while present Govt in power both Grace and Panagra in Bolivia must be managed by United States citizens.

ADAM

824.00/6-1746 : Telegram

The Acting Secretary of State to the Chargé in Bolivia (Adam)

SECRET

WASHINGTON, June 27, 1946—7 p. m.

368. In absence statement to you reur 545, June 17, that MinFonAff would inform you of results of investigation, Dept feels following line may be taken with view closing incident.

Bol FonMinistry instructions to Andrade dated June 18 which he read to Dept stated Bol Gov "deplored" police entry Emb, gave explanation similar that made you by Pinto and stated that thorough and serious investigation was ordered since Bol Gov had never authorized police measures which might "susceptibilizaron al" personnel of AmEmb.

You may inform MinFonAff with reference those instructions that this Gov accepts assurance that invasion Emb was not authorized and is confident that as result of investigation such corrective measures have been taken as will obviate any further incidents this nature.

ACHESON

824.00/7-1246 : Telegram

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

CONFIDENTIAL

LA PAZ, July 12, 1946—noon.

[Received 6:07 p. m.]

648. Yesterday afternoon a battery of artillery was brought from Viacha and placed near the railroad track and trained on the city. At the same time a battery of anti-aircraft artillery was placed nearby and with guns depressed also trained on the city. Some 200 soldiers were on hand to man the guns. It seems fairly certain that at three yesterday afternoon the military members of the Cabinet, Pinto, Calero³¹ and Ponce met and decided that the MNR was disgracing

³⁰ Not printed.

³¹ Maj. Jorge Calero, Minister of Education.

the country and besmirching the Army's prestige, seeing that it is collaborating in the Govt. It is believed at this meeting that the arrest of pro-MNR Minister Govt, Nogales, was discussed and that the guns were brought up in case of an MNR reaction against this arrest. However, Nogales who could not be reached yesterday, spoke by phone from his office to Neathery this morning.

Although I heard something that sounded like artillery fire at 8:45 last night, there was no evidence today in La Paz of any unusual condition. Teachers and university student strikes continue however and a new railroad strike and other industrial strikes are quite possible.

Ambassador-designate, Flack, was to have presented his credentials today but because the President is alleged to be in bed with fever no date has yet been definitely set.³²

ADAM

824.00/7-1546 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 15, 1946—7 p. m.

[Received 11:03 p. m.]

660. Grace's Zalles³³ and Aranibar just called on me. Former stated FonMin and Finance Minister have nothing whatever against latter. He also saw Minister Public Works who, while mentioning Aranibar's strong defense of US interests, didn't feel he was unqualified manage Grace in Bolivia.

Zalles assured me Aranibar was in no way implicated and has recommended that his board retain Aranibar here. He hopes to go over whole case with Mr. Braden on his return. I informed Zalles decision was his to make but if Grace involved in future through Aranibar, question of protection might run into complications.

FLACK

824.00/7-1846 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, July 18, 1946—3 p. m.

US URGENT

[Received 6:21 p. m.]

671. President spoke on radio at noon saying Government was in full control and blamed subversive movement on Rosca.³⁴ Sporadic shooting continues and streets are so dangerous I have so far held

³² Mr. Flack presented his credentials on July 15, 1946.

³³ Vice President of W. R. Grace and Company.

³⁴ Term applied to capitalist enterprises or vested interests.

entire staff in building. Two municipal armed policemen again invaded building and succeeded in reaching roof. I have already protested this by telephone and intend to follow up with note.

Three known killed, toll may be higher. There appears to be little coordination among Government forces with Army again playing negative role. Armed (rifle) pro-Government civilians have again appeared in streets. Not more than a dozen students of 400 demonstrating have arms and they are pistols. Student riot also unorganized.

Send copies War Department and FBI.

FLACK

824.00/7-1946: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 19, 1946—11 a. m.

US URGENT

[Received 6:12 p. m.]

675. Last evening, the Venezuelan Ambassador, Dean of Diplomatic Corps, held meeting to exchange opinions with certain other Chiefs of Mission. We met at 7 p. m.; Brazilian Ambassador, Peruvian Ambassador, Ecuadorian Minister, Papal Chargé³⁵ attending. I took Adam with me. All present expressed great indignation that a member of the Cabinet had led the stoning attack on the University and felt that students were really defending their institution. They also deplored recurrence of arming MNR civilians.

Brazilian Ambassador and Peruvian Ambassador proposed that Dean see Foreign Minister Pinto at once and state that without attempting to intervene in Bolivian internal affairs, but speaking as a friend, urge clemency for the students and their treatment as youths rather than as a foreign army or a subversive political movement. I supported this wholeheartedly and those present unanimously decided to take this course immediately. The Dean accordingly made an immediate appointment with Pinto and the meeting directed that the Brazilian Ambassador and I accompany him, taking Papal Chargé along. We proceeded in a car to President's Palace where Pinto was, being stopped only twice en route by military traffic police. The streets were otherwise empty. Palace approaches were well guarded by a number of small tanks in Plaza Murillo. We saw Pinto at once, and the Dean, acting as chief spokesman, said that our visit was not in any sense an intervention in Bolivian internal affairs, nor did we come as diplomats or ambassadors, but as friends of Bolivia with

³⁵ Renato de Lacerda Lago, Eduardo Garland Roel, Hugo Moncayo, and Gastón Mojaisky, respectively.

humanitarian motives to urge clemency in dealing with the students, a number of whom had been killed during the day and a larger number gravely wounded. The Dean added that he felt that the students were animated by enthusiasm in defending their institution and did not merit being treated as an alien army or as a subversive political element. Pinto thanked us for this friendly visit and the view expressed, said that he would convey them to the President whom he felt would be sympathetic. He said that during the afternoon the Army had been brought increasingly into the picture and that at all times it had been instructed to fire in defense only or at such times when properties like the markets had been invaded by the students. (Condor Radio was in student hands only 15 minutes.)

He suggested that the students might be counselled to desist and that the Papal Chargé, who is a teacher in the University, might speak to the students. He said that the students had been under the influence of political elements hostile to the Government.

The Papal Chargé said that he would discuss this with the University rector but that he understood that the students were demanding the removal of all MNR cabinet members. The Dean stated immediately that this was purely a repetition of what the Papal Chargé had heard from the students and was in no sense a representation of our group. This was clearly understood by Pinto. Pinto told us the Government is in complete control throughout the country. This concluded the interview and we returned to report to our colleagues at the Venezuelan Embassy, with the knowledge that the rector was awaiting an interview at the Palace when we departed. I trust the Dept approves my action set forth above.

There was a good deal of firing in various parts of the city until midnight and occasional firing thereafter, but this morning seems somewhat calmer and there is a much smaller number of troops in the streets.

To insure safe home journey for all staff members, Military Attaché arranged for members his staff to contact military outposts around the Chancery from which there had been constant shooting in the streets from 11 a. m. These posts agreed to cease fire for a period of time to enable the caravan of Embassy autos with flag protection to leave Chancery in late afternoon and to proceed safely to homes. This was satisfactorily carried out and I have informed all members of staff that if they feel there is any danger to remain home during this emergency.

No American casualties of any nature have been reported.

F'LACK

824.00/7-2146 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

US URGENT

LA PAZ, undated.

[Received July 21, 1946—12: 10 p. m.]

Unnumbered. Attention Byrnes. Anarchy has broken loose in La Paz. Students and public have secured guns and ammunition from Municipal Palace and have attacked and taken traffic headquarters. No evidence of soldiers or police in streets. Please inform War and Justice Departments.³⁶

FLACK

824.00/7-2146 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

US URGENT

LA PAZ [undated].

[Received July 21, 1946—8 p. m.]

Unnumbered. Members Embassy saw body ex-President Villarroel hanging in Plaza Murillo, apparently killed about 2:30 today by revolutionary forces. Other members of Government, including some Cabinet Ministers reportedly killed. General situation apparently much calmer but still unsettled and sporadic. Shooting audible.

All employees left Chancery safely at 2:30 p. m. today.

FLACK

824.00/7-2246 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET

LA PAZ, July 22, 1946—1 p. m.

US URGENT

[Received July 23—3:10 a. m.]

686. For Braden. A popular revolution in every sense of the word has just occurred in Bolivia. Every indication is that this may prove first democratic government in Bolivian history. Immediate prospects are greatly improved relations with United States, moderately improved relations with Peru, Chile and Brazil.

Because of lengths Argentines went to uphold cruel and Fascist Villarroel dictatorship, reprisals in form failure ship needed food may be anticipated.³⁷ This revolution an irreparable blow formation of anti-United States bloc so dear Perón's heart. I therefore urge that we be prepared ship any food necessary on any terms to prevent this

³⁶ In telegram 684, July 21, 1946, the Ambassador reported that a Junta Institutional had taken over the Government (824.00/7-2146).

³⁷ For documentation on the food crisis, see pp. 417 ff.

democratic movement falling victim to Fascist reaction because of people's hunger. Also that tin negotiations be brought to prompt satisfactory conclusion as soon as recognition is accorded.

Democracy's first steps are apt to be faltering and in Bolivia they should be supported in every reasonable and decent way by our country. The last days of Villarroel's tyranny were so frightful that no opportunity should be lost to avoid a repetition.

We will keep Department advised promptly of developments in relation to the 3 criteria which must be met in considering recognition.

Repeated to Buenos Aires.

FLACK

824.00/7-2246 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 22, 1946—5 p. m.
[Received July 23—3:02 a. m.]

687. Full meeting of Diplomatic Corps was convoked by Dean in Venezuelan Embassy at noon today. After a lengthy discussion Corps decided to send a committee asking the President of the Junta unofficially and informally to convey requests (1) that remains of President Villarroel, now in morgue, be embalmed and repose temporarily in Cathedral and (2) augmented student guards for various Embassies to protect those who have sought asylum there and to broadcast over the official radio that the Junta and its dependents must respect the right of asylum.

The following prominent people have taken refuge: Pinto in Mexican Embassy, Ponce and Zuazo Cuenca in Ecuadoran Legation, Mrs. Villarroel and children in the Nunciatura, Mayor Gutiérrez Granier in Peruvian Embassy. Other prominent persons of the old regime and some Cabinet officers have escaped from the country in 6 small A-T 6's and one C-47.³⁸ It is not definite that old Cabinet members have been executed.

The Dean was instructed by the Corps in his interview with the Junta President to underline the fact that although he was leading a committee of diplomats, this step was in no way to be construed as a recognition of the Junta but was taken solely out of political necessity and for practical reasons.

Chief of Protocol continues in office and we have had personal conversations with him.

FLACK

³⁸ Light transport planes.

824.00/7-2246 : Telegram

The Secretary of State to the Ambassador in Bolivia (Flack)

SECRET

WASHINGTON, July 23, 1946—7 p. m.

431. The popular basis and apparent democratic orientation of revolutionary movement as reported your 686 July 22 are encouraging developments, which, if followed by convincing evidence of intention Junta to conduct free elections in near future undoubtedly will create favorable reaction in this country toward new regime.

Dept exploring possibility food shipments should occasion arise. RFC already informed that Dept has no political objections to conclusion tin contract as soon as situation permits. RFC considering possibility some interim arrangement.

BYRNES

824.00/7-2346 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

LA PAZ, July 23, 1946.

[Received 9:55 p. m.]

692. Following is statement of Junta as published in today's *El Diario*:

"The Junta of Government constituted by popular agreement with representatives of the Superior Court of Justice of the judicial district of La Paz, of the teachers, of the university youth and of union workers declares:

1. It will respect treaties signed by Bolivia and will intensify its collaborative effort in its relations with the countries which are making an effort to obtain peace for the world.

2. It will respect the individual liberties and guarantees which our democratic and republican institution traditionally recognizes, and will make national and foreign capital respected. It will not accept in the carrying out of public functions debtors to the treasury, those condemned for common crimes even though some of these latter might have deserved amnesty.

3. It will call for elections for President of the Republic and national representatives just as soon as indispensable reforms in the present electoral law can be approved, declaring from now on the existing voting lists without legal value.

4. The confiscation of newspaper enterprises having been an anti-constitutional measure this has been made without effect by the triumphant revolution.

5. Recommends to students and inhabitants of the country to take care of the goods of those responsible for recent events in order that with their value the victims may be indemnified.

6. To instruct the public prosecutor that immediate proceeding be taken subject to ordinary law against those who may be proved re-

sponsible for the common crimes perpetrated by elements of the fallen government.

7. Orders the reopening of public functions and services of the same character from the twenty-third at 2 p. m.

8. Makes known that with all preference it will resolve with a criterion of equity the pending claims of wages and salaries.

9. Orders the Controller General's office to proceed immediately to form a balance sheet referring to the monies invested in the national, departmental or municipal funds during the last 3-year period which were used for electoral purposes.

10. There remain legally mortgaged the goods of the persons who through political title used national funds so that the registers of real property rights in each department will register the annotations of the law. And as to monies or properties which they might have had in deposit or custody, their retention is ordered by the respective institutions under penalty of responsibility.

11. There is attributed a character of popular action to all trustworthy information tending to make effective the previous point. La Paz July 22, 1946, signed Nestor Guillen, Provisional President, C. Cabrera García, Carlos Montano Daza, Raul Calvimontes, Secretary of Junta."

FLACK

824.00/7-2346: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 23, 1946— 6 p. m.

[Received July 24—4: 30 p. m.]

693. Rector Ormachea just called with university Secretary General Claudio Sanjines at direct order of Junta President Guillen to state following:

The Provisional Govt is to be one of institutions not of men. Therefore there will be a six man Junta, adding Superior Court Justice Cabrera García and one other so far undesignated judge from same court. There will be no Cabinet. The six Junta members will themselves take over portfolios probably as follows: Guillen, Defense; Solares, Foreign Affairs and Education; Cabrera García, Govt; Guyalves Indaburo, Finance and Economy; Alcoba, Labor, and the unnamed judge will take Public Works and Agriculture.

They anticipate three decrees will be promptly issued: (1) stating constitution of 1938 with 1945 modifications plus all laws treaties and agreements continue in force (2) general amnesty, and (3) convoking elections for President, Senators and Deputies probably within 90 days. No decree laws will be issued during pre-election period. Claudio Sanjines will be named secretary of the Junta.

Rector stressed friendship Junta for US. Was obviously feeling out possibility early recognition which he doubtless desires greatly.

He was told that this matter in exclusive hands of Dept. Rector praised orderliness of people under circumstances and said AP and UP despatches exaggerating disorders had been found to originate in Buenos Aires.

FLACK

824.01/7-2446

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

CONFIDENTIAL

MEXICO, July 24, 1946.

No. 509

[Received July 30.]

SIR: I have the honor to inform the Department that according to information published in the local press, the Mexican Secretary of Foreign Relations will take no precipitate action in recognizing the new regime in Bolivia until the situation in that country becomes clear. At the present time Mexico is represented in La Paz by a Chargé d'Affaires.

The new Mexican Ambassador to Bolivia, Lic. Manuel Victor Maldonado, who is now in Mexico, will delay his departure for La Paz until the situation becomes sufficiently clear to determine whether or not the Ambassador will continue to delay his departure or proceed to La Paz; as under the Mexican "Estrada Doctrine",³⁹ the arrival of the Ambassador at his post in Bolivia will per se constitute recognition of the new Régime.

It is pointed out in Mexican circles that the recent events may have repercussions in neighboring countries, as for example, in Paraguay, where the political situation is tense owing to the strong opposition to President General Higinio Moriñigo, whose overthrow might be accomplished also in the midst of violent events.

Respectfully yours,

For the Ambassador:
RAYMOND H. GEIST
Counselor of Embassy

824.01/7-2646

Memorandum of Telephone Conversation, by the Chief of the Division of River Plate Affairs (Mann)

SECRET

[WASHINGTON,] July 26, 1946.

Dr. Mora⁴⁰ said that the first impressions of the Uruguayan Foreign Office regarding the new regime in Bolivia were good. He was instructed to inquire whether the Department had any adverse informa-

³⁹ For an account of this doctrine, see Instituto Americano de Derecho y Legislación Comparada, *La Doctrina Estrada*, Mexico, 1930; see also *American Journal of International Law*, 1931, vol. 25, Supplement, p. 203.

⁴⁰ Uruguayan Chargé.

tion and what our position was in respect of recognition. He said obliquely, but nonetheless definitely, that Uruguay would not be adverse to taking the initiative if the Department was disposed to recognize.

I told him that I would look into the matter and call him back. I then talked to Mr. Wells⁴¹ and in accordance with his suggestion called Dr. Mora and said that our preliminary impressions were likewise favorable but that no definite decision would be made until after a meeting which would probably be held this afternoon. I said that I would call back.

Comment: Since we were charged with having instigated the last Uruguayan initiative I have some doubts about the wisdom of working too closely with the Uruguayans on this question unless we are prepared to let them carry the ball all the way. Whatever the decision is, however, I hope that it will be possible to inform Dr. Mora of our conclusions in sufficient time to allow him to inform his Foreign Office before the Uruguayans hear of our position from some other quarter.

824.00/7-2646 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 26, 1946—2 p. m.
[Received July 26—1:46 p. m.]

711. Reference my yesterday's message reporting Bolivian note bidding for recognition. With regard to order in La Paz the students who are still directing traffic are doing a fine job; in fact much better than the police formerly did. Practically all men have left off neckties since July 21 as badge of support of revolution. This support also prevails in provincial cities where situation quiet.

With regard to maintenance of law and order this is still in hands of civilian garbed police but I believe that steps will be taken as soon as possible to establish a uniformed police. During night only a few shots heard and general situation otherwise practically normal.

With regard to the question of keeping international obligations I have felt that perhaps a more ample statement than that contained in regard to treaties in the Junta's first statement would be helpful, and this may be forthcoming soon.

In general I feel that our conditions for recognition are being substantially met. Junta decree July 24 provides that Junta will remain in its functions only for time strictly necessary to hold general elections for the legislative and executive powers in accordance with the constitution.

⁴¹ Milton K. Wells, Chief of the Division of North and West Coast Affairs.

Repeated to Buenos Aires, Santiago, Lima, Asunción, and Rio de Janeiro.

FLACK

824.01/7-2646 : Circular telegram

The Secretary of State to Diplomatic Representatives in the American Republics

WASHINGTON, July 26, 1946—9 p. m.

Several Am Reps have inquired this Govs views re recognition of new Bolivian Govt. For your info and guidance should Govt to which you are accredited raise question following is Depts position:

In light of its apparent popular basis and democratic nature this Govt entertains favorable impression new regime. Likewise it is favorably impressed by public assurances of Junta that elections will be called in near future and that Bolivia's international obligations will be fulfilled. Unless untoward developments occur to alter public order and subject to further reports from our Ambassador in La Paz this Govt prepared to extend early recognition as soon as stability of regime seems assured.

We assume that shortly some one of the Am Reps may initiate consultation with the others in respect to recognition of the new Bolivian Govt.

BYRNES

824.01/7-2946 : Telegram

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

CONFIDENTIAL

SANTIAGO, July 29, 1946—1 p. m.

[Received 5:07 p. m.]

695. For Braden. Discussed informally with Fernández⁴² the Bolivian matter. He clearly had impression that we would initiate exchange of views and apparently was awaiting our views. He thought we should have awaited result of elections before recognizing the defunct regime, but went along with us on Warren report. He is in doubt as to significance of recent revolution.

He evidently feels that all should depend on whether new regime can (1) maintain law and order and (2) whether new regime is really liberal and democratic and (3) whether new people are communistically inclined. He has heard that big tin corporations, subjected to impossible laws and regulations, used money to prevent Army from

⁴² Joaquín Fernández Fernández, Chilean Foreign Minister.

defending Villarroel regime and wonders whether they have bought a pig in a poke. I have no doubt he will go along with us.

Uruguayan Ambassador ⁴³ told me last night his Government thinks recognition should come promptly. Depcirtel July 26, 9 p. m. indicates we step aside to permit some other American government initiate consultation.

Immediate appointment of Ostria Gutiérrez as new Bolivian Ambassador here is favorable sign since he, as Foreign Minister, was first to expel a German diplomat, and has been most partial to US. He resigned at once when late regime came in and has lived here in exile. He is Liberal and Democrat.

Will again see Fernández and report his observations on ours in above Depcirtel July 26.

Repeated to La Paz.

BOWERS

824.01/7-2946

Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Wells)

CONFIDENTIAL

[WASHINGTON,] July 29, 1946.

Dr. Falcón ⁴⁴ called, presumably to discuss in more detail the motives behind Venezuela's early recognition of the new Bolivian regime and, quite possibly, to learn whether this Government was annoyed because Venezuela had acted without consultation.

Venezuela's prompt recognition was due not only to the democratic and popular character of the Bolivian revolution, but also came as a result of the very warm feeling of friendship which Venezuela has for Bolivia because of their close association in the struggle for independence from Spain (Generals Bolívar and Sucre, et cetera).

I reiterated what I had told him Saturday night: that this Government's reaction to developments in Bolivia thus far has been entirely favorable and that we assume that we will be in a position to accord early recognition as soon as further reports from La Paz indicate that the stability of the regime seems assured beyond reasonable doubt and as soon as we have the concurring views of other American republics. To illustrate the point, I read a paraphrase of telegram no. 716 of July 26 ⁴⁵ from Ambassador Flack, which reported that the diplomatic corps had met to discuss the need of solving the question of asylum and of further assurances as to the re-establishment of public order.

⁴³ Hugo V. de Pena.

⁴⁴ Counselor of the Venezuelan Embassy.

⁴⁵ Not printed.

I stated that Venezuela's action seemed to be a step in the right direction and endeavored, without saying so in so many words, to let him know that we have no reason to be displeased simply because Venezuela failed to consult us.

M. K. WELLS

824.01/7-3046 : Telegram

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

CONFIDENTIAL

RIO DE JANEIRO, July 30, 1946—2 p. m.

[Received 6:08 p. m.]

1362. Depcirtel July 26, 9 p. m. and La Paz Embtels 711,⁴⁶ 715, 716.⁴⁷ Acting Foreign Minister⁴⁸ informed me Saturday evening and again this morning that their reports from several reliable sources indicate necessity of delaying for some considerable time recognition new Bolivian Government. Foreign Minister states President Dutra⁴⁹ personally very much interested and watching very closely Bolivian activity.

Foreign Minister states Brazil looks with disfavor overthrow of Government by great loss of life and brutal manner President and other officials murdered. Brazil does not intend to be rushed into recognition by any unilateral action other American Republics and believes that democratic principles may be endangered by precipitate action.

Foreign Minister hopes that US Government will not feel early recognition necessary.

PAWLEY

824.01/7-3046 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, July 30, 1946—6 p. m.

US URGENT

[Received 8:50 p. m.]

740. Diplomatic Corps met for 2 hours today at Dean's request. Venezuelan Ambassador announced receipt instructions his Govt to extend recognition Bolivian Provisional Govt, stating he had done so last evening.

Dean further announced Solares informed him last evening reply unofficial representations made behalf of Corps July 26 that differentiation would probably be necessary among those in asylum in diplo-

⁴⁶ Dated July 26, p. 364.

⁴⁷ Telegrams 715 and 716 not printed.

⁴⁸ Samuel de Souza-Leão Gracie.

⁴⁹ Gen. Enrico Gaspar Dutra.

matic missions as between criminals and political refugees. Corps decided that this differentiation improper in light of Montevideo treaty previously cited and Dean instructed to insist on right of egress from Bolivia for 38 persons in asylum in various missions, which include several ex-MNR Cabinet Ministers.⁵⁰

Venezuelan Ambassador also stated Solares had told him that the Govt would, with reorganization of army and police, establish new security force with distinctive uniform. Venezuelan Ambassador himself admitted that forces Junta did not at present control order in La Paz but this still in hands of students and workers who staged revolution although comparatively good order prevails. My Peruvian, Brazilian and Colombian colleagues feel that for this reason recognition should not be extended precipitately but that time be allowed to induce Govt control of order. Brazilian told me in confidence he had advised his Govt to go slow. Situation practically normal with no shooting heard last night and in my opinion *de facto* order prevails with fine cooperation of populace, however I incline toward views other colleagues above expressed. Italian Minister⁵¹ informed me he is instructed follow my lead in eventual recognition.

Repeated to Lima, Santiago, Rio de Janeiro, Buenos Aires and Asunción.

FLACK

824.01/7-3146: Telegram

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

CONFIDENTIAL

BUENOS AIRES, July 31, 1946—noon.

[Received 1:16 p. m.]

1937. In informal confidential conversation evening July 29, President Perón in connection with the Bolivian situation remarked that the arbitrary acts of the Bolivian Govt had led to the inevitable reaction of the Bolivian people and indicated that the Argentine would in due course be prepared through the processes of consultation among the American Republics recognize the new Govt but made it clear that he did not think undue haste was desirable.

In conversation with the FonMin⁵² last evening he informed me that the Brazilian and Uruguayan Ambassadors had last week discussed with him Argentine policy with re recognition with new Bolivian Govt. He stated he believed that recognition should be on the basis of consultation among the American States and the Argentine

⁵⁰ The subject of asylum is partially documented in Bolivia, Ministerio de Relaciones Exteriores, *Boletín*, July-December, 1946, No. 13, pp. 35 ff.

⁵¹ Alfonso Errera.

⁵² Juan Atilio Bramuglia.

Govt was prepared to proceed with recognition if the majority of the American Republics so agreed. I gathered that the Argentine Govt favors recognition but he definitely stated that he did not think there should be undue haste as according to their information from La Paz some aspects of the situation were not adequately clear.

I told the Minister that the only word I had from my Govt was that it was in principle disposed towards recognition but that so far we had not undertaken consultations with the other American Republics and did not know of initiative by any other American Republics in that sense.

Repeated to La Paz with exception of first paragraph, containing reference to the statement by President Perón to me.

MESSERSMITH

824.01/7-3146 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

TOP SECRET

WASHINGTON, July 31, 1946—8 p. m.

448. Deptel 447.⁵³ Views reportedly expressed by Acting Braz FonMin impel us to inquire whether you have observed any indication in La Paz which could form the basis for suspicion that Argentine and/or Brazilian (or any other) governments might be hostile to the new Bolivian regime. If so we should like to receive your views whether our recognition at early date would tend to stabilize the situation and hence perhaps per se be worthwhile. Please consider this in conjunction with Deptel 449.⁵³

ACHESON

824.00/8-246 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET

LA PAZ, August 2, 1946—5 p. m.

US URGENT

[Received August 3—8:30 a. m.]

755. Dean called meeting of Diplomatic Corps noon today particularly to discuss disagreeable experiences suffered by Ecuadoran Minister and Argentine Chargé at hands of civilian armed groups last night (including Legion l'Opera) when Missions were literally menaced by frequent firing in the air and insults showered on them and those in asylum, during the whole night. Ecuadoran Minister particularly bitter. Following on disrespect shown Peruvian Ambassador previous night when his auto was searched (mytel 750, August 1st⁵³). This aroused sharp condemnation by Corps.

⁵³ Not printed.

Junta has not yet replied to Corps' representations re egress under safe conduct those in asylum but Corps agreed defer requesting further interview until tomorrow in hope of hearing today of Junta's views.

Entire Corps including myself agreed that key to whole order question in La Paz now is situation of those in asylum since permission for their departure will present a test of Bolivia adherence to existing treaties and the Junta's authority to maintain order and permit their unmolested departure to another country. Corps thinks inability of Junta to control this situation is beginning to discredit its authority. This will be forcefully expressed to FonMin at first opportunity by Dean. Mexican Chargé also has serious asylum problems and supports the earliest solution of this question. He and other chiefs of mission except Venezuelan, who has already recognized, are informing their Governments separately they consider the solution of the asylum question as essential prior to recognition and recommend abstention until this point clear although all agreed this should not be held over Junta as a club but should be mentioned as a way of expediting eventual recognition. Chilean expressed this view most forcefully and has no one in asylum. No hostility toward Junta evident in matter.

The Dean requested that all having offered asylum limit visits to wives and children to obviate charge of improper communication which apparently has not yet taken place.

The attitude of the press has not been helpful in the asylum questions, since one-sidedly it has not pointed out Bolivia's treaty obligations. Also in attempt to discredit MNR last night's *Ultima Hora* rumored possibility Indian revolt instigated by MNR agents. While minor isolated difficulties with Indians may arise, best informed quarters anticipate no major trouble. Diplomatic Corps characterized this press action as harmful to Junta prestige abroad.

Sucre Regiment which aided revolutionaries by abstaining after July 19 seen in limited numbers doing armed patrol duty today in area of diplomatic missions.

Feel our approach to recognition should be slow and keep pace with view of Corps here.

FLACK

824.01/8-846 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET
US URGENT

LA PAZ, August 8, 1946—noon.
[Received 2:26 p. m.]

771. I had informal conversation this morning with FonMin Solares at his request. I told him I had no further information from Wash-

ington yet about recognition. He expressed opinion that at this stage, our recognition would be most helpful and that Argentina and others evidently now awaiting our action.

Solares reverted to list of Americans in possible danger at mines which he had asked me to give him and assured me that steps were under way through Ministry of Government to assure them all protection. He added Government realizes this question closely connected with general attitude of miners. He added that if Lechín⁵⁵ were placed in custody, this would release a series of dangerous uprisings at the mines and that Government has decided to play ball with Lechín not as MNR did, but for economic welfare of Bolivia. Miners increasingly aware Junta's efforts.

Minister asked my opinion on asylum question and I said that while we were not parties to specific asylum treaties, I felt that to contribute to internal order Diplomatic Corps' request for safe exit of all in asylum was best solution, since under existing treaties preventative arrest can be obtained administratively pending submission extradition documents in case common criminals. Minister said matter will be further considered Junta before reply to Diplomatic Corps' last memo, August 6th.⁵⁶

I feel strongly that recognition by US very important at this stage and should now be extended as soon as possible. Peru's action yesterday, postdated 6th, imitated Chile's recognition same day.

FLACK

824.01/8-946

Memorandum by the Acting Secretary of State to President Truman

WASHINGTON, August 9, 1946.

The new government in Bolivia, according to reports received from Ambassador Flack, has now demonstrated its ability to maintain order, and has fully expressed its intention to meet all international commitments. Six other American republics, including Bolivia's immediate neighbors, Peru and Chile, have already recognized the new government, and our Ambassador yesterday telegraphed that he felt "strongly that recognition by the United States is very important at this stage and should now be extended as soon as possible."⁵⁷

DEAN ACHESON

⁵⁵ Juan Lechín, Permanent Secretary, Federación Sindical de Mineros.

⁵⁶ Not printed.

⁵⁷ The following notation appears in the margin: "Approved 8/9/46 Harry Truman."

824.01/8-1346 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

WASHINGTON, August 16, 1946—8 p. m.

1107. Dept regrets delayed receipt by Emb of Deptcirtel Aug. 9⁵⁸ reur 1443.⁵⁹ On Aug. 10 and 14, BrazEmb discussed with Dept BrazGov's postponed recognition. Minister Brito⁶⁰ was informed on Saturday that this Gov had not acted in concert with Peru and Chile but that since from info available new Bol regime seemed have satisfactorily fulfilled criteria for recognition and several of other American republics which were directly concerned with asylum question had extended recognition, we felt undesirable longer delay our recognition. It was pointed out that there was no effort on our part to act jointly with any of the other Govs to the exclusion of or in preference of Brazil.

This Gov took into consideration in deciding upon recognition questions of public order, stability of new regime, popular support enjoyed by new Gov and its intention fulfill international obligations.

This Gov not party to asylum conventions but US Amb La Paz associated himself with colleagues urging on FonMin full compliance by new Gov with international commitments re: persons who obtained asylum, not as conditions to recognition but as evidence effective authority new regime. Public order seemed established except for doubt re: asylum question. When other Amer Govts, at least two of whose missions granted asylum, decided question asylum not deterring factor, and extended recognition, US Gov then recognized.

Dept also felt that for political and economic reasons recognition would contribute to stability situation in Bol. It had no evidence communist inspiration revolution. From all accounts the movement was a spontaneous popular uprising of the people against violence and tyranny of the previous regime. FonMin assured Diplomatic Corps on July 26 of non-political character new Junta members and although Labor Member, Aurelio Alcoba, is known to be active in Leftist Political Party (PIR) Junta composition would seem support contention it represents public groups rather than political elements.

This Gov of course laments bloodshed that attends any political movement, but does not by recognition thereby pass judgment on such action.

Please communicate sense foregoing to FonMin.

ACHESON

⁵⁸ Not printed.

⁵⁹ August 13, 1946, 3 p. m., not printed; in it the Ambassador indicated that the Brazilian Government regarded early recognition as lamentable and the Brazilian Foreign Minister was "upset we preferred acting with Chile and Peru." (824-01/8-1346)

⁶⁰ Octavio do Nascimento Brito, Brazilian Chargé in the United States.

824.00/9-846 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, September 8, 1946—noon.
[Received 7:13 p. m.]

885. Late yesterday afternoon at request of Foreign Minister Solares I participated in meeting at Foreign Office along with Dean Diplomatic Corps and Peruvian Ambassador. Safe conducts for four additional asylum refugees were delivered to Dean. Foreign Minister also told us Govt's criteria of four points also published this morning's press as follows:

1. Safe conducts will be delivered for all those in asylum from time to time in small groups as deemed convenient by Ministry.
2. Foreign Minister to determine country to which those in asylum to be conducted.
3. The Govt of the respective country to promise to assure delivery to the Bolivian authorities through extradition of those refugees charged with common crimes.
4. Those in asylum to be subjected immediately on their arrival at the city elected to preventive arrest upon respective police or administrative proceedings.

Foregoing if accepted by other interested missions at Diplomatic Corps meeting tomorrow appears to solve difficult asylum question. Govt is anxious to issue safe conducts as rapidly as groups can be sent out with due safeguards.

Wife of ex-President Villarroel departed 2 days ago with both children for Argentina and now reported at Salta.

Repeated Buenos Aires and Lima.

FLACK

824.00/10-1646 : Telegram

*The Ambassador in Bolivia (Flack) to the Secretary of State*LA PAZ, October 16, 1946.
[Received 5:23 p. m.]

1003. Regulatory decree for national elections promulgated October 15 published today provides elections for President, Vice President, Senators and Deputies on January 5 instead of 4th and 5th as previously announced. Previous number Senators 27 and Deputies 107 will be elected. Congress to meet formally March 2. Presidential inauguration March 10.

Full text airmail.⁶¹

FLACK

⁶¹ Not printed.

**INTEREST OF THE UNITED STATES IN THE ARRANGEMENTS AND
FACILITIES FOR OBTAINING BOLIVIAN RAW MATERIALS**⁶²

824.6176/1-1446

*Memorandum of Conversation, by Mr. James Espy of the Division of
North and West Coast Affairs*

[WASHINGTON,] January 14, 1946.

Participants: Hon. Victor Andrade, Bolivian Ambassador to U. S.
Mr. José Rovira, Bolivian Commercial Counselor
Mr. Wright, ARA
Mr. Espy, NWC

Ambassador Andrade said that he had called today to discuss two matters.

The first subject concerned the rubber purchase contract between the Bolivian Government and the Rubber Development Corporation. He said that as we knew by this contract the entire production of Bolivian Rubber is sold to the United States Government, but it is provided that 250 tons per year be allocated to the Bolivian Government for resale by it to its neighboring countries, principally Argentina. The Bolivian Government now desires to have this quota increased to, say, one thousand tons.

Ambassador Andrade explained that the smuggling of rubber to Argentina had increased enormously in recent months and that unfortunate as it was these contraband operations could not be controlled. He gave various reasons for this including the disbanding of the special rubber police (which was done as one measure in the curtailment of the Bolivian budget) and above all the very high prices paid for rubber in the black market. He said that the net result was that Argentina was getting the rubber from Bolivia while the Bolivian Government was losing the much needed revenues from the taxes of the rubber sales.

Ambassador Andrade said that as the war was now over, rubber would soon no longer be in short supply, and that as the United States was itself selling rubber products such as automobile tires to Argentina, he hoped that this Government would perceive no objection now to Bolivia also selling its rubber in larger quantities to Argentina⁶³ and also some to Chile and Peru.

Mr. Wright said that we would discuss in the Department the Ambassador's request and also would take it up with the Rubber Develop-

⁶² For documentation on aid to the Bolivian Development Corporation in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 573 ff., and 590 ff.

⁶³ By a note of February 5, 1946, the Secretary of State advised the Bolivian Ambassador that it was not possible to increase the quota (824.6176/1-446).

ment Corporation. He then asked Ambassador Andrade whether the Bolivian Government had considered the desirability of cancelling the contract altogether and returning the production and sale of Bolivian rubber to its interests. Ambassador Andrade replied that he had received no instructions in this regard. Ambassador Andrade then said that he would submit the request with the explanations he had given therefor in a memorandum which he hoped could be delivered at the Department either this afternoon or tomorrow.

The other subject which Ambassador Andrade stated he wished to talk about was the question of tin. He again, as he had done in early December 1945, spoke of the possibility of the present tin contract being renegotiated in order that higher prices might be paid for Bolivian tin. He said that the situation in Bolivia was becoming critical as mines were now closing down and the Government was losing revenue from the reduction of the production of tin. He also again stressed the fact that Bolivian economy was dependent on the taxes realized from the production and export of minerals, principally tin, and that serious consequences would follow unless the Government is able to continue to receive sufficient income to meet its budget. He said that the budget had been curtailed this year and was now only approximately \$25 million dollars.

Ambassador Andrade then said that he was somewhat at a loss to know with which agency of the Government he should deal in this matter. He said that since FEA had been dissolved and its personnel scattered throughout other agencies, he did not know whether he should go direct to the State Department or go to the agency which may have taken over FEA activities.

Mr. Wright informed the Ambassador that this question of the present tin contract had, and is continuing to be considered by our Government. He said that he and Mr. Kennedy⁶⁴ had met the other day with Mr. Hochschild⁶⁵ and that Mr. Kennedy was also now discussing the matter with the Metal Reserves Division of the Reconstruction Finance Corporation, the agency of the Government which is primarily concerned in the purchase of tin.

He assured Ambassador Andrade that the State Department was always interested in endeavoring to be as helpful as possible to Bolivia and he pointed out that it had with respect to the negotiation of the contracts acted figuratively as Bolivia's attorney.

Mr. Wright then brought up the question of the Bolivian fiscal sys-

⁶⁴ Donald D. Kennedy, Chief of the Division of International Resources.

⁶⁵ Mauricio Hochschild, head of a number of mining enterprises in Bolivia and other countries of Latin America.

tem. He noted that he had mentioned this matter on several previous occasions and he re-iterated that what he had to say was, of course, his purely personal opinion but that he did believe that the Bolivian taxation system should be reorganized and should be changed from that of collecting taxes on a production basis to collecting them on a profit basis. He said that it was obvious that if taxes are collected on the amounts of minerals produced, the revenue of the Government is subject to fluctuations of production and that this was naturally unsound. Instead, the Government should work out their tax collections on the profits made by the mining concerns which would permit it to be able to rely upon a fixed income in graduating the taxes according to the amount of funds it required.

Ambassador Andrade observed respecting these comments of Mr. Wright that he entirely agreed that the system which Mr. Wright had suggested was far better than the present Bolivian taxation system but that nevertheless, the Bolivian Government was confronted with great difficulties in putting such a system into effect, and that it had to face realities. He explained that it was next to impossible for the Government to ascertain the exact costs of production and profits made by the mining companies in order to arrive at a correct taxation basis. He mentioned parenthetically, that Mr. Hochschild had expressed to him great concern over the present provision in the Bolivian currency laws whereby the mining companies are only permitted to take out in foreign currency 40% of the value of their exports. He said that it was the belief of his Government that 40% was quite enough and allowed for equitable profit on the mining operations.

Ambassador Andrade then went on to say that he hoped serious and productive discussions could take place in the immediate future to resolve this tin problem not only with respect to the present contract but also as regards the future of Bolivian tin after the expiration of the contract on June 30th of this year. He wished that the negotiations could be deliberate, and thoroughly studied, with no pressure at this time brought to bear on the Bolivian companies and Government and that whatever is to be done should be accomplished before the 30th of June. He posed for the Department's consideration, the two questions that he had raised in his conversation with Mr. Braden in early December 1945 of (a) whether there is to be an international agreement which would assign a definite quota for Bolivian tin and (b) whether this Government proposed to enter into another contract for the purchase of Bolivian tin.

824.6354/1-2946

Memorandum of Conversation, by Mr. J. W. Barnet of the International Resources Division

[WASHINGTON,] January 29, 1946.

Participants: Asst. Secretary Braden
Ambassador Thurston
James Wright, A-Br
Ellis O. Briggs, ARA
Joseph Flack, NWC
Donald D. Kennedy, IR
James Espy, NWC
John Barnet, IR

This meeting was called in Mr. Braden's office in order to decide the proper course of action for the Department in relation to continued representations being made by Bolivian tin mining interests (particularly Hochschild's), and the Bolivian Government through Ambassador Andrade, regarding the re-negotiation of the present tin ore contract. Mr. Braden and Mr. Wright summarized the principal arguments which the Bolivians had been presenting recently in connection with their requests that the price for tin ore should be increased, and that the contract should be extended beyond its present expiration date of June 30, 1946. These arguments, which have also been advanced to IR representatives by Mr. Hochschild, pertain to the reputedly large increase in labor costs (blamed principally upon the Magruder mission),⁶⁶ higher costs of mining materials and transportation, and the Bolivian decree requiring mining companies to turn over 60% of their receipts for foreign exchange purposes. The Bolivians have also asserted that it was unfair of the U.S. to have begun decreasing the price, as is done under the current contract, since, it is pointed out, the price paid for tin ore by the U.S. during the war increased considerably less, relatively, than the prices paid for zinc, lead and other metals. The Bolivians have also expressed concern over the future of their relations with the U.S. on expiration of the current contract, since they state that the tin mining industry is at present placed in a position of considerable uncertainty that may, together with the decrease in price scale, hinder production.

Mr. Kennedy reiterated the counter arguments that had been presented already to the above claims made by the Bolivians. He stated

⁶⁶ For documentation on this mission, see *Foreign Relations*, 1943, vol. v, pp. 607 ff.

that a further investigation into the relative price situation among various metals would show a fallacy in the Bolivians' argument with respect to the base price used in each case. Mr. Kennedy also said that since the Bolivians had shipped several thousand extra tons of contained tin to the U.S. during the second half of 1945, apparently in order to take advantage of the decreasing price terms, it should be expected that during the first half of 1946 a corresponding decrease in exports from Bolivia might be anticipated regardless of whether or not the prices were increased at this time. Mr. Kennedy brought out particularly the abnormal character of the Bolivian export tax on tin ore, which represents the highest rate in the world superimposed upon the highest cost of production of any important tin-producing country. Mr. Barnet mentioned that estimates so far received indicated that during the latter part of 1947 a world surplus of tin might begin to develop and that, therefore, Bolivia would again have to compete commercially with Far Eastern sources, which might be quite difficult if the price of Bolivian tin were raised and maintained above its already rather high level. Mr. Kennedy finally stated that from a supply viewpoint it would appear possible that the current contract could be extended until the end of 1946, with no decrease in price below the level reached as of June 30, 1946.

Ambassador Thurston was asked to report on the possible political repercussions involved in carrying out the present policy of gradually decreasing the price paid for Bolivian tin ores. He discussed the various aspects of the problem, including the dependence of the Bolivian Government upon the tin mining industry for revenue, as well as the effects of Bolivian legislation and decrees on the tin mining situation. He also mentioned particularly the matter of personal danger encountered by the American technical staffs of the various tin mining companies. He said that there was a rather chronic condition of restiveness in any event, because of the obvious dependence of the Bolivian Government on tin and that he did not believe that the political situation would become significantly worse if the U.S. decided to continue toward the goal of helping to bring Bolivia more into line with future world competitive conditions. Mr. Thurston stated, further, that President Villarroel had indicated the Bolivian Government was already taking into account in its 1946 budget the expectation of decreasing revenues with the declining price of tin ore, and that a corresponding effort at readjustment was being undertaken within Bolivia. The Ambassador said, in conclusion, that he believed the U.S. Government had already liquidated its so-called commitment toward Bolivia by having paid a very high subsidy price for tin ore during and after the war.

Mr. Braden said that it appeared one of two policies could be adopted in relation to the Bolivian requests:

(a) The Bolivians might be informed now that U.S. representatives would be willing to discuss immediately the contract question, if the Bolivians would be willing to consider, as a part of the discussion, all other related factors, such as taxes, exchange controls and budget, and would guarantee performance.

(b) The Bolivians could be told currently that it was impossible to reopen the contract now and that as a matter of fact they might face a worse situation after June 30. After further representations and requests by official Bolivian Government representatives, it could be indicated to the Bolivians that we would be willing to discuss the whole problem, including taxes, exchange and budget, as it affected the period following June 30, 1946.

It was unanimously agreed that the policy outlined in (b) above, should be adopted.

824.504/1-1646 : Telegram

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

SECRET

WASHINGTON, February 2, 1946—2 p. m.

57. ReEmbassy's A-16 January 15 and 78, January 30, 6 p. m.⁶⁷ Although Dept feels that for present Embassy need not take official cognizance of Juan Lechín letter⁶⁸ to Ambassador or possibility that Ministry of Labor assisted in preparation of letter for distribution Dept is concerned over possible consequences its circulation in so far as contents of letter patently hostile and inimical to this country and its citizens.

Emb should therefore orally and immediately bring matter to attention of Foreign Office in following sense:

Reference should be made to reports received by Emb of impending general strike in mines and that in that connection Lechín's letter is being widely circulated in mining areas. It should be pointed out that unfounded and tendentious charges made in that writing against the Ambassador of the US and the hostile allusions it contains to the US, its citizens and its principles might arouse sentiments dangerous to Americans in the mining districts. It should be said that in fact the tenor of letter suggests that this may be purpose that Lechín hopes to achieve through its circulation. It should be stated that in view of incidents of threats and attacks against American employees of mining industry and their families that have unfortunately occurred

⁶⁷ Neither printed.

⁶⁸ Letter of January 2, 1946, charged that the Ambassador reported the Bolivian labor movement as illegal, that its leaders were venal, and that Lechín accepted or was willing to accept a bribe (824.504/1-846).

in the past foregoing circumstances per force give rise to continuing concern of this Govt with respect to safety of its citizens; and that this observation accordingly is made in consonance with assurances of Bolivian Govt of protection of American citizens.

BYRNES

824.504/2-446 : Telegram

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

SECRET

LA PAZ, February 4, 1946—2 p. m.

[Received 6:54 p. m.]

94. Delivered oral message this morning to Sub Secretary for FonAff contained in Deptel 57 February 2, at same time handing him printed distribution copy Lechín's letter. Sub Secretary stated there was no general anti-American feeling at mines and Lechín expressed personal view. He said any struggle was on basis of have's versus have not's. I remarked that it would be unfortunate if in the course of this general economic struggle Americans were killed or seriously injured because such an eventuality would not only cause highly unfavorable press reaction in the US but would unquestionably lead to large percentage American mine employees leaving Bolivia with obvious disastrous consequences Bolivian economy.

Sub Secretary ended interview by indicating fears over widespread violence unjustified and that it was in Government's own best interest to prevent such violence although at present time all over the world a small incident could cause trouble during a strike.

ADAM

824.504/3-1846 : Airgram

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

LA PAZ, March 18, 1946.

[Received March 27—9:23 a. m.]

A-99. The San José tin mine near Oruro, operated by the Cia. Minero de Oruro, has been endeavoring for the past several months to obtain permission to dismiss 400 workers not required in its operation. It was originally planned that these workers would be employed by the neighboring Santa Fe mine, but this was not done due to a supposed lack of housing facilities. The Inspector General of Labor has inspected the mine and has found that these workers are not necessary. It is reported that the Minister of Labor⁶⁹ has on two occasions authorized the dismissal of these employees, but has withdrawn

⁶⁹ German Monroy Block.

such authorization before it became effective. It is also reported that at a conference on March 15, Juan Lechín, a labor leader, stated that regardless of the law, these men had to be retained and that if they were not, the workers would take steps to destroy or damage the mine. Ray Beard, General Manager of Mines of Hochschild S.A.M.I., has requested permission from the directors to close down the entire operation in the event that permission is not given for the dismissal of these workers. He left for Oruro on March 15 to take the necessary steps for a shut-down in the event that such action is authorized.

ADAM

824.6354/3-2146

Memorandum of Conversation, by Mr. James Espy of the Division of North and West Coast Affairs

[WASHINGTON,] March 21, 1946.

| | |
|--------------------------------|-------------------|
| Participants: Mr. Braden, A-Br | Mr. Kennedy, IR |
| Mr. Wright, A-Br | Mr. Lipkowitz, IR |
| Ambassador Thurston | Mr. Espy, NWC |
| Mr. Butler, ARA | Mr. Jewett, RFC |
| Mr. Renick, Amer. | Mr. Johnson, RFC |
| Embassy, La Paz | |

Mr. Wright asked Mr. Jewett to open the discussion and the latter then proceeded to explain the present contract, its provisions and the background for its negotiation. He said that we were purchasing tin and tin ore from the Netherlands East Indies at approximately 55¢ per pound and also hoped to obtain appreciable supplies from Siam at approximately the same price. The British were also buying tin in Malaya at 54¢. They have been selling tin for export at 67¢ but the tendency for the sales price is apparently downward as their latest export quotation was put at 64¢. Mr. Jewett thought that we could obtain sufficient tin from the Far East to permit an appreciable decrease in the supplies we need from Bolivia. Mr. Johnson however, said that the stockpile in this country was only enough to take care of our needs through this year, and that the world's supply of tin to meet all demands will probably be inadequate until late 1947. He therefore believes it would be desirable to obtain as much tin as possible from Bolivia.

Mr. Wright next set forth the position of Bolivia and presented in outline, the views and arguments that the Bolivian tin producers and the Bolivian Government would undoubtedly advance in support of their demand for higher prices. He mentioned that costs of produc-

tion had gone up for various reasons, including higher wages paid, higher costs of social benefits and higher costs of supplies and food stuffs. He mentioned that the Bolivians would undoubtedly resist any attempt to have their taxes on tin reduced and that there seemed to be no likelihood of a reduction in labor costs.

Mr. Kennedy called attention to the fact that Bolivia was being paid a substantially higher price than other sellers of tin even at the second quarter 1946 price of 58½¢ per pound at South American ports. In reply to Mr. Wright's suggestion that the long-term problem might be handled by an inter-governmental commodity agreement, Mr. Kennedy pointed out that no arrangement could alter the fact that Bolivia's costs were higher than in competing countries, partly because of very high export taxes. Mr. Lipkowitz stated that Bolivia's export tax was almost 20% of the price of tin (about 11¢ per pound currently) as compared with 10-12% or less in competing countries.

Mr. Kennedy suggested that any United States offer to Bolivia to increase the price above the contract of 58½¢ for the second quarter be matched by a similar reduction in taxes. More specifically, Mr. Kennedy suggested that U.S. offer to maintain the first quarter price of 60½¢ if Bolivia could agree to reduce export taxes by 2 cents per lb. Mr. Lipkowitz stated (and Ambassador Thurston confirmed) that our Embassy had reported that the original Bolivian budget for 1946 was based on an exportation of 30,000 tons of tin. Mr. Lipkowitz estimated that exports would exceed this figure by at least 10% (Mr. Renick thought 20%) if the 2¢ price decline for the April quarter were rescinded, indicating that tin export tax rates could be reduced perhaps as much as 20% without reducing total Bolivian revenues. It was also pointed out that export tax rates on lead, zinc, and silver were proportionately much lower than in other American republics, notably Mexico, and that additional revenues might be derived by Bolivia from income or other ability to pay taxes, particularly from the Patiño properties, which are substantially lower cost.

Mr. Renick advised that in his opinion, if the present price was continued, it would no doubt result in a decrease of production in Bolivian tin, as from all information he had been able to obtain a price of 58½¢ i.e. that stipulated for the second quarter of 1946, would not be sufficient to cover the cost of production of many of the mines in Bolivia. He believed that the Bolivians would have to reduce costs of production, either through a decrease in taxes, decrease in wages and/or decrease in social benefits if the Bolivian tin industry was ever to meet the world market price.

Mr. Braden said that we would, of course, need to consider how much tin we had to have from Bolivia. He remarked that there was

a possibility that if Bolivia cut its taxes and reduced its military, the result would be a revolution and possible disturbance in the country which, in turn, would affect the supply to us of tin. We should not therefore, overlook the fact that under these circumstances, we might have to buy the tin at the price needed to maintain production until such time as we no longer required the Bolivian metal.

Mr. Braden also said it was necessary in any consideration of the tin contract, that we be sure that we have lived up fully to our commitments under the Rio de Janeiro Conference, the Mexico City Conference,⁷⁰ the Magruder Mission and other inter-American understandings and agreements. It was felt by those present, including Ambassador Thurston, that the gradual price reductions under our current contract were in accord with the spirit of Article XXI—Mexico City Conference.

Mr. Wright then asked those present to indicate their position with respect to Mr. Kennedy's suggestion on linking Bolivian tax reductions with any price concessions by the United States. They agreed in principle.

It was finally decided that meetings with the Bolivians should be conducted at RFC offices, the first to take place March 22, Mr. Jewett presiding with Department observers present. It was also agreed (1) that the Bolivians would be told by Mr. Jewett that probably the best price which could be arranged for the second quarter 1946 would be 60½¢, the same as the first quarter price; (2) that it would also be intimated that the Bolivians would be asked to make concessions, such as tax reductions, to help maintain a high level of Bolivian tin output.

824.6354/4-946

*Memorandum of Conversation, by Mr. James Espy of the Division of North and West Coast Affairs*⁷¹

[WASHINGTON,] April 9, 1946.

During the meeting held to-day regarding the tin contract, Mr. Jorge H. Sanchez, representative of the Bolivian Ministry of Finance, repeated previous statements made by him and other Bolivian representatives to the effect that Bolivia had fully cooperated with the

⁷⁰ For the recommendations of the Rio Conference, see Department of State *Bulletin*, February 7, 1942, pp. 117 ff.; the resolutions adopted at Mexico City appear in Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945).

⁷¹ A memorandum of conversation of April 9, 1946—of which this is a supplement—between representatives of the Reconstruction Finance Corporation, the tin producers, and the Department of State, indicated concessions as to price, bonus, and marketing limitations by the Corporation, but the offer was still not satisfactory to the producers (824.6354/4-946).

United States in the war effort in supplying tin and other essential minerals to this country. He implied, as has been so often done in the past, that Bolivia has given much more than it has received for this cooperation and that therefore the United States was under a moral obligation to help out Bolivia now. No rancor was shown or apparently intended by his remarks but they were indicative of a self-induced feeling manifest in the past months, not only by the Bolivian press but as well by elements of the Government, that Bolivia has gotten the "short end of the stick," and full appreciation not shown or reward given for its efforts. I therefore took this occasion to say that I felt confident that Mr. Sanchez Peña, as a representative of the Bolivian Government, did not mean to suggest that our purchase of Bolivian minerals, particularly under the tin contract, during the war, had not been mutually beneficial to both countries. We had obtained appreciable quantities of Bolivian minerals and we had paid Bolivia well for them. I said that I was sure he would agree that the Bolivian Government had received large revenues from our purchases of Bolivian minerals as witnessed by the Bolivian Treasury surpluses; that the mining industry had made large profits; and that the lot of the laboring classes in Bolivia had been greatly improved.

Mr. Sanchez Peña tacitly admitted that this was true.

Mr. Jewett stated, during the course of the discussion, that if the RFC were to pay the price demanded by the producers, this would mean the "death knell" to the Texas City Smelter.

Following this remark I had a private chat with Mr. Sanchez Peña. I said that I understood that the RFC felt that if such a price as 66¢ to 68¢ per pound was paid for Bolivian tin, the eventual result would be that either the Texas City Smelter would be closed down and refined tin bought at a much cheaper price from other sources of the world, or the smelter would turn to other areas for the purchase of minerals. This, I said, in our opinion, and from all I can gather was also the opinion held by the Bolivians, would be a disaster! I then went on to state that we, in the State Department, were doing all possible to help out but that the purchase of tin was the primary responsibility of the RFC and that it, in turn, held itself responsible as an agency of the government to the people of the United States.

I mentioned that it was hardly likely that the American people would permit an indefinite continuance of the payment of prices for Bolivian tin way over those paid for tin in the world market, and that they would eventually, insist that either tin be purchased at a reasonable price from Bolivia or that it be bought elsewhere. (Mr. Jewett had said during the meeting that the RFC was obtaining tin supplies at a price substantially less than 58½¢). I noted that ques-

tions had already been asked in Congress about this matter. I said that the RFC was willing, and had so indicated, to raise its price from the present level to meet the Bolivians a good part of the way in their effort to maintain production but that there was obviously a limit to which it could go in this respect. Therefore, it was up to the Bolivian Government also to "lend a hand."

To these remarks Mr. Sanchez Peña replied that it was politically impossible for his Government to reduce the exchange rates or taxes. He explained that he was a member of "The Party" (meaning of course, the MNR) and that it would be political suicide for his Government to make such concessions as the Government would be immediately accused of selling out to the "ROSCA" (mining interests).

I said that be that as it may there must be ways for the Bolivian Government to do something. I asked of him why the Bolivian people could not be told the full truth in the matter, i.e., that Bolivia was being paid the highest price for tin in the world; that this country in purchasing Bolivian tin was paying large subsidies; that it could not be expected that the United States would do so forever and that every effort must be made, if Bolivia is to maintain its tin industry, to reduce prices and costs to meet world competition. I then said that as a practical method, I wondered whether something could not be done possibly through a reduction of the Bolivian expenditures, implying that the Government would thereby be in a position to give some financial relief to the mining industry. In this respect I referred to what had happened last Fall. I pointed out that on October 10th, the Minister of Finance had submitted to the National Convention a proposed budget for 1946 which called for a reduction of 200 million bolivianos from the 1945 budget; that on December 28, President Villarroel had made a public statement that the budget would be reduced by this figure of 200 million bolivianos; and that on December 29, 1945, the President had told the same thing to Ambassador Thurston. I added that as he knew, we had not intervened to even suggest that such a reduction be made but that this had been a step initiated by the Bolivian Government itself. Yet when the 1946 budget was published, the first of the year, not only was a reduction not made but the budget was increased over that of last year by 33 million bolivianos. I mentioned that a large part of the budget was going to the Army and that in fact, the military appropriations were even raised by ten million bolivianos over those for last year and this, despite the fact that the war is over and we are now in a time of peace!

Mr. Sanchez Peña appeared to be impressed by what I said and informed me that he would immediately write privately to the Minister of Finance.

During the meeting the question also came up of the cost of production of the Hochschild mines. Mr. Hochschild said in an offhand way, that he had practically made no profits since the beginning of the war. He said that the Unificada had paid no dividends and that Colquiri had only paid dividends one year. Mr. Lipkowitz observed in response to this "amazing" statement that according to the figures* we had received regarding the three mines, Unificada, Colquiri and San José, had made earnings every year through 1945 except for San José which had shown a loss only in 1945. Parenthetically, the San José is the smallest of the three mines and produced only approximately 250 thousand pounds of tin per month as against 750 thousand produced by Colquiri and 800 thousand to one million by Unificada per annum. Furthermore arrangements have already been made with the sanction of the Bolivian Government to reduce the number of laborers employed by the San José mine and thus cut down on its costs.

824.6354/4-1746

The Assistant Secretary of State (Clayton) to the Chairman of the Board of the Reconstruction Finance Corporation (Henderson)

WASHINGTON, April 17, 1946.

MY DEAR MR. HENDERSON: During recent weeks conversations have been held between representatives of this Government (including officers of the Reconstruction Finance Corporation) on the one hand, and representatives of the Bolivian Government and tin mining industry, on the other hand, in respect of the purchase of tin from Bolivia. As a result of these discussions a tentative formula has been reached in the United States group, but not yet communicated to the Bolivian representatives, which would call for an arrangement with Bolivia along the following lines:

A revision of the present contract would provide that retroactive to April 1, 1946, the price to be paid for Bolivian tin be 62 cents per pound under the present smelting schedule containing the 1½-cent smelter credit. Also effective April 1, 1946, a production bonus of 1½ cents per pound would come into effect provided deliveries of tin to the United States exceeded a stipulated amount and with an unchanged smelter schedule and smelter credit.

As you know, this Government, under resolutions adopted at the Mexico City Conference, is pledged to ease the shock to the economies

*Memorandum of January 1946 from Manager of Mauricio Hochschild S.A.M.I. to Mr. Abbot Renick, FEA representative, Embassy, La Paz. [Footnote in the original.]

of the other American republics in the curtailment of our purchasing programs and in downward price readjustments. It has been in this spirit that both the RFC and the Department of State have approached these problems in Bolivia and other of the American republics. It is the belief of the Department of State that the aforescribed formula for the purchase of Bolivian tin would provide a solution which would at once be equitable to the Bolivian Government and economy as well as to this Government as purchaser.

The discussions which have thus far been held point to the unquestioned need on our part during the next year to year and a half of Bolivia's tin resources. The conclusion of a contract running from July 1, 1946, to either December 31, 1946, or June 30, 1947, along the lines of the aforescribed formula should offer us the supply security which we require.

In addition to the considerations set forth above, I should like to make clear the political desirability of maintaining in Bolivia a stable economic, political and social situation, and it is this Department's view that the early conclusion of the contemplated tin negotiations along the lines of the discussions now being held and as set forth above will contribute greatly to that end.

Sincerely yours,

WILLIAM L. CLAYTON

824.6354/4-2546

*Memorandum of Conversation, by Mr. J. W. Barnet of the
International Resources Division*

[Extracts]

[WASHINGTON,] April 25, 1946.

Participants: R. Canedo Reyes, Ministry of Economy
German Rovira, Bolivian Embassy
R. Quiroga Rico, Banco Minero
Sanchez Peña, Banco Minero
Claude Kemper, Aramayo Mines
Mauricio Hochschild, Bolivian Producer
George Jewett, RFC
E. P. Chapman, RFC
Jesse Johnson, RFC
James Espy, NWC
J. W. Barnet, IR

This meeting was held in Mr. Jewett's office, at the request of Mr. Rovira, in order that the entire Bolivian representation could be in-

formed of the most recent U.S. Government proposal regarding a new tin ore contract. Mr. Jewett stated the terms as a 62-cent base, with a smelter credit of $1\frac{1}{2}$ cents and a bonus which would provide a maximum of $1\frac{1}{2}$ cents additional if production in a given quarter was 20% higher than the 1943-44 quarterly average; if less than 20%, a proportional bonus would be paid. Mr. Jewett also said that no definite proposal was being made by RFC regarding the length of the contract, although he would recognize the Bolivian's possible preference for a 9-month contract beginning April 1, 1946. He further stated that if the proposed bonus provision had been in effect in 1945, the Bolivians would have realized approximately $1\frac{1}{2}$ cents per pound. When Mr. Hochschild and Mr. Rovira inquired regarding additional details of the bonus plan, Mr. Jewett went on to say that his statement had merely been one possible proposal and that the question of final terms of the bonus might well be a subject for discussion at the present meeting.

Dr. Hochschild said as his initial reaction, that the offer made by the U.S. was very disappointing. He repeated his previous charges that the Bolivians were being given the burden of inefficient smelting at Texas City and he stated that the former smelting charges and soluble tin payments should be restored. He further said that the closing of mines caused by high costs would make the bonus tonnage very difficult to achieve. He also felt that there should be some retroactivity previous to April 1.

At this point Mr. Reyes said the base price should be at least $63\frac{1}{2}\text{¢}$, but Hochschild quickly said $64\frac{1}{2}$ cents, and Mr. Kemper then argued with Mr. Reyes on this point. Mr. Reyes then said that he meant to say $63\frac{1}{2}\text{¢}$ plus an extra amount in accordance with the increase which had taken place in the commodity index. Then Hochschild finally stated that the terms should be $64\frac{1}{2}$ cents base price, plus the old smelter charges and a bonus higher than $1\frac{1}{2}$ cents.

Mr. Rovira was called on next and he said that he thought the producers should get together again and submit a counterproposal to the U.S. offer. Mr. Hochschild then stated that he had just finished making one. Mr. Jewett asked if it should be considered that the U.S. offer had been rejected and Hochschild replied in the affirmative. Mr. Jewett, in conclusion, said that the U.S. was still open to a further counterproposal by the Bolivians although not demanding one, feeling that the offer made by the U.S. was in itself quite fair.

S24.6354/6-1046

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

No. 2766

LA PAZ, June 10, 1946.

[Received June 20—9:29 a. m.]

SIR: I have the honor to refer to the Embassy's telegram no. 510 of June 7, 1946 ⁷² relative to the action of the Minister of Hacienda ⁷³ in waiving all taxes on a base price for tin over and above US\$0.62½ per pound of fine tin exported from Bolivia . . .

It appears that the Bolivian negotiators in Washington have had some indication to the effect that a better price than US\$0.62½ per pound of fine tin might be paid provided the producers would receive the full benefit of such additional price. This waiver of taxes is the Bolivian Government's contribution to the negotiations for a better price than US\$0.62½. It is suggested by the Assistant Minister of Hacienda, Sr. Palenque, that it would be practically impossible to export a larger quantity than the average of exports to the United States for 1944 and 1945 which, he states, were approximately 21,612 metric tons, and that therefore the offer of a bonus for larger exports during this year than this average is meaningless. The Ministry is suggesting that the basis for a bonus be 16,000 metric tons and that the premium of one-fourth cent for each five percent of exports over and above 16,000 tons up to a total premium of one cent for a twenty percent increase be maintained. The Assistant Minister is also hopeful that in addition to arriving at the basis for a bonus of 16,000 tons that the price before the payment of the bonus will be increased over and above US\$0.62½ per pound, in view of the Ministry's waiver of taxes on such price and such bonuses as may be obtained over and above US\$0.62½.

The waiver of taxes in fact only would apply to a price over and above US\$0.63¾ instead of US\$0.62½. It has been the practice of the Government to base its taxes on the c.i.f. price and when the contract price was changed in 1942 to f.o.b. Chilean or Peruvian ports the Government estimated the difference between f.o.b. and c.i.f. at US\$0.1¼ per pound and added this amount to the f.o.b. price before applying the tax. It will be noted in the attached letters that the Government intends to continue to apply the taxes on a c.i.f. price basis.

⁷² Not printed.

⁷³ Victor Paz Estenssoro.

The taxes which the Government offers to waive amount to approximately 20% of the value.*

Respectfully yours,

For the Chargé d'Affaires, a.i.
 JACK B. NEATHERY,
American Commercial Attaché

824.154/6-2646

Memorandum of Conversation, by Mr. Wallace W. Stuart and Mr. James Espy of the Division of North and West Coast Affairs

[Extracts]

[WASHINGTON,] June 26, 1946.

Participants: Messrs. Edwin W. James and John L. Harrison, of Public Roads Administration
 James Espy, NWC—Dept. of State and
 Wallace Stuart, Third Secretary, American Embassy,
 La Paz, Bolivia

The persons listed above met in the office of Mr. Harrison at the request of Mr. Espy to discuss delays which have arisen in connection with the preparation of plans for the Cochabamba-Santa Cruz Highway.

Mr. Espy opened the discussion by pointing out that the State Department was profoundly interested in the progress of the highway and in the successful completion of the project. He said that it was in fact the most important single consideration in our relations with Bolivia. Mr. James observed that the Corporation and the Eximbank were independent entities and inquired as to the State Department's interest. Mr. Espy replied by pointing out that the Bolivian Development Corporation was an outgrowth of the Bohan Mission⁷⁴ with which the Department had been closely associated and emphasized that the success or failure of the road project would profoundly affect American prestige and American relations with Bolivia for years to come. He added that the State Department had a further interest inasmuch as the project was being financed largely with United States Government funds.

Mr. Stuart stated that the Embassy in La Paz has followed the

*Source: J. Ribón of Cía. Araya de Minas. [Footnote in the original.]

⁷⁴Merwin L. Bohan was Chief of the U.S. Economic Mission to Bolivia; see *Foreign Relations*, 1942, vol. v, pp. 592 ff.

progress of the road program closely and has been deeply concerned with the failure of the Public Roads Administration engineer, Mr. Benjamin Cottrell, to produce plans for the highway to meet the minimum needs of the contractor. . . .

He continued that the officers of the Corporation, disturbed by the delay in preparing plans, sent a consulting engineer, Mr. Roberto Arce, to investigate the causes; that Mr. Arce's investigation resulted in a memorandum, signed on March 14, 1946 by Mr. Cottrell and by representatives of the contractor (Reference; Despatch 2689, May 20, 1946 ⁷⁵). This memorandum established the fact that as of that date complete and final plans had been turned over to the contractor for construction only as far as km. 21.7 and established a scale of minimum needs of the contractor. Mr. Cottrell, in the memorandum, committed himself to meet this rate.

It was pointed out that on May 6, 1946, the contractor had received final plans only to km. 46, whereas Mr. Cottrell was committed to turn over final plans to km. 60 on April 30; in other words, in a period of 2½ months Mr. Cottrell had fallen almost a month behind the schedule. It was pointed out that this delay was resulting in corresponding delays in construction and criticism of the Public Roads Administration and apprehension was expressed that the delay was indicative of the inability of Mr. Cottrell or his organization to meet his commitments in the Arce memorandum.

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Then there followed some discussion of the difficulties under which Mr. Cottrell had been working during the war.

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Mr. James stated that he had under consideration the replacement of Mr. Cottrell, but that no action could be taken immediately; that he, himself, expected to visit Bolivia early in August when he would investigate the matter thoroughly. Mr. Stuart and Mr. Espy pointed out the danger of allowing the matter to "slide" too long, particularly in view of the rapid expansion of construction work contemplated when new equipment is received.

Mr. Espy concluded the interview by emphasizing again the State Department's interest in the project and requesting Mr. James to take such action as might be necessary to assure the production of plans in accordance with commitments undertaken by the Public Roads Administration in the Arce memorandum.

⁷⁵ Not printed.

824.6354/7-1746

*Memorandum of Conversation, by Mr. James Espy of the Division of
North and West Coast Affairs*

[WASHINGTON,] July 17, 1946.

Participants: Ambassador Andrade of Bolivia
Mr. Braden—A—Br
Mr. James Espy—NWC

Ambassador Andrade of Bolivia called on Mr. Braden today and said that he had come again to take up the subject of negotiations. He said that the producers were adamant in their refusal to accept the price offered by RFC. They demanded that either RFC agree to pay them the base price of 66 cents, or that all restrictions be removed for the sale of tin to other parts of the world, specifically to Great Britain, France, Holland, or Belgium.

Ambassador Andrade went on to say that if no satisfactory arrangement could be made with RFC regarding the price of tin, he feared he would be compelled to address an official note to this Government requesting that it make a declaration that it would interpose, in no way, "inconvenientes" for the sale of Bolivian tin to other countries. Ambassador Andrade said that if through its influences the US obstructed the sale of tin to other buyers than its own, he believed the Bolivian Government would insist that the question be brought before the United Nations for consideration as a discriminatory practice to freedom of trade.

Ambassador Andrade concluded his remarks by saying that he had received instructions from his Government to do all possible for the continuance of the sale of Bolivian tin concentrates to the Texas City refinery, and that it was also his sincere hope that this could be done.

Mr. Braden told Ambassador Andrade that this matter would be looked into. He recalled that he had said at the general meeting which had been held this last spring that if no agreement could be reached between the Bolivians and ourselves on the price for the sale of the tin to RFC then he felt that the Bolivians should be left at complete liberty to sell their tin elsewhere.⁷⁶

JAMES ESPY

⁷⁶ A postscript by James Espy reads as follows: "7/18/46 N.B. Mr. Donald Kennedy I.R. informed me that the International Tin Committee has allocated specific quotas of tin to each of the major purchasing countries (i.e. U.S., G.B., Holland, Belgium and France) and that therefore if Bolivia tried to sell its tin to one or another country that would exceed that country's quota the country could not purchase the tin. J.E."

824.6354/7-2446 : Telegram

The Secretary of State to the Ambassador in Bolivia (Flack)

SECRET

WASHINGTON, July 24, 1946—8 p. m.

434. Dept and RFC are replying to inquiries re tin negotiations (but not making official public statement) that agreement in principle reached few days ago between RFC and Bolivian producers covering deliveries tin concentrates through balance calendar year; and that Dept and RFC assume these arrangements will be carried into effect.

In your discretion you may give appropriate dissemination in Bolivia this statement.

Dept assumes that last week Bolivian negotiators here reported to their principals terms agreed upon. For your information but not for dissemination without previous authorization RFC they were: Base price 62.5-cents, smelter credits 1.5-cents, adjustment in deductions amounting approximately 0.5-cents and bonus averaging over a year 2-cents either in form of 1-cent for first six months and 3-cents last six months or 2-cents for entire twelve months period. Bonus payable on ascending scale based on 1944 production. Agreement retroactive to January 1, 1946. Adjustment in deductions applicable only last six months.

BYRNES

824.51/8-146 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, August 1, 1946—6 p. m.

[Received 10:50 p. m.]

749. Bolivian Development Corporation urgently needs funds maintain construction Cochabamba Santa Cruz highway. Three promissory notes totaling \$1,100,000 sent to Exim Bank over month ago not discounted allegedly due error in certification signatures. Corporation has received telegram from Washington manager Egger⁷⁷ stating in part:

“Our suggestion is that strong pressure be placed upon American Embassy to intercede in our behalf for prompt payment notes now in possession Exim Bank inasmuch as similar notes with similar objectionable features have been paid in past.”

If Egger has not contacted Department, Embassy suggests he is

⁷⁷ Rowland Egger, American representative, Board of Directors of the Bolivian Development Corporation.

not adequately serving Corporation.

In view of importance Corporation's activities to Bolivian American relations, recommend Department discuss case with Exim Bank with view ascertain whether Exim Bank's reasons for not purchasing notes are justified.

FLACK

824.51/8-346 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, August 8, 1946—6 p. m.

468. Board Directors Eximbank Aug 6 considered request Bolivian Develop Corp to purchase three notes amount \$1,100,000 and expressed opinion that as notes not yet purchased and would only be dated and delivered by Corp as of date Bank purchased them and as each note bears guarantee of former Govt notes are definitely not valid and therefore cannot be accepted. Board agreed however that should Dept deem it necessary for urgent political or other reasons (as for example to prevent stoppage work on highway) to request Bank to provide funds immediately Bank would be willing to convoke Board to present request of Dept and if Board so ordered would endeavor find means or method whereby funds could be made available under the urgent circumstances.

In view statement Urtel 757 Aug 3⁷⁸ that sufficient funds maintain highway through Aug Bank would prefer withhold any special action at this time pending recognition and receipt new note with guaranty present Govt.⁷⁹

ACHESON

824.6354/8-1446

Memorandum by Mr. James Espy of the Division of North and West Coast Affairs to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] August 14, 1946.

Mr. George Jewett informed me today that at a meeting with Señor Ricardo Martínez Vargas, the Ambassador-Designate of Bolivia, a final agreement has been reached on the new tin contract. There was no change in price. The base price will be 62½ cents, smelter credit 1½ cent, adjustment in deductions amounting approximately to 0.5¢

⁷⁸ Not printed.

⁷⁹ In telegram 778, August 9, 1946, 11 a. m., the Embassy agreed with this position (824.51/8-946).

and a bonus of 1 cent for the first six months of this calendar year and 3 cents for the last six months. It was agreed however, that a full bonus would be paid for 90% rather than 100% of the 1944 production: that is, for approximately 17,600 tons as against 19,600 tons. $\frac{1}{4}$ cent bonus will be paid at 85% of the 1944 production figure and for each additional 1%, 15%. The bonus is to be paid on the basis of the total production of the entire group of producers selling to this country rather than on that of each individual producer.

JAMES ESPY

824.6363/9-2446

Memorandum of Conversation, by Mr. James Espy of the Division of North and West Coast Affairs

[WASHINGTON,] September 24, 1946.

Participants: Señor Ricardo Martínez Vargas, Bolivian Ambassador
Señor Rene Ballivian
Mr. Braden, A-Br
Mr. Espy, NWC

The Bolivian Ambassador called on Mr. Braden to introduce Mr. Rene Ballivian, the new President of the YPF (Bolivian Petroleum Monopoly).

Mr. Ballivian after paying his respects to Mr. Braden stated that he wished to elicit the support of Mr. Braden and the Department for a request which the YPF was making to the Export-Import Bank for approximately $3\frac{1}{2}$ million dollars from the $5\frac{1}{2}$ million dollar line of credit which the Bank established for the development of petroleum resources in Bolivia. This amount is to be used to help to finance well drilling at Camiri, the construction of a pipe line from the Camiri field to Cochabamba and the building of a refinery at Cochabamba.

Mr. Ballivian explained that the pipe line-refinery project has already been started; that the Central Bank of Bolivia has put up 5 million dollars for its financing and that an estimated additional \$3,500,000. is required to complete the work. \$1,000,000. is being spent for the drilling of 50 wells in the Camiri oil fields. The contract to undertake this work has been given to the South American Oil Development Company, an American concern. It is estimated that the pipe line will cost between $6\frac{1}{2}$ to 7 million dollars and that between one million and $1\frac{1}{2}$ million will be required to construct a small refinery at Cochabamba.

Mr. Ballivian pointed out that according to the loan agreement with the Export-Import Bank, the Bank must approve the projects for which the loan is used and that this project, which is a modification of

one worked out and initiated under the previous government of Bolivia, is different from that recommended by the Bohan Mission report and will have to receive a new approval by the Export-Import Bank before funds can be drawn on the line of credit with that Bank for its financing.

Mr. Ballivian said that this project was one of the two stones on which the new government of Bolivia proposed to base its policy for the exploitation of Bolivian petroleum resources. He confirmed what has already been reported to the Department by the Embassy that the new Bolivian Government proposes to invite private foreign capital to develop the petroleum industry in Bolivia. He said that the Bolivian Government has decided to follow the line of encouraging private industry and that only when private industry failed to meet the needs of the country should the Government engage in commercial and industrial undertakings.

During his talk Mr. Ballivian made mention of Mr. Ro[w]land Egger, the representative of the Bolivian Development Corporation in Washington. He said that Mr. Egger had been very friendly to the previous Government of Bolivia but he was afraid that Mr. Egger was not so sympathetic and cooperative with the new regime. He hoped that this was not the case but he proposed to see Mr. Egger and endeavor to straighten out any misunderstandings that may rest in Mr. Egger's mind.

JAMES ESPY

103.9151 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, October 4, 1946—6 p. m.
[Received 10:50 p. m.]

970. Corson⁸⁰ RDC Munro.⁸¹ Interviewed Minister Agriculture⁸² today with members Embassy present. Minister agreed:

1. Bolivian Government would give written approval development fund obligations of RDC terminated.
2. Bolivian Government authorized RDC deduct price premiums due from Banco Agrícola from 1945 volume premiums.
3. Balance of available 1945 and all 1946 volume premiums to be paid to producers which will help loan collections.
4. RDC to ignore request to terminate rubber agreement since request originated from another uninformed ministry.

⁸⁰ H. G. Corson, vice president, Rubber Development Corporation.

⁸¹ H. H. H. Munro, representative in Bolivia of the Rubber Development Corporation.

⁸² José Saavedra Suárez.

Minister anxious cooperate fully RDC and extremely helpful. Requests additional 250 ton export quota immediately. Strongly recommend we agree since agreement will accelerate Minister's actions referred to above and will save United States money. Embassy concurs.

FLACK

824.504/10-1846

The Ambassador in Bolivia (Flack) to the Secretary of State

No. 506

LA PAZ, October 18, 1946.

RESTRICTED

[Received October 31, 1946.]

SIR: With reference to my despatch No. 314 of September 19, 1946⁸³ entitled, "Steps Taken to Protect American Citizens at the Hochschild Potosí Mines", I have the honor to enclose a copy of a self-explanatory memorandum,⁸⁴ the original of which I handed to the Foreign Minister, Dr. Aniceto Solares, on the morning of October 17, 1946.

Dr. Solares, I found, was already not only fully acquainted with the general situation, but was informed of the particular incident concerning Messrs. Peterson and Bandy which took place at Huanuni. Dr. Solares said that he had already discussed this incident with the Minister of Government⁸⁵ and they would concert on the best steps to be taken to assure security of the lives of Americans in the mines at Huanuni and Catavi. I agreed with the Minister that the situation of maintaining order at these mines is particularly delicate and that the problem is one of psychology as well as of force, and that these points would have to be taken into account by the responsible Bolivian authorities.

In conclusion, the Foreign Minister assured me again that all possible steps would be taken to provide safety for American citizens at the mines and in view of the instructions which have already been issued to the various Prefects and Sub-Prefects in this sense as previously promised by the Minister, I have no doubt that he will make every effort within his power to fulfill his promises on this occasion. I shall, however, continue to follow this situation and to keep it before the Bolivian authorities with a view to forestalling any possible injury to American citizens.

Respectfully yours,

JOSEPH FLACK

⁸³ Not printed.

⁸⁴ Not printed; it indicated that two American officials of mining enterprises were forcibly ejected from mining properties near Huanuni and subjected to physical abuse. A local official at the mill succeeded in spiriting them away to a police station. The mob then dispersed. (824.504/10-1846)

⁸⁵ Roberto Bilbao Vieja.

824.6363/10-2846

*Memorandum by Mr. James Espy of the Division of North and West Coast Affairs*⁸⁸

[WASHINGTON,] October 28, 1946.

Subject: Bolivian Petroleum—Summary

The Export-Import Bank has made a loan to the Bolivian Development Corporation and through it the YPFB for 51½ million dollars for the development of petroleum resources in Bolivia.

The YPFB has drawn up new plans for the drilling of oil wells in the Camiri field, construction of a pipe line from Camiri to Cochabamba and the building of a topping plant refinery at Cochabamba. These plans are a change from the original plans which were approved by the Export-Import Bank two years ago and which provided for the location of the refinery at Santa Cruz and the construction of the pipe line from Camiri to that City.

YPFB has requested the support of the Department for the former's request of the Export-Import Bank that the changes in the plans be approved by the Bank and the entire credit of 51½ million dollars be made available to help finance the construction of the entire project. The Banco Central of Bolivia has made available another 5 million dollars to YPFB.

It is recommended that the Department inform the Export-Import Bank that the Department has no objection to the changes desired by YPFB but that the Department support the demand which the Export-Import Bank may make upon the YPFB that the latter be assured of sufficient total funds to finance the cost of the entire project.

JAMES ESPY

824.504/10-2946 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, October 29, 1946—6 p. m.

[Received 8:45 p. m.]

1034. As result of repeated declarations of intentions of miners to seize any mine closed by the companies, Junta yesterday promulgated a clear cut decree denouncing such assertions and promising legal procedures against instigators of any such action, fulfilling obligations of Govt to restore rights and guarantees laid down by existing law.

FLACK

⁸⁸ Addressed to NWC—Mr. Wells; ARA—Mr. Briggs; A—Br—Mr. Braden; Ped—Mr. Townsend.

824.6363/10-2846

*Memorandum by the Assistant Secretary of State for American
Republic Affairs (Braden)*

[WASHINGTON,] October 30, 1946.

If, as I understand is the case, the Eximbank has definitely committed itself to the 5½ million dollar credit for the development of petroleum resources in Bolivia, we must of course stick to this commitment.

If, however, we have not committed ourselves, I think we had best take a good look at the situation from the aspects that (1) such a credit is unsound, and (2) it would be in contradiction to the policy which we have established in Chile.

If the latter (re no commitment) proved to be the case, I would regret it because we have of course wished to assist the present Bolivian government but, in point of fact, I do not feel that the issuance of this credit would really assist them. On the contrary, we had better look around for some other way of doing so.

In reading through the attached memorandum,⁸⁷ the following additional considerations occur to me:

1. Perhaps the drilling rigs are already in the field and the necessary geological and geophysical work completed so that fifty wells could be drilled for \$20,000 apiece. Especially would this be true since I understand the oil stratae are relatively shallow. On the other hand, have the possibilities of deep drilling been thoroughly investigated?

2. During 1937 and 1938 I sent in extensive reports from my Chaco delegation on oil developments in this entire area. A search of my files has not produced any copies of this correspondence which probably was in official despatch form but, as I recall the figures, the expenditure of 10 million dollars would be insufficient and in any event the return inadequate. This is one of the reasons why I say that perhaps the extension of this credit would not be of genuine assistance to the Bolivian government.

As a further consideration, instead of the Bolivians trying to keep on half government and half private enterprise, would it not pay them to get two or three private companies in to do a real job?

SPRUILLE BRADEN

⁸⁷ Not printed.

F.W. 824.6363/10-2846

Memorandum of Conversation, by Mr. James Espy of the Division of North and West Coast Affairs

[WASHINGTON,] November 5, 1946.

Participants: Mr. Braden—A—Br Mr. Townsend, Ped
 Mr. Briggs—ARA Mr. Espy, NWC
 Mr. Smith—A—Br/S

A meeting was held in Mr. Braden's office this afternoon to discuss NWC's memorandum dated October 28, 1946, on the subject of Bolivian petroleum.

Mr. Townsend stated that in his opinion the Export-Import Bank was definitely committed to the 5½ million dollar credit for the development of petroleum in Bolivia. He stated further that under this commitment it was required of us to make the funds available to Bolivia and that there seemed to be no objection to their using the funds for the project indicated in the memoranda under reference. He stressed however, that we should insist that the Bolivians be assured of sufficient funds with which to complete the project fully.

Mr. Braden agreed that this position should be taken by the Department in which the others at the meeting concurred.

Mr. Braden emphasized that we should have full assurances from the Bolivians that on their part not only should the funds be available but be committed to the financing of the project.

824.5034/11-946 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, November 9, 1946—3 p. m.

[Received 6:07 p. m.]

1054. ReDepinstr 60, October 24.⁸⁸ Gutiérrez accompanied by McCaskill⁸⁹ leaving Sunday. Will arrive Washington about November 15. Conversations with both held yesterday fully covered by despatch which follows.

BDC will request additional credit Export-Import Bank to cover Cochabamba-Santa Cruz project. Bolivian engineers survey requested by BDC just completed approximates cost of dollars 15 million. Gutiérrez and McCaskill both consider that figure low. Are in favor of "on the ground" survey by group US engineers if Export-Import Bank so desires. Embassy believes such investigation by US technicians highly desirable to eliminate for once and for all cost question.

⁸⁸ Not printed.⁸⁹ Guillermo Gutiérrez Vea Murguía and Joseph C. McCaskill, president and general manager, respectively, of the Bolivian Development Corporation.

Embassy recommends most strongly favorable consideration be given request for additional credit. McCaskill stated changes in McGraw-Warren personnel absolutely essential to bring smooth operation. Gutiérrez states Govt's commitments fully assured and feels this important factor in Washington negotiations.

Re inspection and certification of satisfactory construction by Public Roads Corporation opinion is that Bolivian engineers qualified and certification by them more acceptable to public.

FLACK

824.63/12-346 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, December 3, 1946—5 p. m.
[Received December 4, 1946—6:10 a. m.]

1104. Bolivian Government understood to be studying draft of expropriation decree as possible solution to plans of various companies to close mining properties not operating at profit and in answer to threats of mineworkers to seize any property so closed.

Draft of decree available to Embassy believed to have been modified and contains seven articles providing that if judicial investigation determines that a property now closed can be successfully operated it will revert to the state regardless of validity of title if not placed in operation within one year of decision. Property now in operation will not be allowed to close unless it can be proved that resources are completely exhausted. In case a mine is closed by proprietor for other reasons, it, together with all installations, machinery and mine implements, will revert to the state as provided by article 5 of Mineral Code. The Government will have the right to rent or operate such property as it sees fit. If an operating mine is seized by the workers local authorities are to take such action as necessary to restore the property to rightful owners and force payment of indemnification for damage by the perpetrators together with punishment as provided by law.

Junta understood to have considered such decree last week and to have postponed action until December 6.

FLACK

824.63/12-346 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, December 5, 1946—6 p. m.

636. Proposed expropriation decree Embtel 1104, Dec. 3. Although US interests not involved Emb authorized express this Gov's views if approached by responsible Bolivian officials for advice or opinion de-

sirability promotion and encouragement system private enterprise as guiding principles Resolution LI Article 8 Final Act Mexico City 1945.⁹⁰ May be pertinent indicate harmful long-term effects forcing sub-marginal properties remain in production thereby postponing ultimately unavoidable adjustments to normal production pattern. Suggest general advantages permitting greater mobility labor and overall development Bolivian economy which would result from shift labor from high cost producing mines to other fields greater economic value to Bolivia such as agriculture, petroleum, etc. Provisions forbidding any shutdown properties now in operation might additionally handicap Bolivian Gov in present effort resolve critical labor situation.

Emb should not take initiative in expressing above views and should exercise caution if views requested avoid any impression of gratuitous representations since our interests not directly involved.

ACHESON

824.6176/12-1446: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

LA PAZ, December 14, 1946—11 a. m.

[Received 4: 05 p. m.]

1130. My 1124, December 12.⁹¹ In further support of its request that some agreement re rubber purchases by RDC for additional 6 months after January 1st be accorded, further memo from Bolivian Government records following outstanding points.

(1) In the absence of such an arrangement a large part of Bolivian rubber would be smuggled into Brazil and Peru and there be sold as products of those countries to United States.

(2) Contract termination at end of year without any cushioning arrangement for ensuing 6 months would create a critical situation for Bolivian rubber industry along with a series of complex social and economic problems in the areas affected; would result in bankruptcy for many producers and cause hardship on the general economy of Bolivia.

(3) Reference is made to commitments at Chapultepec providing that measures will be taken to avoid disruption of a country's economy through sudden cessation of purchases of strategic materials by another.

(4) Bolivia would experience a decrease in foreign exchange receipts as well as revenues accruing to the Government from export tax collections. The present paucity of foreign exchange and difficulty of obtaining exchange sufficient for raw material imports indi-

⁹⁰ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945), pp. 92, 96.

⁹¹ Not printed.

cates seriousness of precipitous cutting off of this source at the present time.

(5) An extension of purchase for 6 months would permit RDC to collect, according to Munro's estimate, an additional \$100,000 in obligations not recoverable by end 1946.

In view of the unquestionable adverse economic and political effects which would immediately attest our failure to accede to alternative 2 previously mentioned and general adverse effect of failure to help at this time I reiterate most strongly my recommendation that the Department and RDC acquiesce in Bolivia's request.

FLACK

824.6176/11-2946 : Telegram

The Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, December 23, 1946—6 p. m.

666. RDC carefully considered Bol request but unable approve either alternative (Embtels 1097 Nov 29,⁹² 1124 Dec 12⁹³ and 1130 Dec 14).

Supplementing reasons given in Deptel 642⁹³ for this decision following may be used explanation Bol Govt.

Since termination hostilities US has been bringing to end wartime emergency purchasing operations. By their nature and as was publicly announced operations were only to continue so long as situation brought about by hostilities lasted. Since that situation changed agencies this Govt limited their programs fulfillment their existing obligations and in each case due notice was given far in advance to other American Republics including Bolivia of termination programs. Specifically in case Bolivia offer to extend agreement, which had not been accepted by Bol Govt, was withdrawn in Aug 1945 when apparent war drawing to close and yet 16 months before rubber agreement itself was to terminate.

Conformably RDC was empowered by Congressional Act only to subsidize purchasing operations for which it had existing commitments before January 1, 1946 and funds are available to it sufficient only to meet those commitments. In absence of commitment RDC authority restricted to purchase rubber at world price (on basis of quality, differentials and freight costs, this would mean estimated price paid to Bol producers less than half of base price provided by Bolivian Agreement).

⁹² Not printed. The two alternatives specified were: (1) prolongation of agreement for 6 months; (2) that the Rubber Development Corporation obligate itself to take all rubber production not sold or exported as of June 30, 1947 (824-6176/11-2946).

⁹³ Not printed.

At time offers were made to extend agreements to other American Republics Bolivia was equally included and since Aug 1945 no extension or preferential treatment has been accorded to any country. In fact similar requests have been refused. Although fully appreciative of and sympathetic to considerations stated by Bolivian Govt, for foregoing reasons exceptions to established procedure precluded. US believes that 16 months in question should have been sufficient time for reconversion rubber industry in Bolivia to normal channels envisioned by Chapultepec obligations.

BYRNES

THE PROBLEM OF REPLACING FORMER AXIS BUSINESS INFLUENCES WITH MORE DESIRABLE TRADE CONTACTS IN BOLIVIA *

740.24112 RP/1-2546

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

CONFIDENTIAL

LA PAZ, January 25, 1946.

No. 2141

[Received February 1.]

SIR: I have the honor to refer to Department's telegram No. 35 of January 22, 1946,⁹⁵ concerning the replacement program in general and the Gundlach case in particular.

[Here follows a discussion of the Gundlach case, in particular, and of other firms and individuals. Cornelius F. Gundlach, born in Holland of German parents, became a Bolivian citizen in 1919, and served in the Chaco War with distinction. His firm was placed on the Proclaimed List, but it was not subjected to an interventor and its funds were not blocked.]

These examples demonstrate clearly the lack of understanding of hemisphere politics and a decided disinclination to assist in the replacement program. The Embassy in view of these facts has been well pleased with the progress made, even if it has been slow and it believes that the best possible results have been obtained.

These results are not due to the Government's desire to liquidate the spearheads but simply because of the constant pressure from the Embassy, which feels that the Government would be only too glad to throw out the program if an opportunity was afforded it and to attempt to use the Gundlach case as a lever would afford them that opportunity which would be disastrous to the whole program.

The Minister of Economy⁹⁶ has repeatedly stated that with the tight control of Foreign Exchange resulting from decree No. 385 of

* For documentation on the efforts of the United States to counteract Axis activity in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 572 ff.

⁹⁵ Not printed.

⁹⁶ Jorge Zarco Kramer.

September 22, 1945, there is every reason to believe that the Proclaimed List firms will soon be forced out of business because they can only obtain Foreign Exchange in the black market, which is very limited, and then they can obtain merchandise only through cloaks since Import Licenses are not granted Proclaimed List firms.

The matter of the remaining three large firms, Kyllmann, Bauer & Co., Zeller, Mozer & Cía., and Juan Elsner & Cía. now rests with the Minister of Economy and until a decision as to the legality of their transfers has been made, nothing remains but to wait.

In its approach to the Gundlach case the Inter-departmental Proclaimed List Committee has shown such a complete inability to visualize the problems of the replacement program in Bolivia that it appears strongly advisable for this committee to limit its communications to this Embassy in the future to a bare minimum, so as not to distract the understaffed economic section from more important work.

Respectfully yours,

HECTOR C. ADAM

740.24112 RP/2-2746

*Memorandum by Mr. H. H. Barger, Economic Analyst in Bolivia, to the Chargé in Bolivia (Adam)*⁹⁷

[Extracts]

LA PAZ [undated].

In a preliminary talk on the Replacement Program with Minister of National Economy Zarco Kramer on February 26, 1946, at which Mr. J. Dehlsen, Special Assistant to Ambassador, and Mr. D. Ballentine, Vice Consul, were present, an attempt was made to sound out the attitude of the Economic Defense Board.⁹⁸

At the end of the meeting, the Minister assured the representative of the Embassy that he would do everything possible to expedite the replacement program and thanked the undersigned for the offer of cooperation. However, Zarco Kramer has made similar protestations of good faith and willingness on the part of the Bolivian Government to expedite the replacement program. At this late date the program has yet to go into effect. It was very evident that the thought that the proclaimed list might be continued for some time in Bolivia while removed in other countries of the hemisphere made a decisive impression, as well as the idea that other commercial relations with the Allied Nations might be impeded. For this reason, it would undoubtedly be advantageous to recommend that the Department immediately consider

⁹⁷ Copy transmitted to the Department in despatch 2337, February 27, 1946, from La Paz, not printed.

⁹⁸ Bolivian Government instrumentality.

the establishment of a *quid pro quo* manner of dealing with the Bolivian Government in the matter of forging ahead with the replacement program. If authorizations would be obtained to drop a hint to the Bolivian Government that no tin negotiations would be entered into or even considered until the replacement program had been successfully concluded, some action might be seen. It would undoubtedly be well for the Embassy to obtain the Department's approval for the continued existence of the proclaimed list in Bolivia in the event that the replacement program is not effective.

740.24112 RP/1-2546 : Telegram

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

CONFIDENTIAL

WASHINGTON, March 9, 1946—2 p. m.

131. Dept deploras attitude evidenced in the last paragraph urdes 2141 Jan 25 1946. True facts are IDPLC gave repeated and careful consideration Gundlach case because it realized so thoroughly implications for Emb and replacement program. IDPLC gave detailed account of inadequacies of reorganization so that Emb would appreciate IDPLC position, moreover, IDPLC suggested possible solution of impasse by suggesting Gundlach case could be reconsidered as part of overall plan.⁹⁹

Fortunately Dept prevented distribution of your despatch to other agencies of Govt. Dept would have been most embarrassed if last paragraph had reached hands of IDPLC.

If Gundlach case is presented as part of an overall program pertinent info in despatch, omitting last paragraph will be brought to attention of IDPLC.

BYRNES

740.24112 RP/3-1346

*Memorandum by Mr. H. H. Barger, Economic Analyst in Bolivia, to the Chargé in Bolivia (Adam)*¹

[Extracts]

CONFIDENTIAL

LA PAZ, March 12, 1946.

This afternoon I called on the Minister of National Economy, Jorge Zarco Kramer, and presented the replacement program covering nine

⁹⁹ In despatch 2385, March 14, 1946, the Chargé indicated his impression that the position of the IDPLC did not coincide with the views of the Department of State (740.24112 RP/3-1446).

¹ Copy transmitted to the Department in despatch 2396, March 13, 1946, from La Paz, not printed.

spearhead firms and one smaller firm which was included at the suggestion of the Legal Adviser of the Ministry of National Economy, Dr. Anibal Mollinedo Imaña. The Minister read over the recommendations and had no changes to suggest. He promised to present the program as outlined to the Economic Defense Board with a recommendation for action.

During my conversations with the Legal Adviser of the Ministry over a period of ten days, the various difficulties involved in dealing with the replacement of the above-mentioned firms were discussed and an overall plan was adopted. It was decided by Dr. Mollinedo and me that seven of the firms should be recommended for expropriation under existing Bolivian decree-laws, that one, C. F. Gundlach y Cía., should be sold to ex-employees and that the other two firms should be reorganized with acceptable democratic Bolivians gaining majority control of the firms. This program was then presented to the Ministry of National Economy who promised to present it to the Economic Defense Board for action.

In considering the program it must be realized that the sub-committee appointed to investigate the transfers of Zeller, Mozer y Cía., Kyllmann, Bauer y Cía. and Juan Elsner y Cía. has not as yet, despite the fact that it has had over three months to do so, considered the matter. However, it was decided by Dr. Mollinedo and me, that in view of the long delay, it would be best to present the plan as though these three transfers had already been declared invalid. During my conversation with the Minister of National Economy, he stated categorically that the Economic Defense Board would decide the cases of these three firms tomorrow. This evidently means that the Economic Defense Board will not wait for any decision of the sub-committee.

In presenting the recommended replacements I attempted at all times to impress both the Minister of National Economy and the Legal Adviser of the Ministry that the replacement program was that of Bolivia and not of the Embassy, and that I had been sent down to assist the Ministry of National Economy and the Economic Defense Board rather than as an employee of the State Department. Therefore, in presenting the program I added four benefits which would result to the Bolivian Government if the replacement program were enforced immediately. These points² are also enclosed with the recommended program. The Minister of National Economy agreed to bring these benefits to the attention of the Economic Defense Board at its meeting tomorrow.

² Printed as annex to this memorandum.

[Annex]

REASONS FOR IMMEDIATE ENFORCEMENT OF REPLACEMENT PROGRAM

CONFIDENTIAL

LA PAZ, March 12, 1946.

1. With replacement program the Government will eliminate absentee owners who are draining foreign exchange out of the country, clandestinely and illegally, i.e., Elsners (one partner in Germany, another in Argentina), Zeller, Mozer (owners are in Germany and Switzerland), Findel (owner is in Germany), etc.

2. Funds thus kept in the country will aid to bolster the monetary position of the country and stabilize foreign exchange.

3. With the replacement of the Axis firms and the blocking of the funds obtained from their sale, the Government will have more than Bs. 200,000,000 which can be used for the development of the natural resources of the country.

4. The effective enforcement of the replacement program immediately, will open the way for free commercial relations with the other Allied nations without such obstacles as the Black List, etc.

740.24112 RP/3-2546

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

CONFIDENTIAL

LA PAZ, March 25, 1946.

No. 2434

[Received April 2.]

SIR: I have the honor to report that Mr. Herman H. Barger, Economic Analyst, and I were received by President Villarroel this afternoon, at which time an *aide-mémoire*, copy of which is enclosed,³ was presented to him. A copy of the replacement program as drawn up by Mr. Barger and the Legal Adviser of the Ministry of National Economy was also handed to him. (See despatch no. 2396 of March 13, 1946.³)

During the three-quarters of an hour conversation, the advantages which would accrue to Bolivia as a result of the immediate enactment of the replacement program were cited to the President. The Chief Executive informed us that he would see that favorable action would be taken. He suggested that a decree expropriating all the spearhead firms would be the best way to handle the matter and that he would send word to the Minister of Finance, Dr. Victor Paz Estenssoro, to have such a decree written. It will be recalled that in October 1945,

³ Not printed.

the same promise was made. (See despatch no. 1740 of October 27, 1945⁴).

Respectfully yours,

HECTOR C. ADAM, JR.

740.24112 RP/3-2646 : Airgram

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

[Extracts]

LA PAZ, March 26, 1946.

[Received April 11—10:31 a. m.]

A-112. Reference is made to the Department's circular airgram no. 170 of March 4, 1946⁵ and the Department's airgram No. A-55⁴ regarding withdrawal of the Proclaimed List and the progress of the replacement program.

With regard to the Embassy's despatch no. 1740 of October 27, 1945,⁴ the Bolivian Government has done nothing to effect its promise to adopt a replacement program. No decree has been issued calling for the blanket sale of Axis spearhead firms. The present status of the replacement program is as indicated in the Embassy's despatch no. 2396 of March 13, 1946 and enclosures. The Economic Defense Board, scheduled to meet to consider the program on March 20, failed again to do so. Following 3 years of promises to effect a replacement program, 2½ years under the present regime, it can only be assumed that the Bolivian Government has no intention of complying with its commitments. It will be recalled in this connection that over a year and half ago President Villarroel promised Francis H. Russell, then Chief of the Division of World Trade Intelligence of the Department, that the Bolivian Government would immediately proceed to replace Axis spearhead firms (see Embassy's despatch no. 4192 of August 18, 1944.⁶)

A despatch is being prepared which will fully cover the situation, but the following is a brief resume of the information requested.

1. Report on the current status of each spearhead firm.

Recommendations:

1. After three years of promises by the Bolivian Government, the Embassy does not believe that the replacement program will be effected unless a *quid pro quo* policy is adopted. It is believed that

⁴ Not printed.

⁵ Not printed; it was a request for information on the status of spearhead firms, likelihood of action, and recommendations (740.00112A EW/3-446).

⁶ *Foreign Relations*, 1944, vol. VII, p. 528.

were the Embassy authorized to inform the Bolivian Government that since it had not complied with its commitments to enforce a replacement program that the Proclaimed List would have to be continued for at least two years to extirpate Axis economic interests, it would have a salutary effect.

2. Furthermore, to prevent American goods going to Axis firms, a licensing system for exports to Bolivia should be established. If the Embassy were authorized to inform the Bolivian authorities that their lack of action had resulted in such a measure, it would aid in dealing with the Government.

3. If the Department were able to authorize the Embassy to inform the Bolivian Government that commercial negotiations would be restricted pending Bolivia's compliance with its commitments, it is believed that the replacement program would have more chance of success.

ADAM

740.24112 RP/3-1446

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

CONFIDENTIAL
No. 506

WASHINGTON, April 15, 1946.

The Secretary of State refers to the Embassy's despatches no. 2337 of February 27, no. 2396 of March 13 and no. 2385 of March 14¹² concerning recent developments with regard to the Replacement Program in Bolivia.

In the last paragraph of Mr. H. Barger's memorandum to the Chargé d'Affaires attached to despatch no. 2337 of February 27, it is suggested that a *quid pro quo* manner of dealing with the Bolivian Government in the matter of forging ahead with the Replacement Program be established. In this paragraph the tin negotiations¹³ and the continuation of the Proclaimed List are suggested as possible *quid pro quos*.

In view of the fact that the tin negotiations are going on in Washington at the present time and in view of the complexity of the problems involved in these negotiations, the Department considers it inadvisable to inject the matter of the Replacement Program in these negotiations.

With regard to the possible retention of the Proclaimed List for Bolivia after it is withdrawn from other countries in the Western Hemisphere, the way matters stand at the present time, it appears quite likely that the Proclaimed List will be withdrawn approximately May

¹² None printed.

¹³ For documentation on the tin negotiations, see pp. 374 ff.

8 for all countries in the Western Hemisphere, with the possible exception of Argentina. If the Proclaimed List is not continued for Argentina,¹⁴ it would not appear to be feasible to continue the List for any of the other Latin American countries. On the other hand, if it is decided to continue the List for Argentina beyond that date, it could not be maintained for any of the other American Republics without placing that Republic in a class with Argentina. It is doubtful that the Department would wish to place Bolivia alone in a class with Argentina exclusively upon the basis of performance in the Replacement Program. In the first place, some of the other countries have done no more than Bolivia on the Replacement Program, and, it is doubtful whether the Proclaimed List could be continued for these countries because of excellent performance in other respects. Moreover, many of the countries which have carried through a successful Replacement Program have done so in respect to enterprises owned or controlled from Germany but have taken no more effective action than Bolivia in the case of enterprises owned locally. In view of the foregoing, the Embassy will appreciate the difficulty of continuing the Proclaimed List for Bolivia if the List is withdrawn from other countries with the possible exception of Argentina.

The Department, however, believes that the basis for a *quid pro quo* may be found in the circular instruction of August 17, 1945 and March 20, 1946¹⁵ with regard to the establishment of undesirable trade contacts. The circular instruction of March 20, 1946 strengthens considerably the position taken in the circular instruction of August 17, 1945. The Commerce Department now informs American firms that Proclaimed List firms which were deleted for reasons other than merit are not considered to be suitable trade connections by this Government and strongly recommends against formation of such contacts. The Commerce Department knows of no reason why American firms will not follow its advice in these matters. Should any firm, however, request clarification of this Government's position, the Commerce Department is prepared to say that business connections with such former Proclaimed List individuals and firms would have to be a factor considered in cases arising for the protection of American interests abroad. While the Government always must protect American business interests, it would not wish to take any action which would assist those who formerly had worked against our vital national interests and who might do so again if opportunity offered. What this would mean for Bolivia, if the firms were not reorganized or replaced, is that the Commerce Department would strongly recom-

¹⁴ For documentation on Nazi penetration in Argentina, see pp. 182 ff.

¹⁵ Neither printed.

mend American firms against establishing trade connections with them. Thus these firms which all during the time they were on the Proclaimed List were barred from doing business with the United States would, for an indefinite period of time following withdrawal of the List, have great difficulty in obtaining worthwhile American agencies, if indeed they could obtain them at all. It may be that the Bolivian Government feels that the Proclaimed List cannot last very much longer and that after the List is withdrawn, Proclaimed List firms will be able to resume normal trade relations with the United States. The Department perceives no objection to the Embassy's informing the Bolivian Government of the above policy; in fact a very active publicity campaign urging American firms to contact the Commerce Department before establishing trade connections has been initiated. For example the attached press release issued March 29, 1946¹⁶ is being given the widest possible circulation in American trade circles. This publicity campaign, of course, will not mention the withdrawal of the List.

740.24112 RP/5-646

The Department of State to the Bolivian Embassy

AIDE-MÉMOIRE

At the Third Meeting of Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro in January 1942, the American Republics determined to adopt such measures as might be necessary to eliminate all financial and commercial activities of the Tripartite Powers prejudicial to the welfare and security of the American Republics and to prevent within the American Republics all commercial and financial transactions inimical to the security of the Western Hemisphere.¹⁷ Again at the Inter-American Conference on Problems of War and Peace held in Mexico City, the principles of elimination of Axis influence were re-affirmed.¹⁸ Pursuant to these declarations Bolivia and the other American Republics have enacted legislation and issued enabling decrees to effect programs that would realize the mutually agreed upon objectives.

¹⁶ Printed *ante*, p. 77.

¹⁷ For texts of the recommendations of the Conference, see Department of State *Bulletin*, February 7, 1942, pp. 117 ff. For documentation on the Conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

¹⁸ For texts of the resolutions of the Conference, see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945). For documentation on the Conference, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.

Moreover, in the discussions that have ensued between the representatives of the Government of the United States and the authorities of the Bolivian Government, the latter have repeatedly stated that steps such as those for the control and so-called "replacement" of dangerous Axis financial and commercial firms were to be undertaken.

This Government has accorded its cooperation with the Bolivian Government in the nature of technical and advisory assistance for the attainment of these ends. Particular attention is invited to the fact that a special representative of this Government has been sent to La Paz to work with the Board of Economic Defense established by the Bolivian Government and that as a result of the studies of this Board, with the cooperation of the representative of this Government, a specific plan was prepared and submitted to the Bolivian Government for its consideration and execution.

Despite the long lapse of time since the original mutual decision of the American Republics taken at the Rio de Janeiro Conference to proceed with measures to extirpate dangerous Axis influence from the economies of the American Republics and these latest aforementioned measures to enact an effective plan to accomplish this end, it appears that the replacement program has not as yet been completely implemented by the Bolivian Government. The Government of the United States is confident that the Bolivian Government, in accordance with its declarations and advices, will wish to proceed to the full implementation of the replacement program to which both Governments attach equally significant importance.

WASHINGTON, May 6, 1946.

740.24112 RP/3-2646 : Airgram

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

CONFIDENTIAL

WASHINGTON, May 24, 1946.

A-170. Reference is made to your airgram no. A-112 of March 26, 1946, despatches no. 2473 of April 3, 1946 and no. 2527 of April 16, 1946 and telegram no. 331 of April 18, 1946¹⁹ requesting the Department's views with regard to certain proposals which the Embassy feels if implemented would result in the rapid conclusion of the Replacement Program for Bolivia.

With respect to the first recommendation made in your airgram no. A-112 concerning retention of the Proclaimed List for Bolivia for at least 2 more years, it now looks as though the List will probably be continued for all countries until June 30 and there is some possibility

¹⁹ Despatches and telegram 331 not printed.

that it may be continued a little longer at least for Eastern Hemisphere countries. As pointed out in the Department's instruction no. 506 of April 15, 1946, it would not be possible to retain the List for Bolivia after it has been withdrawn for all other countries, or for all other Western Hemisphere countries.

Your second recommendation regarding the reinstatement of export control for Bolivia has been discussed within the Department and with Officers of International Trade (formerly FEA). In as much as the trend of our trade policy for all countries is toward a greater relaxation of economic restrictions, it would be difficult to justify the complete reversal of this policy for Bolivia. Furthermore, in order to make such a program effective, it would be necessary to stop cloaking within Bolivia and transshipments from neighboring countries. Both of these would be very difficult if not impossible.

The Department after thorough study of all the factors involved has found it impracticable and inadvisable to couple the Replacement Program with the tin negotiations given as your third recommendation in your airgram No. A-112. To inject in such negotiations a consideration extraneous to the commercial arrangements concerned with the renegotiation of a new tin contract and implying coercion could well lead to unforeseeable and possibly undesirable consequences.

However, in an endeavor to fortify the Embassy's position, the Department has handed a note to Ambassador Andrade,²⁰ a copy of which is being transmitted to you under separate cover, informing him of our interest in obtaining completion of the Replacement Program.

BYRNES

740.24112 RP/8-2646: Airgram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, August 26, 1946.

A-265. Mr. Hermann Barger arrived in Washington recently and called at the Division of Economic Security Controls to discuss the status of the Bolivian Replacement Program. Mr. Barger stated that, before leaving La Paz, he had had the opportunity to meet Mr. Spencer M. King,²¹ and had been able to pass on to Mr. King certain information with regard to the Program.

It is hoped that the recent change of government²² in Bolivia may result in increased cooperation between this Government and the

²⁰ *Supra.*

²¹ Third Secretary of Embassy and Vice Consul at La Paz.

²² For documentation on the overthrow of the Government, see pp. 340 ff.

Government of Bolivia in the Replacement Program, which the Department considers to be of great importance, and that the new regime may exhibit an earnest interest in the elimination of Axis assets and influence. If that should be the case, it would be regarded as a singular opportunity for making significant progress in bringing the Replacement Program to a successful conclusion.

ACHESON

740.24112 RP/11-946 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, November 9, 1946—2 p. m.
[Received November 10—7:58 p. m.]

1052. Renewed discussions today accompanied by Orloski²³ and King with Minister Economy re Bolivian action concerning replacement program in Bolivia (Reurtel 567, October 9²⁴ and previous on above subject). Minister now willing to put through program satisfactory to United States and detailed discussions in this matter will commence next week. Minister showed me draft decree modeled somewhat after Peruvian supreme decree of September 3, 1946 published in Lima press of September 4, but will take no action until details are ironed out with Embassy. Minister specifically mentioned several of the smaller firms included in spearhead and indicated that perhaps Government would like not to press action against these. Possible therefore, light concessions may be necessary. Financing of program was suggested by Embassy along lines mentioned in Deptel 368, May 30, 1945.²⁴

Despatch follows with copies of proposed decree.

No final decision in matter will be taken by Embassy until Dept acquiescence in program is obtained. Details of progress will be reported promptly.

FLACK

740.24112 RP/11-946 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, November 15, 1946—7 p. m.

613. Urtel 1052, Nov. 9. New Bol int[erest] replacement program gratifying. List Bol spearheads being reviewed for possible elimination less serious cases. Dept would appreciate info re firms Bol wish to drop so that it may comment before final action. Dept also study-

²³ John A. E. Orloski, Assistant Commercial Attaché.

²⁴ Not printed.

ing Peru decree Sept 3 for effect similar Bol decree would have on expropriation spearheads and on Elsner and Kyllmann transfers. Your comments on latter point are requested. Dept will discuss fully on recpt text draft decree.

ACHESON

740.24112 RP/12-1846 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, December 18, 1946—5 p. m.

[Received 9:56 p. m.]

1138. Foreign Office proposes promulgate decree eliminating existing restrictions against all Axis firms and other PL firms and names except 11 spearheads. Proposed decree as forwarded with despatch No. 575, November 13,²⁷ modified by adding 11 firms to article I to be exempted from its provisions. These are Juan Elsner and Company, Fábrica de Conservas de Jorge Stege, Ferretería Findel, Kyllman Bauery and Company, Oculargum, Quidde and Company, Gustavo Schomann and Company, Schweitzer and Company, Sickinger and Company, Zeller Mozeru and Company, and Casa Gundlach. Latter which Embassy suggested be excluded pending Department's instructions was included upon recommendation of sub-secretary.

Article II modified by provision that funds shall remain blocked until damages to Bolivia satisfied and claims of United Nations met with balance.

Bolivia willing to discuss expropriation of 11 spearhead firms exempted from the lease from restrictions by proposed decree. Does Department concur in list? No reply yet received to Embtel 1125, December 13 nor to despatch 575, November 13.²⁸ Instructions requested before Embassy takes further action. Tentative next meeting scheduled for December 24.

FLACK

740.24112 RP/11-1346 : Telegram

The Secretary of State to the Ambassador in Bolivia (Flack)

CONFIDENTIAL

WASHINGTON, December 23, 1946—noon.

662. Urdes 575 Nov. 13.²⁷ Bol draft decree similar to Peru decree Sept 3 which was passed after consid progress replacem progr and provides mainly for relaxation and readjustm controls in view progr made. Is such decree nec in Bol at this time. Dept has not raised obj

²⁷ Not printed.

²⁸ Neither printed.

in other countries if main objectives repl progr not prejudiced thereby, but prefers *ad hoc* lifting restrictions instead blanket lifting and has so indicated to several Am Reps. Dept does not wish to give approval Bol decree in present form but will not raise obj to promulg. Exclusion spearheads named from provisions Art 1 permits accomplishm main objective repl progr but summary removal all other local enemy interests from all controls without review indiv cases believed undesirable. (Urtel 1138 Dec 18). Since Ocularium excluded from provisions Art 1 should not mining and other Becker interests be so excluded. In view para 2 and 3 urtel 1125 Dec 13²⁹ Dept has no obj to regarding Gundlach case *fait accompli* and suggests Gundlach personally be named in Art 1 instead of firm and his pers funds be blocked. Art 3 appears to refer only to exprop specifically decreed in each case. Is this broad enough to permit application expropr decrs Feb 9 and March 31 '44 to any property not removed from restrictions by current decree. Your comments requested.

BYRNES

**AID PROVIDED BY THE UNITED STATES IN THE BOLIVIAN
FOOD CRISIS**

102.78/2-2146: Telegram

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

CONFIDENTIAL
US URGENT

WASHINGTON, February 21, 1946—7 p. m.

97. From Agriculture. In accordance with President's directive²⁹ to maximize shipments wheat and flour to areas in most dire need, new regulations require export license for every flour shipment. All wheat exports will be programmed directly by Agriculture. Your comments urgently needed on a tentatively proposed program for Bolivia 4,000 cwt. flour for first 6 months. The wheat allotment is subject to monthly review but present plan is to place flour under regular allocation. The contemplated flour allocation compares with shipments of 3,991 cwt. during first 6 months 1944 and with 28,323 cwt. during same period 1945.

That hardships will result from flour allocation under contemplation is fully realized here. But world situation such that ruthlessly drastic curtailment imperative if widespread starvation to be avoided in many areas sorely hit by war and famine. The contemplated allocation is strictly confidential and on no account should be revealed to local authorities. If you are convinced that increase in flour program

²⁹ Not printed.

³⁰ Dated January 25, 1946; for substance of the directive, see Department of State *Bulletin*, February 3, 1946, p. 151.

absolutely essential, notwithstanding basic policy consideration mentioned above, wire urgently detailed justification and suggest target allocation. Suggestions for savings will be most welcome.

BYRNES

824.61311/5-146

The Secretary of State to the Bolivian Ambassador (Andrade)

WASHINGTON, May 27, 1946.

EXCELLENCY: I have the honor to refer to your note of May 1³⁴ requesting that licenses be granted for export of flour from the United States to the mining companies in Bolivia and that a quota of 20,000 tons of flour for the present year be assigned to Bolivia.

I am informed by the supply authorities that in view of the large quantities of flour which Bolivia secured from this country in the early months of the present year, no quotas are in force permitting further shipments to Bolivia at the present time. It is suggested that it may be possible to meet the needs of the miners in Bolivia by adjustments within that country providing for transfer of some of the supplies in regular civilian distribution to the mining colonies. This suggestion is made in view of the great deficit in wheat which has necessitated universal reduction of wheat imports to correspond only to the minimum consumption requirements.

Since there are no annual quotas set for export of flour, it is not possible at present to indicate such for Bolivia as requested in your note. I assure you, however, that the Bolivian request for additional quantities of flour from the United States will receive full consideration. Since distribution of wheat and flour is made on the basis of minimum consumption needs of all countries, it would be helpful if the Bolivian Government could submit detailed information concerning grain supply in Bolivia such as figures on production and utilization of grain, stocks of grain, amounts and level of consumption, use of substitutes for wheat, et cetera.

Accept [etc.]

For the Secretary of State:
WILLIAM L. CLAYTON

102.78/6-2546: Airgram

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

CONFIDENTIAL

LA PAZ, June 25, 1946.

[Received July 8, 1946—2: 29 p. m.]

A-202. Reference Department's confidential telegram no. 332 of June 17³⁴ regarding request of Bolivian Ministry of Economy for

³⁴ Not printed.

allocation of 20,000 tons of wheat flour for third and fourth quarters of 1946.

An informal agreement has been reached between the Argentine Government and the Bolivian Ministry of Economy for 60,000 tons of wheat, but no formal written agreement has as yet been signed. The understanding provides that 7,000 tons will be shipped as soon as cars are available and that the 53,000 tons will be shipped from time to time during the balance of a year from date of first shipment. The price for the 7,000 tons is said to be Arg. \$260 per metric tons at elevator or approximately Arg. \$310 c.i.f., La Quiaca, Argentina. The price for the 53,000 tons is Arg. \$350 per metric ton placed at elevator or approximately Arg. \$400 c.i.f., La Quiaca.

It appears probable that the reason for the Government's request for a quota of 20,000 tons of wheat flour for the third and fourth quarters is to have a supply of flour on hand so as to protect against a failure of deliveries on the part of Argentina. It will be recalled that Argentina has on frequent occasions brought pressure upon Bolivia by withholding or slow-motioning the delivery of contracted wheat. In August of 1944 Argentina arbitrarily cut off shipments of wheat for the announced reason that it required all of the rail facilities for Army maneuvers. The United States thereupon diverted 2 shipments of wheat aggregating approximately 18,000 tons in order to relieve the pressure. In the early part of 1945 the railroad service was disrupted by rains and the repairs took a seemingly long time to complete and there was very little service during the months of January, February, and March. Later, Argentina complained that she did not have oil to run her locomotives necessary to bring wheat and other foodstuffs to Bolivia and Bolivia was thereupon required to increase the quota of oil which she had assigned to Argentina. Early this year Argentina brought pressure on Bolivia to get a larger quota of Bolivian rubber for delivery to Argentina and it is reported that the negotiations for the purchase of the 1946 Bolivian wheat requirements were held up pending the out[come] of the request for more rubber. On the basis of information collected by the Embassy covering 1944 wheat shipments from Argentina, it appears that only during 3 months of 1944 were there despatched 5,000 or more tons of wheat, in spite of the fact that during each of these months there had been assigned for despatch 5,000 or more tons, and of such amounts so assigned only 58.24% actually was despatched. It appears unlikely, therefore, that the minimum quantities of wheat required by the Bolivian mills will be received.

824.61311/7-3146

*The Ambassador in Bolivia (Flack) to the Secretary of State*CONFIDENTIAL
No. 67LA PAZ, July 31, 1946.
[Received August 6.]

SIR: I have the honor to report to the Department that the Bolivian Government and the Flour Millers Association are extremely concerned over the wheat supply situation. As the Department is aware, Bolivia normally receives its wheat requirements from the Argentine. For two years, however, it has been extremely difficult for Bolivia to obtain required wheat deliveries from that country for which reason it was impossible to build up adequate stocks. The reasons advanced locally for short shipments were (1) lack of railroad rolling stock and fuel oil in the Argentine, and (2) reported economic pressure against Bolivia.*

Since the overthrow of the Villarroel Government³⁶ on July 21, the Junta Government has received information from its Embassy in Buenos Aires that "Due to transport irregularities and other factors, efforts should be made to assure the supply of wheat and cereals from another source, thus avoiding a scarcity caused by the failure of shipments from Argentina". This report has caused considerable consternation among Bolivian officials because they realize that a shortage of bread might cause serious repercussions. They also realize that in case shipments from the Argentine are not maintained, it might be extremely difficult to obtain essential requirements from other sources.

I am submitting as an enclosure a table prepared on July 30, 1946³⁷ which illustrates the stock position of wheat and flour in Bolivia and the total estimated requirements.

It will be noted that the total supply of flour (including unmilled wheat) is 8,238 metric tons and that the estimated monthly needs are 5,410 metric tons, which indicates that supplies are sufficient for approximately forty-five days.

I respectfully request that the Department give serious attention to the wheat problem of Bolivia. If wheat shipments from the Argentine are not maintained, it may be necessary, within two to three weeks, for me to request the Department's assistance in obtaining an emergency shipment of approximately 10,000 short tons, at the market price.

I have made arrangements to receive periodic reports on the arrival of wheat at La Quiaca on the Bolivian-Argentine border and if the

*See Embassy's secret cable no. 686 of July 22, 1946; Embassy's confidential despatch no. 547 of March 14, 1945. [Footnote in the original; neither document printed.]

³⁶ For documentation on this subject, see pp. 340 ff.

³⁷ Not printed.

situation becomes critical, the Department will be informed promptly by telegram.

JOSEPH FLACK

102.78/8-846 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

WASHINGTON, August 8, 1946—6 p. m.

467. From Agriculture. Your 766, Aug 5.³⁸ We will make every effort to provide from the United States essential requirements of wheat in event Argentina refuses to supply. However, Government should be impressed with desirability of maintaining flow from Argentina and controls on domestic consumption. Allocation of 8,000 long tons wheat flour to Bolivia in Sept now under favorable consideration, and decision expected in 5 days.

ACHESON

102.78/8-1346 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET

LA PAZ, August 13, 1946—5 p. m.

[Received 10:36 p. m.]

799. Deptel 467.³⁹ Note from Foreign Office today requested urgent shipment 30,000 metric tons wheat in view of suspension food shipments from Argentina which threatens population of Bolivia, which normally obtains wheat requirements from that market. We impressed Bolivian Government orally desirability obtaining wheat requirements from Argentina. Since officially informed shipment of wheat from Argentina suspended, strongly recommend as urgent measure that United States Government export permit for 10,000 tons wheat immediate shipment in order to avoid famine. Please cable action enable me notify purchasers to place orders with United States suppliers.

FLACK

102.78/8-1646 : Telegram

The Acting Secretary of State to the Ambassador in Bolivia (Flack)

SECRET

WASHINGTON, August 16, 1946—6 p. m.

US URGENT

482. From Agriculture. Quota established permitting commercial export 8,000 long tons wheat flour equivalent to 10,000 long tons wheat

³⁸ Not printed; in it the Ambassador urgently recommended that the Department obtain the release of 10,000 tons of wheat for Bolivia immediately (824-61311/8-546).

³⁹ *Supra.*

to Bolivia in August and equal amount in September, your 799, Aug 13. Critical internal transport situation is retarding movement of wheat to seaboard and necessitates careful consideration before any shipment wheat can be added to above. Therefore request information relevant following subjects: stocks on hand, indigenous supplies currently available, measures to assure equitable distribution bread grains. Suggest advising Bolivian importers contact American mills promptly.

ACHESON

824.61311/9-646: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, September 6, 1946—noon.

US URGENT

[Received 3:10 p. m.]

876. Minister National Economy ⁴¹ yesterday informed Embassy he would submit request thru FonOff for additional 18,000 tons wheat flour, 30,000 tons wheat, delivery at rate of 8,000 tons monthly beginning October. He expressed concern over impending food shortage which he attributes directly to non-arrivals from Argentina.⁴² Supplies of beef vegetable oils and dairy products considered dangerously low, all of which normally obtained from Argentina. YPFB oil camps facing food crisis due same cause and have requested Embassy assistance obtain shipment approximately 645 tons miscellaneous foodstuffs.

Newspaper reports deny existence Argentine embargo but Embassy believes Argentine pressure being exerted for political purposes (possibly related to pending political asylum matter). Further Peruvian Ambassador ⁴³ told me last night that negotiations with his country regarding supplying sugar and petroleum interrupted until asylum matter ⁴⁴ settled. Bolivian FonOff asked Galbraith ⁴⁵ orally yesterday that flour and wheat shipments from United States be urgently expedited. Subsecretary ⁴⁶ also stated orally he had complained to Argentine Chargé ⁴⁷ yesterday afternoon about non-arrival foodstuffs from Argentina for past 33 days regardless of statements of Argentine high officials. Chargé expressed personal sympathy and said he would inform his Government. Subsecretary also told Chargé FonOff con-

⁴¹ Eduardo Saenz García.

⁴² Telegram 887, September 9, 11 a. m., from La Paz, reported that Argentine foods were beginning to enter Bolivia (824.61311/9-946).

⁴³ Eduardo Garland Roel.

⁴⁴ For documentation on the revolution in Bolivia, see pp. 340 ff.

⁴⁵ Willard Galbraith, First Secretary of Embassy.

⁴⁶ Julio Alvarado.

⁴⁷ Carlos Torres Gigena.

templating public statement of food situation caused by Argentine failure to permit exports if no food arrives by September 9.

Repeated Buenos Aires.

FLACK

824.5018/9-1946 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, September 19, 1946—6 p. m.

[Received 10:22 p. m.]

922. Reur 540, September 18. Railway Manager handling all freight from Argentina informs Embassy wheat arrivals from Argentina past 4 weeks total 40 metric tons. Note from Bolivian Foreign Office September 9 states "the situation has not experienced any favorable change with respect supply wheat from usual sources".

Remytel 876, September 6. Subsequent Foreign Office note September 14 solicits 20,000 metric tons wheat and 18,000 metric tons flour which supplants previous request 30,000 tons wheat.⁴⁸

Embassy recommends favorable consideration monthly shipment schedule 8,000 tons. Minister National Economy states orally sugar situation adequately covered purchase contracts Cuba, Peru. Sugar importers state visible supply sufficient one year requirements.

FLACK

824.5018/10-1446

The Ambassador in Bolivia (Flack) to the Secretary of State

[Extracts]

RESTRICTED

LA PAZ, October 14, 1946.

No. 421

[Received October 23.]

Subject: Food shipments from Argentina—New Argentine Chargé arrives

SIR: I have the honor to report that on September 26, 1946 the Argentine Chargé d'Affaires, Señor Carlos Torres Gigena, gave an interview to *El Diario* on the above-mentioned subject.

In this interview, Sr. Torres Gigena said that the situation was becoming more normal every day and that in this manner the keen desires of President Perón and of the Foreign Minister of Argentina⁴⁹ were being crystalized. He went on to say that he hoped that the traffic

⁴⁸ In telegram 561, October 3, 1946, 7 p. m., to La Paz, the Acting Secretary notified the Ambassador that an allocation was made to Bolivia of 8,000 tons of wheat and 9,000 tons of flour for the fourth quarter (824.61311/10-346).

⁴⁹ Juan Atilio Bramuglia.

would normalize itself very soon, but that the real problem reduced itself to a lack of freight cars and added that the same situation was true in Argentina where the lack of freight cars was likewise a problem.

On another occasion, the Argentine Chargé d'Affaires stated to the press that shipments to Bolivia had been curtailed shortly after the Revolution of July 21 due to the rumors which had been circulated at that time of uprisings by miners and Indians in Bolivia, and that the Argentine proprietors had been averse to sending in their rolling stock at that time in the face of such rumors, which had actually been current in La Paz for many days after July 21. It must be admitted that the currency of these rumors and the apprehension of the people of La Paz about such uprisings were indeed a fact at the time.

Thus far the Bolivian Government has not been in a position to furnish this Embassy with figures of imports from Argentina subsequent to the July Revolution, but there is little doubt that the volume dropped off sharply for a time. It now appears, according to general information, to be reviving although it is understood that little or no wheat is moving as yet.

Respectfully yours,

JOSEPH FLACK

624.3531/12-1946: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET
US URGENT

LA PAZ, December 19, 1946—7 p. m.
[Received December 20—1:46 a. m.]

1141. At the request of the Junta President⁵⁰ the Sub-Secretary of Foreign Affairs asked me to call today to discuss Bolivian-Argentine situation. The Sub-Secretary said that the Argentine Ambassador⁵¹ here had told him that Argentina wishes an overall trade treaty with Bolivia and a customs union. Sub-Secretary added that the Bolivian Ambassador in Buenos Aires⁵² has advised that Argentina wishes Bolivia to send a commission immediately with powers to conclude such a treaty and that in the absence of a treaty the Ambassador is convinced that no exportation to Bolivia will be permitted after January first when Argentine 5-year plan goes into effect, the Ambassador having been informed that all Argentine rolling stock will be needed to implement that plan. Ambassador said contemplated treaty would involve an actual clearing.

Regardless of desirability of signing a trade treaty with Argentina Bolivia does not wish to send a commission now as it feels such a

⁵⁰ Tomás Monje Gutiérrez.

⁵¹ Mariano Buitrago Carrillo.

⁵² David Alvestegui.

treaty should be the responsibility of the permanent government which is to result from elections to be held January 5. On the other hand Argentine quotas for 1947 are to be allotted during the month between December 15 and January 15 and Bolivian Ambassador Buenos Aires reports that no quotas are to be expected should Bolivia fail to send commission.

Sub-Secretary requested me to determine whether United States Government would supply Bolivia with essential foodstuffs for half of 1947 requirements which would enable Bolivia to negotiate with Argentina other than under the present pressure which is being exerted. The foodstuffs needed and their amounts in tons are the following: wheat 30,000, hog fat 1,500, edible oils 400 and white sugar 2,500.

As Argentina evidently taking advantage of very difficult period through which Bolivia is passing our help at this time would be real contribution to independent Bolivian reconstruction and I recommend most strongly that Department endeavor meet Bolivian needs.

In view pressing time element Department's immediate attention and reply as soon as possible most desirable.⁵³

Repeated Buenos Aires.

FLACK

⁵³ In a memorandum of December 27, 1946, the Ambassador indicated to the Foreign Minister that 8,476 tons of wheat were on the way from the United States and that another shipment might be available at the end of March (824.5018/1-247).

BRAZIL

THE DISPOSAL OF MILITARY BASES AND SURPLUS EQUIPMENT TO BRAZIL¹

832.24/1-446

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL
No. 3916

RIO DE JANEIRO, January 4, 1946.
[Received January 14.]

SIR: I have the honor to report that Colonel Thomas D. Ferguson, Air Corps, now in command of Air Transport Command activities in Brazil and the liquidation of surplus property left over from the operations of the United States Armed Forces South Atlantic, has been instructed by the War Department to turn over to the Foreign Liquidation Commission² at Rio de Janeiro the installations listed below:

| <i>Installation</i> | <i>Location</i> |
|--------------------------------------|--------------------------|
| (Station No. USAFSA-15-Piedade Area) | |
| 200th Station Hospital | Recife, Brazil |
| USAFSA Headquarters Building | Recife, Brazil |
| Condor Warehouse | Recife, Brazil (in city) |
| Engineer Area | Recife, Brazil |
| Tent City Area | Recife, Brazil |
| (Station No. USAFSA-10) | |
| Mucuripe Housing Area | Fortaleza, Ceará |

The general question of disposal of surplus Army property in northern Brazil was the subject of discussion at a meeting held in the Embassy on January 3, 1946, attended by the following:

Mr. Paul C. Daniels, Chargé d'Affaires ad interim

Colonel Thomas D. Ferguson

Mr. Philip C. Kidd, Field Commissioner for Latin America

General Byron E. Gates, U.S. member (Air), Joint Brazil-US Military Commission

Other officers attached to the Foreign Liquidation Commission and the Joint Brazil-US Military Commission.

¹ For documentation on defense problems in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 623-650.

² An office transferred to the Department of State under Executive Order 9630, of September 27, 1945.

It was brought out that the installations in question could not be considered as falling within the scope of the Air Base Agreement of 1944,³ but rather were facilities which the War Department had declared excess to its needs and therefore available for immediate disposal without reference to that Agreement. This being the case, they are being turned over to the Foreign Liquidation Commission for disposal. Mr. Kidd pointed out that the existing procedure for disposing of these installations seemed to require him to offer them for sale with a view to getting a fair price for them, unless there were some agreement between the Governments of Brazil and the United States providing for some other procedure.

General Gates and Colonel Ferguson pointed out that these buildings were erected on Brazilian soil and that in some cases they were already being used by Brazilian official agencies; that the Brazilians might claim that as a matter of law the buildings went with the land and that the Brazilian Government probably did not expect to pay for them after their evacuation by U.S. Armed Forces; that many buildings had been erected in Brazil after the enactment of a Brazilian law providing that such buildings would remain the property of the Brazilian Government; and that in general any attempt to offer them for sale now might be poorly received by the Brazilians.

Mr. Kidd asked if there were any agreement between the two Governments which would provide for turning over these buildings to the Brazilian Government without offering them for sale. None present knew of any written agreement covering this point specifically, but the view was expressed that perhaps there were oral understandings at the time of construction of these facilities which might be considered an agreement, whether or not reduced to terms of writing and formalized.

It is the Embassy's opinion that, all things considered, it would be more in the national interest to turn over these installations to the Government of Brazil as a gracious gesture following the withdrawal of our troops, rather than attempt to sell them for as much money as we can get. Any small proceeds which might be realized from their sale would probably be more than offset by the resulting ill-will engendered, plus the danger of complicating still further the pending arrangements for handling the far greater number of installations covered by the Air Base Agreement.

In view of the foregoing considerations, I have requested Mr. Kidd to refrain from offering these installations for sale pending clarification of this point, notwithstanding the admitted urgency of proceeding

³ Signed June 14, 1944; for documentation regarding the Agreement, see *Foreign Relations, 1944*, vol. VII, pp. 543 ff.

with the disposal rapidly. A copy of my memorandum to Mr. Kidd of today's date is enclosed.⁴

It is recommended that the Department consult with the War and Navy Departments in regard to the question of selling or turning over fixed installations of this character no longer needed by our Armed Forces, and inform the Embassy as to whether there exists an agreement with Brazil providing for the turnover of these installations.

The foregoing relates only to buildings and fixed installations. It is understood that supplies and movable property will be offered for sale in the manner prescribed by existing legislation and the regulations of the Foreign Liquidation Commission.

It should be added that Mr. Kidd told me that he opposed my sending this despatch on the grounds that it was (a) premature and (b) out of channels.

Respectfully yours,

PAUL C. DANIELS

811.24532/1-746

Memorandum by the Chief of the Division of Brazilian Affairs (Chalmers) to the Director of the Office of American Republic Affairs (Briggs)

[WASHINGTON,] January 7, 1946.

I have discussed with Ambassador Berle⁵ the article in the *New York Times* of January 5 concerning the growing coolness to United States "occupation".

This is an objectively written article which states a fact which has been becoming increasingly obvious over the past month or so. While the riots in São Paulo were motivated by special factions, they must be considered as related to the general problem. Furthermore, some time ago the Consul at Recife⁶ reported that there was a growing coolness between United States forces in that city and the local police. There have also been some comments transmitted verbally by Brazilians or Americans who have recently been in Brazil.

In the discussion with Ambassador Berle it was decided that the Department should take steps intended to reduce Army and Navy personnel in Brazil as much as possible to the numbers required for (a) maintaining ATC operations; (b) carrying out our commitments under the Joint Brazil-United States Defense Commission (training missions and so forth); and (c) limited Military and Naval Attaché staffs.

⁴ Not printed.

⁵ Adolf A. Berle, Ambassador to Brazil, temporarily in Washington.

⁶ Donald W. Lamm.

Discussion was had of the very large Naval Operating Base at Rio. The Ambassador feels that this base could be closed up or greatly reduced with little loss to essential operations. The Navy Department, however, has indicated informally that it does not wish to be rushed in this matter, although it proposes eventually to close the base. We may find this a rather sticky thing to handle.

It would be my suggestion that the problem be held in abeyance, if possible, until the Ambassador's return to Rio, at which time discussions can be had with Military and Naval Attachés and other military or naval authorities on the spot.⁷ On the basis of such discussions the Embassy could make concrete recommendations which would strengthen our hand with both the War and Navy Departments. We would also be better prepared with a factual basis to substantiate a request for action along these lines.

PHILIP O. CHALMERS

832.24/1-446

*Memorandum by the Ambassador to Brazil (Berle)*⁸

[WASHINGTON,] January 24, 1946.

The officers of FLC have raised the question of the right of War and Navy Departments to declare as surplus the installations in or near the air bases of Brazil, as well as other installations there. When these are declared surplus, FLC proposes, through Colonel Kidd, to put them up for sale at public auction.

The immediate question is raised concerning a hospital near the Recife base, and one or two small warehouses. But the claim of FLC goes to all of the installations in Brazil.

Two problems are raised: (1) Who can decide whether these installations can be declared surplus, and whether they can be freely disposed of; and (2) are they in fact available for free disposal?

(1) Jurisdiction to decide. It is obvious that FLC considers that it and its lawyers have a statutory duty and a statutory right to determine these questions.

In the absence of any other element, I presume that they are right, namely, that a pure question of law arises as to whether any given installation is property of the United States Government, which, on being declared surplus, can be sold by it.

But when there are outstanding agreements between the United States Government and any other government—in this case Brazil—

⁷ A marginal note at this point reads: "O.K.—but I think we must move ahead promptly. B[riggs]"

⁸ Addressed to the Secretary of State and the Assistant Secretary of State (Clayton).

no matter by whom made, it seems to me that the determination must rest with the Secretary of State or, if need be, with the President. Where the agreements were made as between officers of the United States Army and officers of the army of the country in which installations were to be put up, the agreement, though military, was an arrangement diplomatic in character between governments, and binding on both. Interpretation and maintenance of these agreements is a matter of foreign affairs. The ultimate decision as to the existence of such agreements, and their construction, rests with the Department of State.

We are today advised that the Foreign Liquidation officers feel that matters of this kind should reach them through the office of the Secretary of War. I am unable to see that the Secretary of War has anything to do with it except, of course, as an adviser on military policy, or except as his views may be valuable in cases of agreements made by him. He does not have responsibility for carrying on the foreign affairs of the United States. The theory that the Foreign Liquidation legal staff and the persons delegated at second, third or fourth hand under the Act somehow acquire jurisdiction over foreign agreements seems to me fantastic.

(2) As to Brazil, I am very clear that the installations built on Brazilian Government property in connection with the air bases are not available for declaration as surplus or for free disposition. I doubt if they are in any sense property of the United States Government; but if they are, I am very clear that the United States, for good and solid consideration, has agreed as to the method and type of disposition of this property by valid agreement existing between the Government of Brazil and the Government of the United States.

(a) Under Brazilian law, as under the law of the United States, buildings affixed to real property become and are a part of the real property. To some extent, movable property can be taken away, though the Brazilian law is more severe in that regard than that of the United States. But both there and here, a building, once affixed to the land, is real estate, and title is vested in the owner of the real estate. There is no question that the installations of and appurtenant to the air bases were built on land owned by the Brazilian Government, taken by eminent domain for that purpose. The Brazilians have steadily considered, and we have never as yet questioned the proposition, that these installations were to revert to them at the close of the arrangements, as a part of the Brazilian real estate. Foreign Liquidation frequently brings up the precedent of Iran. I do not know the Iranian law, and it appears that the settlement they made in respect of installations there was a negotiated one. I do not see, however, that any situation in one country can be a precedent for another, except

where the law is the same and the overriding agreements are the same. Still less does it seem to me that the unilateral determination of the Foreign Liquidation people can have any binding effect. If the other government challenges, we have only two recourses: To submit the problem to the courts of the country, or to try to work it out diplomatically.

(b) But assuming for the sake of argument that the buildings and installations (other than those readily movable) are separable from the real estate, we are bound by the pre-existing agreements with Brazil.

Many of these agreements have been kept secret at the request of the Army, but their continued secrecy seems not of very great importance.

The arrangements made between President Vargas⁹ and General Olds¹⁰ were made in a direct conversation of which there is no documentary evidence. This arrangement was in substance that the United States Army should agree with the Regional Commanders as to the space they needed; the Commanders should take these areas by eminent domain and should turn them over to the American authorities for equipment and erection of installations. We agreed at that time that in no case should the title or sovereignty of Brazil be questioned. The understanding was that at the close of the war we had no further interest in them, and they were to come back to Brazil. This agreement plainly covered installations as well as real property.

Following up this original oral agreement, the United States Government elected to go forward through the so-called ADP program, using for that purpose the Panair Construction Company and the Panair do Brasil. In combination with the American officers, the Panair officers and the Brazilian military authorities, the decree was eventually prepared and signed by the President of Brazil. This decree likewise provided that the Panair people should, at the close of military use, turn over these properties and the installations thereon to the Government of Brazil, which in turn, on stated terms, was to lease these fields to Panair do Brasil for a period of twenty years. The language of the decree specifically includes installations.

By subsequent arrangement between the United States War Department and Pan American Airways, it was agreed that, although of record the rights to these fields run to Panair do Brasil (a Pan American Airways subsidiary), these rights were virtually rights held in trust for the United States, and that an impartial board at that time might determine their handling.

⁹ Getulio Vargas, former President of Brazil.

¹⁰ Gen. Robert Olds, Commanding General, Air Corps, Ferrying Command.

In substance, therefore, in consideration for the turn-over of the installations on land which already belongs to Brazil, the United States has a beneficial interest in a twenty-year lease of these facilities for civil aviation purposes.

(c) Thereafter, in 1944, the United States negotiated a further arrangement with Brazil known as the Strategic Base Agreement.¹¹ This contemplated the setting up of a joint Brazilian-United States Technical Commission to maintain those bases which might be selected for the permanent defense of both countries and of the Hemisphere; and, in terms, contemplated the maintenance of the bases even for a period of ten years after the close of the then current war. This agreement was signed by Ambassador Caffery and by Foreign Minister Aranha, after approval by President Vargas. A reading of this makes it perfectly clear that the agreement was in contemplation of a turn-over to Brazilian authority of completed bases, including installations, since, indeed, it was precisely for the maintenance of these installations that the agreement was signed. This carried forward precisely the oral understanding between General Olds and President Vargas, and complemented, on the military side, the civil arrangements embodied in Decree-Law 3462.

(3) The entire course of dealing between the Brazilian Government and the Brazilian Foreign Office, the American Government and the American Embassy, and the Brazilian Army and Air authorities and our own Army and Air authorities not only is consistent with this general idea, but was carried out, without exception, on this theory of the oral agreement and the subsequent written agreements.

To change this position now would lead at once to a main-line charge of bad faith by everybody concerned—a charge in which, in my own handling of a good many phases of this transaction, I believe the Brazilians would be right.

I conclude, accordingly, that even if there is a legal right in the United States Army to these installations (which I do not believe exists), such rights have already been dealt with and disposed of by the United States Government.

This is in no sense a gift or free present to the Brazilian Government. We got valuable considerations for these rights, perhaps unparalleled in any other similar negotiation:

- (1) The wartime use of the bases;
- (2) An agreement for twenty-year lease of the bases for civil aviation purposes; and
- (3) An arrangement for joint military use of these bases for a period of ten years following the close of the World War.

¹¹ For text, see *Foreign Relations, 1944*, vol. VII, p. 561.

These were valuable rights and, in my judgment, quite adequate consideration.

It seems to me that before any action is taken in this matter, the Secretary of State can and should rule that these installations, except as they may be shown not to have been made under these arrangements, are not available for disposition by the Foreign Liquidation Commission.

P. S. I should like to add that I should not hesitate to appear before the Mead Committee ¹² at any reasonable time and support to the hilt the views I have expressed herein.

(The foregoing memorandum was dictated by Ambassador Berle, but owing to sickness he did not return for initial. He has, however, authorized its distribution.)

811.24532/2-446: Telegram

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

SECRET

RIO DE JANEIRO, February 4, 1946—6 p. m.
[Received February 5—6: 58 a. m.]

245. In taking advantage of call on Brazilian Under Secretary ¹³ I raised two problems today which have previously been subject of negotiation with Foreign Office.

First was question of air base maintenance agreement. I said that we were now down to low strength and could not reduce much lower without impairing services of the bases. ATC remained there at request of Brazilian Govt so that the bases could be maintained until Brazilian forces were ready to take over. It seemed to me that first step to take now was to constitute the mixed Brazilian-American air base maintenance commission, and set them to drawing detailed plans and schedules.

I added that the military men in discussing it had raised question of "command", which seemed to me apart from the real spirit of the agreement. Obviously command, except in time of emergency, would have to rest with the competent Brazilian authorities; the problem was the technical and strategic use of these bases which the command would presumably follow out. In any event that question was one which could be worked out through air base maintenance commission.

I added that the agreement was nominally secret, though by now pretty much everyone knew about it; we saw no reason for not publishing it and hoped they did not.

¹² Senate Special Committee Investigating the National Defense Program.

¹³ Samuel de Souza-Leão Gracie.

I rather expect we will get a prompt answer on this.

I likewise said that, though it is not involved in the air base agreement as such, collaterally we ought to work out the civil aviation agreements for use of these fields. They were the principal highway between Brazil and US and, indeed, between Rio and Europe from Natal southward.

BERLE

811.24532/1-3046 : Telegram

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

CONFIDENTIAL

WASHINGTON, February 4, 1946—7 p. m.

176. Urtel 207 Jan 30.¹⁵ Dept is actively pursuing subject of air base installations. Commitment to turn installations over to Brazilian Govt now admitted by FLC as well as War Dept but channels and mechanics still to be worked out. Instructions will be sent as soon as possible. Temporary delivery of custody suggested urtel undesirable.

BYRNES

832.24/1-446

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

SECRET

WASHINGTON, February 7, 1946.

No. 7822

SIR: Reference is made to the Embassy's secret despatch number 3905 of January 4, 1946¹⁵ concerning the transfer to Brazil of military equipment under the terms of the Surplus Property Act.¹⁶

The Department has recently given its approval to the War Department program for the allocation to Brazil of complete military equipment for one division and of the following aircraft, with spare parts: 64 B-25, 25 P-47, 46 C-47, and 35 C-45, AT-11 or AT-7, depending on the relative supply situation of these types of planes.¹⁷ As soon as final arrangements have been made, this equipment will be sold to Brazil under the terms of the Surplus Property Act by the Foreign Liquidation Commission acting as a disposal agency. Present procedure calls for negotiation in Washington by representatives of the Brazilian Embassy with the Foreign Liquidation Commission. Al-

¹⁵ Not printed.

¹⁶ Approved October 3, 1944; 58 Stat. 765.

¹⁷ The Chargé was informed in telegram 364, March 14, 9 p. m., of the availability of these items. The B-25 planes were old line bombers, the P-47 was a dive bomber, the C-47 and 45 were transport types, and the AT-11 and 7 were light transport planes.

though the prices of the aforementioned equipment have not as yet been finally determined, they will be low on all military material for which there is no commercial market.

This equipment is being made available as a measure in support of the principle of standardization which was discussed in exploratory staff conversations. For the information of the Embassy, the Department intends to reexamine with the War Department the policies of the program of military collaboration before making any decision as to the amount and character of additional equipment to be made available. It is believed that the military material for the equipping of one division, and the aircraft referred to above, should satisfy present Brazilian desires and enable the Joint Commission to continue its activities successfully.

As a result of the conversations you had while in Washington on the subject of military collaborations, it is believed you understand that the Department recognizes the special obligation which this Government has toward Brazil in the premises.

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

811.34532/2-246

The Secretary of State to the Secretary of the Navy (Forrestal)

WASHINGTON, February 9, 1946.

MY DEAR MR. SECRETARY: Some time ago our Ambassador at Rio de Janeiro, Mr. Berle, took up with this Department the question of the Naval Operating Base in that city, and suggested that if the current strength of the Base was no longer necessary, as seemed likely, it would be reassuring to Brazil if the personnel were reduced to the minimum required for carrying on essential operations.

Officials of your Department, when approached in the matter, stated that the Naval Operating Base was being maintained at its current level primarily because of surplus property disposal problems, and added that the Base was also active in the Naval Air Transport Service and in the routing of shipping still under the Maritime Commission. It was further stated that it was the intention of the Navy Department to close the Naval Operating Base completely as soon as conditions permitted, but no estimate was given of the approximate time when this could take place.

I am now in receipt of a telegram from Ambassador Berle in which he states that Admiral Greer,¹⁸ while in Rio de Janeiro for the inauguration of President Dutra, looked into the situation of the Naval

¹⁸ Rear Adm. Marshall R. Greer, Pan American Division, Navy Department.

Operating Base and was kind enough to discuss his conclusions with the Embassy. Admiral Greer is understood to be reporting directly to the Navy Department, but his views, with which the Ambassador is in full accord, are believed to be as follows:

First: The Naval Operating Base is an anomaly in time of peace; it continues to exist chiefly because there is no other unit to which it could turn over some items of property and equipment in its possession.

Secondly: The Base's functions could and should be transferred in part to the Senior Naval Member of the Joint Brazilian-United States Commission on his arrival about March 1, and in part to a unit which could be set up at any time in the Naval Attaché's Office.

Thirdly: Announcement should be made as soon as reasonably possible that the Navy intended to close the Base at a stated future date, at which time all matters not disposed of to the Brazilian Government would be distributed as indicated above; the fixing of a definite date would considerably speed up the process of liquidation of current business.

It is believed that if this program were carried out existing commitments could be handled by about one-fourth of the present strength of the Naval Operating Base, when properly distributed to the Office of the Naval Attaché and the Senior Naval Member of the Commission.

I attach great importance to the reduction of our armed forces in Brazil as rapidly as conditions permit, it being understood, of course, that we should not sacrifice any legitimate interest of ours by so doing. The continued presence in Brazil of forces not seriously needed will inevitably lead to misunderstanding and will be exploited by those elements who are only too ready to accuse the United States of designs "to occupy Brazil indefinitely." For this reason, the early announcement of our intention to terminate the Naval Operating Base at Rio de Janeiro on a fixed future date would have a wholesome effect on our general relations with Brazil.¹⁹

Sincerely yours,

JAMES F. BYRNES

811.24532/2-2746 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, February 27, 1946—6 p. m.

[Received February 27—4: 33 p. m.]

421. South Atlantic Wing Air Transport Command and Rio office Foreign Liquidation Commissioner have reached following agreement

¹⁹ In telegram 268, February 25, 1946, 6 p. m., to Rio de Janeiro, the Secretary of State indicated the impossibility of decommissioning this base by April 1, and the expectation that this would be effected by the end of the month (811.34532/2-2046). On March 22 the Navy Department ordered the disestablishment of the base on April 25, according to telegram 421, March 26, 1946, 8 p. m., to Rio de Janeiro (811.34532/3-2646).

with approval of Embassy and General Gates of Joint Brazilian-US Military Commission:

1. ATC will not declare surplus (a) any fixed installations (b) plumbing, lighting or other fixtures in fixed installations or (c) any movable property considered essential to operate strategic air bases within meaning air base agreement.

2. All property which ATC does declare surplus can be freely sold by Foreign Liquidation Commissioner to Brazilian Govt or other purchasers.

Above arrangement based on understanding here that War Dept will agree to direct transfers of fixed installations and strategic movable property by War Dept without participation Foreign Liquidation Commissioner. Please confirm that this understanding is correct. FLC justifiably anxious to avoid last minute surplus declarations (as in case of Salinas) followed by immediate transfer to Brazilian Govt, thus placing responsibility on Commission without affording it adequate opportunity to assemble necessary documentary records and form judgment on advisability of transfer.

Meanwhile naval operating base Rio has declared direction finder station at Belem and is in process of declaring second station at Bahia upon basis instructions received from Chief Naval Operations Washington. FLC has returned this surplus declaration to Navy for [apparent omission]. However all concerned here feel that these naval stations should not be declared surplus but should be handled on same basis as army fixed installations with letter from Secretary State to Navy authorizing Navy to make direct transfer. If Dept agrees we assume necessary action will be taken Washington.²⁰

DANIELS

811.24532/3-146 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, March 1, 1946—7 p. m.

[Received 7:52 p. m.]

435. Reference Dept's telegram 2295, September 21, 7 p. m.,²¹ regarding activation of strategic air base agreement with Brazil. Embassy submits following recommendations for immediate action here and would appreciate receiving promptly Dept's authorization to proceed along these lines:

²⁰ In telegram 297, March 1, 1946, 8 p. m., the Department advised the Chargé that representatives of the War and State Departments and of the Foreign Liquidation Commissioner had reached an agreement substantially along the lines indicated above (811.24532/2-2746).

²¹ *Foreign Relations*, 1945, vol. ix, p. 633.

(1) To reach agreement with Brazilian Govt that Joint Brazilian US Military Commission can be considered agency to carry out terms of strategic Air Base Agreement of 1944 acting as the "Technical Commission for the Conservation of Airports" provided for in that agreement.

(2) To supplement the personnel of the Joint Military Commission with such technical personnel as may become necessary, civilian or military, to enable the Commission to do the job. Such personnel could be drawn from ATC personnel or from civil aviation agencies both in the US and Brazil. US civil representative could be designated to act in interests of civil aviation as adviser to Military Commission.

(3) During turnover from ATC operations to operations under the supervision of Joint Military Commission there will be no interruption of services, operations or arrangements, withdrawal of ATC personnel where necessary being synchronized with their replacements. Air Base Agreement of 1944 to be maintained fully in force without modification, maintaining all rights and obligations as already agreed. No new negotiations to be initiated which might invalidate 1944 agreement, merely instructions from competent Brazilian and American authorities authorizing Joint Military Commission to assume functions of Technical Commission as provided in 1944 agreement.

(4) Simultaneously but separately negotiations to be pursued for conclusion bilateral civil aviation agreement providing for air routes, etc. (see Embassy's despatch 4346 of February 28, 1946²²).

(5) Foreign Office to be kept currently informed of developments and consulted regarding probable desirability of exchange of notes establishing agreement of both Govts that Joint Military Commission is authorized to serve as Technical Commission provided for in 1944 agreement.

Embassy believes foregoing procedure would be more acceptable to Brazilian Govt than creation of new and separate technical commission as provided in 1944 agreement. Minister of Air Trompowsky is reported to have specifically expressed his preference for this recommended procedure. If this procedure is followed there would seem to be no reason to anticipate any delay in promptly activating and implementing 1944 base agreement, but before pushing matter at this end Dept's instructions are desired.

Foregoing has been read by General Nugent, Military Attaché, and by US members of Joint Military Commission, who concur.²³

DANIELS

²² Not printed.

²³ In reply the Department in telegram 317, March 7, 1946, 2 p. m., authorized the Chargé to proceed along lines detailed above, with the exception of a bi-lateral civil aviation agreement. He was also instructed to ascertain whether the Brazilian Government would agree to the disclosure of the existence of the strategic bases agreement. (811.24532/3-146)

811.24532/2-2146 : Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, March 1, 1946—9 p. m.

303. War Dept has requested State to undertake at an early date further negotiations with Braz authorities with a view to establishing the Joint Technical Commission provided for in Strategic Base Agreement, or some other agency mutually agreeable to both Govts, so that plans may be prepared and submitted to respective Govts for approval pertaining to details of joint operation and use of these bases in accordance with terms of Agreement.

For your confidential information, it is essential that War Dept, because of current demobilization of Army and limitations expected on availability of public funds, reduce its personnel in Brazil to a minimum and curtail its expenditure of funds for maintenance and operation of these bases at earliest possible date.

Dept is thoroughly in accord with these objectives and you are instructed, if you perceive no objection, to approach Brazilian Govt immediately with a view to implementing Strategic Base Agreement through prompt establishment of Joint Technical Commission.

BYRNES

811.24532/3-2846

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, March 28, 1946.

No. 4637

[Received April 9.]

SIR: I have the honor to refer to the Department's telegrams No. 317 of March 7, 3 p. m., and No. 412 of March 22, 8 p. m., and to the last paragraph of the Embassy's telegram No. 578 of March 27, 12 noon,²⁴ regarding the possibility of disclosing the secret strategic air bases agreement of June 1944. The Embassy reported the desire of the Brazilian authorities, in which the senior American military and naval personnel in Rio de Janeiro concur, that no publicity be given this agreement for the time being.

From the very outset the high Brazilian officials concerned with the negotiation of the strategic air bases agreement or having cognizance of it have considered it of a highly secret character, having in mind that it has provoked a considerable degree of controversy in Brazilian official circles and at any time might be used to create embarrassment for the Government. This being the case, it is my view that it would be unwise to raise the question of publicity with the Brazilian Govern-

²⁴ None printed.

ment at the very time when we are engaged in putting into practical effect the agreement. As reported in the Embassy's telegram referred to above, the outlook at this stage is favorable for an early agreement being reached to the effect that the Air Section of the Joint Brazil-United States Military Commission will be considered as the "Technical Commission for the Conservation of Airports" referred to in the said agreement.²⁵ Once this has been accomplished by formal agreement, such as an exchange of notes with the Foreign Office as is now contemplated, the Air Section can immediately proceed to take the necessary steps for proper maintenance and operation of the bases, both for military and civilian requirements. Once this has been accomplished and matters are proceeding in a more or less routine manner under the terms of the strategic air bases agreement, it will be easier to reconsider the question of publicizing its terms.

The entire matter is a delicate one here in Brazil at the present time because these bases are currently the object of strong attack from Communist quarters (see Embassy's telegram No. 580 of March 27, 4 p. m.; and likewise Embassy's despatch No. 4621 of March 27, 1946 on this subject²⁶). Furthermore, the Brazilian Government is sensitive in regard to the entire subject, as witnessed by the reaction to a Reuters despatch from London dated March 21 reporting a statement by a Soviet radio commentator to the effect that "Great Britain and the United States are rapidly reaching an understanding regarding the proposed acquisition by the United States of permanent bases in Brazil, the Azores, Greenland, Iceland, Saudi Arabia and India."

The publication of this press despatch in the local press of March 21 provoked immediate official reaction. In *O Globo* of March 23 the Minister of Air, Brigadeiro Armando Trompowsky, gave an interview which was featured by large first-page headlines, commenting on the above subject. Minister Trompowsky's interview referred to the Soviet commentator's statements as being nothing less than "misstatement and intrigue". His interview was entirely friendly to the United States, pointing out that Americans have been loyally complying with their commitments, and that in the larger bases it is necessary to maintain technical American personnel pending such time as Brazilians have been trained and prepared for this purpose. A full translation of Minister Trompowsky's interview is enclosed.

On March 25 *O Globo* sought and obtained a similar, though shorter, interview from the Minister of War, General Góes Monteiro. In response to the reporter's question as to whether there was any possibility of proposals being made for negotiations between Brazil and the United States for the ceding ("cessão") of bases in Brazilian

²⁵ In his telegram 603, April 1, 1946, 2 p. m., the Chargé reported that this arrangement was agreeable to the Brazilian Government (811.24532/4-146).

²⁶ Neither printed.

territory, General Góes Monteiro was reported to have stated: "I believe not."

Similarly, *O Globo* of March 26 carried an interview with the Minister of Foreign Affairs, Dr. João Neves da Fontoura. According to this account, the Foreign Minister said that the reports being spread regarding the ceding of Brazilian bases "are absolutely false", adding "there does not exist, up to the moment, any thought in this direction on the part of any one of the United Nations with the Government of Brazil."

A similar editorial was published by *A Manhã* of March 26, 1946, based on the interviews given by the Ministers of War and Air. A translation of this statement is enclosed.²⁷

All of the aforesaid interviews and statements are couched in terms friendly to the United States and openly resentful of the efforts of the Moscow commentator to create misunderstandings with regard to the bases. It is worthy of note, however, that in no case was any mention made by any of the three Cabinet Ministers of the existence of the strategic air bases agreement of 1944 with the United States. The whole tone of the interviews was to stress the gradual withdrawal of the American military personnel so as to turn over in an orderly manner the bases to the Brazilian personnel. Although this procedure is consistent with the policy laid down in the strategic air bases agreement, it is significant that none of the three Ministers saw fit to refer to that agreement. In the circumstances it would seem advisable to avoid pressing the matter of publicizing the agreement with the Brazilian authorities, particularly if they are now prepared to implement the agreement and proceed with its execution. This need not preclude reconsideration of the matter at a future date, at such time as the Brazilian Government may find convenient the publication of the agreement.

Respectfully yours,

PAUL C. DANIELS

811.24532/4-246 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, April 2, 1946—2 p. m.

[Received 4:25 p. m.]

611. Communists in Brazil are stepping up their anti-American propaganda campaign. Other than international issues, main lines of attack on US in Brazilian matters are following:

1. Military occupation Brazilian soil by American troops, specifically with regard to the air bases. The propaganda suggests permanence American "occupation" and ceding of Brazilian bases to US.

²⁷ Not printed.

2. Continuous reference to "colonizing capital" (in which Great Britain is associated) intending to convey the idea that American capital is bleeding Brazil for benefit of capitalists rather than helping development of country.

3. Allegations that US is interested in fomenting war between Brazil and Argentina, such as by development of bases in Rio Grande do Sul for use against Argentina.

4. Blaming US for current bread shortage in Brazil by alleged refusal of US to permit Brazil to ship rubber to Argentina in return for wheat.²⁸

Embassy is alert to desirability of correcting any misapprehensions which might be created in minds Brazilian people by this unfriendly propaganda. At same time it believes matter should be handled with utmost discretion to avoid giving any grounds for belief that US desires repressive measures against Communist Party.

DANIELS

811.24532/4-646 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, April 6, 1946—midnight.

[Received April 6—6:05 p. m.]²⁹

647. Re Deptel 455, April 4, 9 p. m.³⁰ Note dated April 5 sent FonOff yesterday confirming agreement regarding secret Air Bases Agreement and designation of air section of JBUSMC as "Technical Commission for the Conservation of Airports." Embassy confirms Dept's understanding that naval aviation is one of component parts of air section. I have designated Tippett, representative of Civil Aeronautics Admin, to consult with Commission in matters relating to civil aviation. Way now appears clear for prompt implementation 1944 agreement. No publicity desired.

Airmail despatch follows by courier transmitting full texts exchange of notes.

DANIELS

832.34/4-1246 : Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p. m.

486. Approval has been given by Dept to sale from surplus of following small Naval vessels to Brazil. You may notify appropriate

²⁸ For documentation on the wheat-rubber problem, see pp. 111 ff.

²⁹ Receipt time apparently in error.

³⁰ Not printed.

representatives that Navy Dept and FLC will negotiate in Washington details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversations.

- 12 PT—Motor torpedo boat
- 1 AF—Provision store ship
- 1 AGP—Motor torpedo boat tender
- 2 AN—Net laying ship
- 1 ASR—Submarine rescue vessel
- 3 ATR—Rescue tug
- 2 AO—Oiler
- 2 AOG—Oiler, gasoline tender
- 1 AD—Destroyer tender
- 1 AE—Ammunition ship

For your conf info Navy plans similar program of Naval aircraft and Naval equipment.

BYRNES

832.24/4-2046

The Secretary of War (Patterson) to the Secretary of State

WASHINGTON, April 20, 1946.

DEAR MR. SECRETARY: The War Department has placed in the category of surplus the following installations located in Brazil:

USAFA Headquarters and 200th Station Hospital, Recife, Brazil
 Mucuripe Tank Farm, Fortaleza, Brazil
 Mucuripe Housing Area, Fortaleza, Brazil
 Mata Tank Farm, Belem, Brazil
 Natal Dunas Tank Farm, Natal, Brazil ³¹

These installations are located on land included in the Decree Laws of the United States of Brazil.

Disposition is to be made generally in accordance with the provisions of prior agreements rather than by sale by the Foreign Liquidation Commission. It is requested that definite disposition instructions be given for each of the aforementioned facilities.

Information summaries for each of the above listed installations are inclosed herewith.³²

Sincerely yours,

ROBERT P. PATTERSON

³¹ According to War Department Notices of Surplus Declaration, the amount of investment by the United States in these installations was, respectively, \$606,749.00; not known; \$192,539.00; \$331,673.00; not known (832.24/4-2046).

³² None printed.

811.24532/5-946

The Acting Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, May 9, 1946.

No. 8021

The Acting Secretary of State refers to the Department's confidential instruction no. 7919 of March 27³³ with regard to a procedure that had been proposed to the War and Navy Departments for the disposal of military facilities which are subject to prior agreements with other American republics. The Secretary of War gave his approval to the suggested procedure on March 20 and the Secretary of the Navy likewise informed the Department of his assent on March 30. Copies of their replies are attached for the Embassy's information.³⁴

It is the view of the Department that the air base installations constructed in Brazil with United States Government funds come within the scope of the disposal procedure in question. In a letter to the Secretary of War dated April 18, 1946, a copy of which is attached,³³ written in reply to a specific inquiry from the War Department regarding the disposal procedure to be followed in the case of Maceió Land Base, the Department held that title in all of these fixed air base installations was vested in the Brazilian Government from the time of their construction, and transmitted a memorandum reviewing the background of the installations to substantiate this point. The War Department was accordingly requested to turn over the Maceió installations to the Brazilian Government in accordance with arrangements to be made by the Embassy in Rio de Janeiro under the terms of the disposal procedure that had been agreed upon.

Within the very near future the Department expects to send the Embassy specific instructions concerning the relinquishment of Maceió Land Base and of the air base installations in general.

832.24/5-1546

Memorandum by the Acting Secretary of State to President Truman

[WASHINGTON,] May 14, 1946.

The Brazilian lend-lease program was carried out under an agreement³⁵ for the payment to us by Brazil of 35 percent of the cost of the material furnished. When lend-lease deliveries were discontinued on

³³ Not printed.³⁴ Neither printed.³⁵ For text of the agreement, signed March 3, 1942, see *Foreign Relations, 1942*, vol. v, p. 815.

V-J Day, there was in inventory or procurement in this country for Brazil about \$2,000,000 worth of materials, roughly half of which was industrial equipment and half air force and ordnance supplies, including three large coastal defense gun-carriages. The gun-carriages were, and are, uncompleted, and their completion would cost about \$600,000.

The Department of State proposes to offer these materials to Brazil, as a bulk transfer and in their present condition, on the terms of the original agreement, i.e., at 35 percent of cost. I am satisfied that this is a reasonable overall figure and that the offer is consistent with the good relations with respect to military programs now existing between the Governments.

There is good reason to believe that the proposed pipeline transfer and settlement on this basis will be acceptable to Brazil if we can arrange for the subsequent completion of the gun-carriages by the War Department, the entire cost of such completion to be defrayed by Brazil in cash. If such a completion cannot be arranged, I anticipate on the one hand that Brazil would not be willing to pay 35 percent for the uncompleted carriages, and on the other hand that we could not see our way clear to eliminate the gun-carriages from the sale and accept 35 percent for the remainder of the materials which are commercially more saleable.

Your specific approval of the proposed transfer and settlement is requested for two reasons: First, because the transfer might otherwise appear to violate your directive to the Joint Chiefs of Staff of September 5, 1945 concerning the termination of lend-lease deliveries;³⁶ second, because the proposed completion of the gun-carriages by the War Department may most appropriately be accomplished under the Act of June 15, 1940 (H.J. Res. 367, 54 Stat. 396), which authorizes sales of military equipment of this nature to the other American republics only upon Presidential approval.³⁷

DEAN ACHESON

811.24532/6-446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, June 4, 1946—3 p. m.

[Received 3:36 p. m.]

1034. Program for liquidating surplus property on air bases apparently being held up because of failure to reach decision on exact procedure to be followed. Can Dept confirm understanding expressed

³⁶ For text, see *Foreign Relations*, 1945, vol. VII, p. 558.

³⁷ Beneath the signature of the Acting Secretary appears the following notation: "Approved 5/15/46 Harry Truman."

Embstel No. 872 of May 11, 11 p. m.³⁸ which set forth a clear and orderly procedure for prompt action? Embassy recommends procedure set forth in reference telegram and feels urgent need for immediate decision to expedite work of Foreign Liquidation Commission Rio and at same time bring entire air base situation into line with our commitments. Please telegraph.³⁹

DANIELS

832.76/6-446

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, June 4, 1946.

No. 5216

[Received June 13.]

SIR: . . .

It is accordingly recommended that in sending the Embassy the information requested in its despatch No. 5168 of May 27, 1946,⁴⁰ the Department, after consultation with the Chief of Naval Operations, instruct the Embassy whether it wishes the matter discussed with the appropriate Brazilian authorities with a view to reaching an agreement, presumably secret, providing for the continued operation of the Recife naval radio station for a given or indefinite period of time. In the meantime the matter will not be discussed with the Brazilian authorities if it can be gracefully avoided, but in view of the general problems which have arisen in regard to our military, air and naval bases generally, and to avoid confusing issues, an urgent reply is respectfully requested.

It has come to my attention that the Foreign Liquidation Commission has taken an interest in this station, along with the other two naval radio direction finder stations at Bahia and Belém which were the subject of the Embassy's airgram A-512 of May 22, 1946.³⁸ It is strongly recommended that the Foreign Liquidation Commission be instructed to refrain from taking any further interest in the radio station which is the subject of this despatch because of its entirely different category and the delicate nature of the issues involved. It is not contemplated, so far as the Embassy is informed, to declare surplus any of the property or material at the Recife station; and it would, in my judgment, be most unwise to link up that station in

³⁸ Not printed.

³⁹ Department's telegram 756, June 6, 1946, 1 p. m., indicated that the recommended procedure was approved (811.24532/5-1146).

⁴⁰ Not printed; the request was for information on any agreement that concerned the installation or operation of the radio station at Recife (832.76/5-2746).

any sort of negotiations involving the Bahia and Belém stations which could be abandoned (i.e., turned over to Brazil) once the movable material at them has been turned over to the Foreign Liquidation Commission for disposal.

Respectfully yours,

PAUL C. DANIELS

832.24/6-2046

The Brazilian Ambassador (Martins) to the Secretary of State

[Translation]

WASHINGTON, June 20, 1946.

MR. ACTING SECRETARY OF STATE: With reference to Your Excellency's note of May 10, 1946⁴¹ relative to Lend-Lease material and equipment under requisitions placed but not processed as of September 2, 1945, I have the honor to inform your Excellency that the government of Brazil agrees to take over all such material in bulk and at a price of 35% of its cost to the government of the United States.

(2) In respect to the payments to be made, the Brazilian Government wishes that these be charged to the accounts envisaged in the Lend-Lease agreement of March 3, 1942⁴² and payable under the terms and conditions stipulated therein relative to material already handled under authority of the same agreement.

I avail myself [etc.]

CARLOS MARTINS PEREIRA E SOUSA

832.24/6-2846

Agreement Between the United States of America and the United States of Brazil on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States of America

The United States of America and the United States of Brazil in order to provide for the orderly disposition in their mutual interests of the undelivered articles which were in inventory or procurement in the United States of America, prior to September 2, 1945, for the purpose of providing mutual defense aid to the United States of Brazil under the Act of March 11, 1941, as amended,⁴³ agree as follows:

ARTICLE I

All articles and services undertaken to be provided by the United States of America under this Agreement shall be made available under

⁴¹ Not printed.

⁴² For text, see *Foreign Relations*, 1942, vol. v, p. 815.

⁴³ 55 Stat. 31, 745.

the authority and subject to the terms and conditions of the Act of March 11, 1941, as amended, and any acts supplementary thereto.

ARTICLE II

Within such periods as may be authorized by law, the United States of America agrees to transfer to the United States of Brazil and the United States of Brazil agrees to accept those articles which are or will be available to the United States of America for transfer to the United States of Brazil out of articles that were in inventory or procurement in the United States of America prior to September 2, 1945, for the purpose of providing defense aid under the Act of March 11, 1941, to the United States of Brazil, but were not transferred prior to the date of the signature of this Agreement.

ARTICLE III

The United States of Brazil agrees to pay the United States of America for the articles transferred under Article II hereof at a time and in an amount determined as provided in Article III of the Agreement between the United States of America and the United States of Brazil on the subject of defense aid dated March 3, 1942.⁴⁵ It is understood that accessorial charges, inland and ocean freight and other expenses connected with the transportation to the United States of Brazil of the articles transferred will be paid by the United States of Brazil.

ARTICLE IV

Without limitation upon the provisions of Article II hereof, it is agreed that the approximate value and the general categories of the articles to be transferred hereunder are as follows:

| | |
|----------------------|-------------|
| Industrial equipment | \$1,014,000 |
| Air Forces equipment | 137,000 |
| Ordnance equipment | 898,000 |

ARTICLE V

It is agreed that the articles transferred to the United States of Brazil under this Agreement shall not be retransferred to the Government of any third country without the consent of the President of the United States of America.

ARTICLE VI

It is agreed that transfers under this Agreement and articles so transferred are further subject to the provisions of Article VII of the Agreement between the United States of America and the United States of Brazil dated March 3, 1942.

⁴⁵ *Foreign Relations*, 1942, vol. v, p. 815.

ARTICLE VII

The provisions of this Agreement shall not apply to articles covered by requisitions calling for full cash payment by the United States of Brazil or to articles requisitioned under Brazilian Project Number 4 for the airplane engine factory at Xerem.

ARTICLE VIII

This Agreement does not constitute a final settlement of the terms and conditions upon which the United States of Brazil has received aid under the Act of March 11, 1941, except for the articles made available under the provisions hereof.

ARTICLE IX

It is understood that the articles comprising the category "Ordnance equipment" referred to in Article IV hereof are incomplete and that their completion is not contemplated under the terms of Article II hereof; nevertheless the United States of America agrees to undertake the completion of the said articles at the option and expense of the United States of Brazil.

ARTICLE X

This Agreement shall take effect as from this day's date.

DONE in duplicate, at Washington, this 28th day of June, 1946.

For the United States of America

CHESTER T. LANE,

Deputy Foreign Liquidation Commissioner

Department of State

For the United States of Brazil

COLONEL JOÃO VALDETARO,

Chief of the Brazilian Military Commission

COMMANDER HEITOR BAPTISTA COELHO,

Chief of the Brazilian Naval Commission

LIEUTENANT COLONEL JOSE VICENTE DE FARIA LIMA,

Chief of the Brazilian Aeronautical Commission

832.76/6-2846 : Telegram

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

TOP SECRET

RIO DE JANEIRO, June 28, 1946—7 p. m.

[Received June 29—6:05 a. m.]

1183. Deptel 847, June 24, 1 p. m.⁴⁶ Yesterday I spoke to President Dutra with reference to necessity US Navy retaining radio direction finder station Recife. I told President equipment was modern newest

⁴⁶ Not printed.

type radio on which we could not train Brazilian personnel and that as US Govt felt this station of mutual benefit to Brazil and US would appreciate his handling it personally rather than referring it to Foreign Office, Navy or military personnel.

President stated that he would be very glad to cooperate with US Govt in this matter and would not take into his confidence anyone but would handle this matter personally.

Re Embassy's secret despatch 5216, June 4, 1946, no answer required in light of foregoing.

PAWLEY

832.76/6-446: Telegrams

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, June 28, 1946—8 p. m.

885. Emb. desp. 5216 June 4. It was Depts understanding Navy had requested you obtain extension right to operate Recife radio direction finder station. If no action yet taken pls approach Braz Govt in effort obtain consent, preferably in writing, to continued use this station for indefinite period or for as long a time as possible.

Chief Naval Operations has authorized Naval Attaché Rio abandon fixed installations Belém and Bahia stations and you may support your request by presenting these installations to Braz Govt (Emb Airgram A-512 May 22⁴⁷). Naval Attaché has also been authorized declare equipment at Belém and Bahia stations to FLC as surplus. (Deptel 847 June 24⁴⁷). Only if necessary to clinch right to continue operation at Recife you are authorized arrange with FLC Rio for negotiation transfer this equipment to Braz Govt without cost but in this case Navy must arrange reimbursement to FLC of appraised value equipment transferred.

Consult with Gen. Miller⁴⁸ as to desirability making this approach prior conclusion of bulk sale.

Keep Dept currently informed.

ACHESON

832.24/4-2046

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, July 1, 1946.

No. 36

SIR: The War Department, in a communication dated April 20, 1946, has informed this Department that it has placed in the category of surplus the following installations located in Brazil:

⁴⁷ Not printed.

⁴⁸ Representative of the Foreign Liquidation Commission in Brazil.

USAFSA Headquarters and 200th Station Hospital, Recife,
Brazil
Mucuripe Tank Farm, Fortaleza, Brazil
Mucuripe Housing Area, Fortaleza, Brazil
Mata Tank Farm, Belém, Brazil
Natal Dunas Tank Farm, Natal, Brazil

The Department of State has advised the War Department in its reply, a copy of which is enclosed,⁴⁹ to the effect that these installations are considered to come within the Procedure to Govern Disposal of Military Facilities which are Subject to Prior Agreements with other American Republics, a copy of which was forwarded to the Embassy with instruction no. 7919 of March 27, 1946.⁴⁹

Likewise, the Department has requested the War Department to turn over the Maceio Land Base, which was constructed under the terms of Decree Law 3462, under the same procedure as referred to above (reference Department's instruction 8021 of May 9, 1946).

You are accordingly instructed to confer at once with the War Department custodial agents for these facilities, and thereafter to approach the Brazilian Government for the purpose of working out the necessary arrangement for the transfer.

Any moveable equipment which is determined not to belong to Brazil either under the Decree Law in question or under the Secret Air Base Agreement should be declared surplus to the Foreign Liquidation Commissioner in the normal manner. It is the Department's desire that such surplus material should be offered for sale in the first instance to the Brazilian Government.

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

832.24/7-846 : Telegram

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

CONFIDENTIAL

RIO DE JANEIRO, July 8, 1946—5 p. m.

[Received 6:50 p. m.]

1225. FLC agent General Miller offered dispose surplus property located on and in vicinity air bases Brazil \$8,000,000. General Fiuza De Castro made counter proposal \$6,000,000. General Miller explained \$8,000,000 lowest price or must be sold publicly.

I discussed matter with President Dutra, who accepted \$8,000,000 offer.

General Miller signed contract July 5 for disposal this equipment, omitting real estate clause at request General Fiuza and without prior

⁴⁹ Not printed.

consultation with me (Department's telegram 898, July 2, 6 p. m.⁵⁰). Does Department feel it desirable I call on President Dutra with request real estate clause be reinstated? General Miller states that General Fiuza's reasons for omitting clause were political and internal.

General Miller informed me 12,000,000 credit granted Brazil for purchase of surplus. He states that Colonel Macedo Soares is requesting permission from President Dutra to utilize \$4,000,000 remaining credit for purchase of surplus machinery in Pacific and in Europe. If this \$4,000,000 transaction is authorized by US and Brazil, Department might be able to include real estate purchase clause in this portion of contract.

PAWLEY

832.24/7-1846

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

CONFIDENTIAL
No. 78

WASHINGTON, July 18, 1946.

The Acting Secretary of State transmits for the confidential information and files of the Embassy copies of a note of even date to the Brazilian Embassy in Washington and of Statement LL-8⁵¹ showing charges made against the Government of Brazil during the period from December 1, 1945 through February 28, 1945 [1946], for defense material transferred to Brazil under the Lend-Lease Agreement signed March 3, 1942.

It will be noted that the amount of charges during the period under reference is \$796,037.79 and that charges through February 28, 1946 aggregate the grand total of \$183,959,349.81. Under the terms of the Agreement a payment of \$11,666,666.66 is now due.

[ACHESON]

832.76/8-846 : Telegram

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

TOP SECRET

RIO DE JANEIRO, August 8, 1946—6 p. m.
[Received 7: 49 p. m.]

1423. In conference with President Dutra 4: 30 today, I sought 10 year agreement for use island on which Recife Naval Radio Station located, the agreement to provide for extensions in 5 year periods by mutual consent. I showed the President aerial photograph and maps.

⁵⁰ Not printed.

⁵¹ Neither printed.

After some discussion President suggested that we draft proposed agreement for his consideration and that in principle he is agreeable to our proposal. He suggests agreements which would provide navigational aids to Brazilian Government for duration of contract.

In my first discussion with President some weeks ago this subject, it was suggested that exchange of letters between President and this Embassy might be sufficient. President may still be satisfied this basis but I believe exchange of notes with Foreign Office might be more satisfactory to both Governments. Would appreciate instructions.

PAWLEY

S11.24510/8-946

Memorandum by the Assistant Chief of the Aviation Division (Lister)

[WASHINGTON,] August 14, 1946.

During discussions with Miss Dane of ATC and Captain Harrington of AAF I am informed that:

1. ATC no longer maintains command control of any air bases in Central or South America but merely occupies some of them on a tenant basis.
2. AAF maintains command control at two groups of air bases; namely, those under the joint Brazilian program and the 99 year lease bases.

Captain Harrington states that inquiries concerning lists of military air bases in the Western Hemisphere available for use by civil aircraft should be directed in the first instance to ATC, primarily because the list changes rapidly from day to day and the most current information with respect to the status of these bases is maintained by ATC.

832.24/4-2346

The Acting Secretary of State to the Secretary of War (Patterson)

SECRET

WASHINGTON, August 30, 1946.

MY DEAR MR. SECRETARY: In your letter of April 23, 1946⁵² you request an indication from this Department as to the disposition that should be made of the following installations in Brazil:

Camocim Seaplane Base, Camocim, Brazil
 Igarape Assu, Belém, Brazil
 Picci Field, Fortaleza, Brazil
 Clevelandia, Brazil

⁵² Not printed.

Three of these installations, the Camocim Seaplane Base, Picci Field and the weather station at Clevelandia, were constructed, it appears, under the Airport Development Program and hence come under the provisions of Brazilian Decree-Law No. 3462. The well-established understanding between Brazil and the United States with regard to such installations was that Brazil would furnish the land needed and permit construction of installations that had received its prior approval, that during the war these facilities would be used and operated by the United States armed forces, and that after the war they would be turned over to the Brazilian Government. Brazilian title to and sovereignty over installations constructed by virtue of this understanding was never questioned by either party to the understanding.

The lighter-than-air station at Igarape Assu, Belém, Brazil, was built pursuant to authority granted by the Commander of the First Brazilian Air zone in a letter dated February 7, 1943 to the United States Commander of the Naval Air Facility at Belém, a record of which is on file in the War Department. No mention is made in this letter of the ultimate disposition to be made of the installations to be constructed by the United States Navy. Yet in view of the over-all understanding between the United States and Brazil regarding the air base installations in general, it can hardly be questioned that it was the understanding on both sides that the fixed constructions at Igarape Assu would revert as usual to the Brazilian Government after the war.

It is the view of this Department, therefore, that the disposition of all of the above-mentioned installations should properly come within the Procedure to Govern Disposal of Military Facilities which are Subject to Prior Agreements with other American Republics proposed in my letter to you of March 8, 1946 and concurred in by your reply of March 20.⁵³

The War Department is accordingly requested to turn over the installations under reference to the Brazilian Government in accordance with arrangements that will be made by the American Embassy in Rio de Janeiro under the terms of the aforementioned disposal procedure.

Sincerely yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

⁵³ Neither printed.

832.76/10-1746

*The American Ambassador in Brazil (Pawley) to the Brazilian Acting
Minister for Foreign Affairs (Leão Gracie)*

SECRET

RIO DE JANEIRO, September 16, 1946.

No. 134

EXCELLENCY: I have the honor to refer to a recent conversation which I have had with His Excellency, the President of the Republic, and to now propose an understanding, subject to the approval of Your Excellency, providing for the operation of the supplemental naval radio station at Recife by the Navy of the United States of America based upon the following provisions:

The radio station, which is located on the Ilha das Cobras near Recife, Pernambuco, Brazil and which occupies 175.06 hectares of land shall be operated by the Navy of the United States of America for a period of ten years in the interest of the defense of this hemisphere and with the joint concurrence of the Government of the United States of Brazil and the Government of the United States of America. The date of commencement of operation shall be on the date that the suggested agreement becomes effective. The right of tenure enjoyed under this agreement by the Navy of the United States of America will include full right of access to the radio station as well as the right to make any change in the equipment or the facilities of the station as may be deemed desirable or necessary by the Navy of the United States of America.

The station at Recife, within the limits of its current existing capacity, will furnish to the Government of the United States of Brazil the same high frequency radio bearing services for search and rescue purposes as are provided to the Government of the United States of America. When and as alerted to specific cases by the Government of the United States of Brazil, it will maintain continuous watch as necessary to furnish high frequency direction finder bearings to ships or aircraft in actual or potential distress.

In further return for the use of the radio station, the Government of the United States of America will turn over to the Government of the United States of Brazil the fixed installations and the equipment of the high frequency radio direction finder stations at Bahia and Belém. It will further agree to maintain this equipment in operating condition for a period of three months following the effective date of approval.⁵⁴ Any instructions necessary to initiate

⁵⁴ In a letter of October 7, 1946, from the Assistant Secretary of State to the Secretary of the Navy, the concurrence of the Brazilian Government was indicated (832.26/10-746).

the operation of these stations will be provided by the Navy of the United States of America and so long as the latter shall operate the radio station at Recife it will make available to the Government of the United States of Brazil advisory assistance in the maintenance and operation of the stations at Bahia and Belém.

This agreement may be extended for periods of five years by the mutual agreement of both Governments and it may be terminated by request of either Party at any time prior to the date of expiration.⁵⁵

I take this opportunity [etc.]

WILLIAM D. PAWLEY

811.24532/7-1046

The Acting Secretary of State to the Secretary of War (Patterson)

CONFIDENTIAL

WASHINGTON, September 23, 1946.

MY DEAR MR. SECRETARY: Reference is made to your letter of July 10, 1946⁵⁶ enclosing a copy of the legal opinion of the Judge Advocate General on implications of the Airport Development Program Contract in the light of Brazilian Decree-Law 3462.

After giving careful study to the legal opinion in question and to other aspects of the problems involved in this case, I should like to suggest for the War Department's consideration the following specific steps to bring the matter to a conclusion:

1. The War Department, as a party to the Airport Development Program Contract, should inform Pan American Airways of its intention in the near future to turn over to the Brazilian Government the airport installations built in Brazil with United States Government funds, in accordance with arrangements to be worked out by the United States Embassy in Rio de Janeiro with the Brazilian Government.

2. Pan American Airways, through its subsidiary, Panair do Brasil, may then if it wishes approach the Brazilian Government for the purpose of ascertaining what rights in these installations, if any, it would enjoy by virtue of Decree-Law 3462.

3. The State Department, after ascertaining the views of the War Department, would determine what assistance, if any, should be extended to Pan American Airways should the latter need and request the support of the United States Government in obtaining the recognition of its claims by the Government of Brazil.

4. If the Brazilian Government, either with or without the inter-

⁵⁵ A marginal note in the original reads: "In taking receipt of a hecto of this desp. & encl. from Mr. Braddock on Nov. 4, 1946, Commander William M. Laughlin stated that according to the Naval Attaché, Rio, formal transfer of the Bahia and Belém stations had taken place on Oct. 8, from which date the three-month period for maintenance, as provided in ¶4, would therefore begin to run.

⁵⁶ Not printed.

cession of the United States Government, confirmed in Panair do Brasil the rights set forth in Decree-Law 3462, the War Department, as a party to the Airport Development Program Contract, would undertake to establish with Pan American Airways such equitable interest as the United States Government may have in these rights by virtue of the fact that the cost of the installations was borne by the United States Government and that benefits accruing from the expenditure should if possible be available to United States civil aviation in general. Recognition of the Government's equity might in any case be a prior condition to any official intercession with the Brazilian Government on behalf of Pan American Airways.

5. In the event that the stage contemplated in paragraph four is reached and it should become necessary to do so, the Department of State would endeavor to work out with the Brazilian Government a formula for the generalization of benefits contemplated in that paragraph.

These suggestions, if agreeable to the War Department, can be put into effect at once without further consultation; otherwise, representatives of this Department would be pleased to meet at any time with representatives of the War Department to discuss further the situation.

Sincerely yours,

WILLIAM L. CLAYTON

811.24532/10-1046: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, October 10, 1946—5 p. m.

[Received 6:15 p. m.]

1738. ReDeptel 1314, October 9, 7 p. m.⁵⁷ Status of Belém, Natal and Fortaleza airports as follows:

On July 1 last Air Section of JBUSMC assumed command of foregoing bases and all other United States Forces and installations in Brazil and Air Transport Command relinquished such command as it previously possessed. Foregoing three bases now under Brazilian flag and command and have been since July. Air Section of JBUSMC which was designated to constitute Joint Technical Commission as provided for in secret military air base agreement is now responsible and has been since that time for operation and maintenance of aforesaid three bases and others. In meantime work has been progressing smoothly and as rapidly as possible in accounting for American property on these bases so as to list thoroughly and accurately fixed installations and appurtenances on the one hand which are Brazilian property under terms of agreement to between both Governments and movable property considered surplus on the other hand which has already been sold in bulk to Brazilian Govern-

⁵⁷ Not printed.

ment and needs only proper listing and valuation. Accordingly there has been no important change in status of Fortaleza Natal and Belém in recent weeks but progress has been made according to plan in determining definitely fixed installations, reassignment of American and Brazilian personnel and other details consistent with foregoing program. American personnel on bases limited to number necessary for property accounting purposes referred to above plus technical personnel for training and essential operations under Air Section to maintain bases pursuant to secret agreement. As more Brazilians are trained for essential functions connected with operation and maintenance, American personnel are being withdrawn as gradual process and is being worked out by Air Section to complete satisfaction of Brazilian and American commands.

Department's attention again invited to fact that Brazilian Government has not yet agreed to publicize existence or contents of secret military air base agreement and accordingly foregoing information should be handled with discretion.

DANIELS

811.24532/10-2846

The Chief of the Service Group, General Staff Corps (Bradshaw) to the Acting Chief of the Division of Investment and Economic Development (Havlick)

SECRET

WASHINGTON, October 28, 1946.

DEAR MR. HAVLICK: The following installations, located in Brazil, have been placed in the category of surplus by the War Department effective 25 October 1946:

Ibura Field, Recife, Brazil
 Parnamirim Field, Natal, Brazil
 Amapa Airfield and Radio Range, Montenegro, Brazil
 Tirirical Field and Radio Range, São Luis, Brazil
 Ipitanga Field, Bahia, Brazil
 Fernando de Noronha Airport, Natal, Brazil
 Adjacente Field, Fortaleza, Brazil
 Val de Cans Field and Sea Base, Belém, Brazil
 Natal Sea Base, Natal, Brazil
 Aratu Sea Plane Base, Bahia, Brazil.⁵⁸

Information summaries pertaining to these installations are inclosed herewith.⁵⁹

⁵⁸ According to a War Department Notice of Surplus Declaration, the amount of United States investment in these installations was, respectively: \$1,892,906; \$9,403,561; \$2,441,133; \$3,141,951; \$3,243,181; \$2,773,896; \$1,958,045; \$6,377,598; \$842,397; \$1,459,448 (811.24532/10-2846).

⁵⁹ None printed.

The War Department will proceed with the disposition of these facilities in accordance with the "Procedure to Govern Disposal of Military Facilities which are Subject to Prior Agreements with other American Republics" proposed in letter from the Secretary of State dated 8 March 1946, and concurred in by the War Department in reply dated 20 March 1946.⁶⁰

Sincerely yours,

AARON BRADSHAW, JR.
Brigadier General, GSC

811.24532/11-546 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, November 5, 1946—4 p. m.

[Received 6:35 p. m.]

1846. Yesterday I learned that JBUSMC was engaged in discussion of possible revision secret military airbase agreement of 1944 (which I understand is strongly urged by Ministry of Air). This morning meeting held at Embassy with American delegation of JBUSMC to discuss procedure.

Brazilian proposals for amendments certain articles 1944 agreement have been presented and will be discussed at plenary session of JBUSMC in near future. American delegation has already agreed in principle to proposed modifications and is forwarding full text thereof to War and Navy Depts. American delegation will await instructions from Washington prior to formal signature of joint recommendations.

At same time Embassy is forwarding full text of pending proposals for consideration by Dept.

Major objectives proposed changes are to fix responsibility on Brazilian Govt for maintaining and operating bases but maintaining necessary and reasonable operating rights for American military transport and combat aircraft in war emergency and peace on basis more acceptable to Brazilian Govt and more readily defensible from standpoint of sovereignty. Major advantage cited by JBUSMC is that contemplated agreement would have more definitive and precise character in its definition of rights and responsibility and list potential financial obligation on part of US.

Further procedure understood to be as follows and recommended by Embassy:

1. Competent authorities in Washington will consider contemplated changes in 1944 agreement and send instructions to American delegation of JBUSMC with reference to signing joint recommendation to this effect.

⁶⁰ Neither printed.

2. This having been accomplished joint recommendation signed by Brazilian and American members of JBUSMC would be referred to respective govts to serve as basis for further exchange of notes to supersede original exchange of notes of 1944 as modified by exchange of notes March 29 and April 5, 1946 ⁶¹ regarding [Air?] Section and Joint Technical Commission.

DANIELS

810.20 Defense/12-1046

Memorandum of Conversation, by the Chief of the Division of Brazilian Affairs (Braddock)

[Extract]

CONFIDENTIAL

[WASHINGTON,] December 10, 1946.

Participants: General Salvador Cesar Obino, Joint Chief of Staff of the Brazilian Army, Navy and Air Force

Mr. Acheson

Colonel Paul L. Freeman, Joint Brazil-United States Military Commission, Rio de Janeiro

Mr. Braddock

General Obino said that Brazil wished to obtain more arms from the United States and expressed the strong hope that the Truman arms bill ⁶² would be passed by the next Congress and used promptly for the supply of arms to Brazil. He hoped that the supply would not be immediately generalized to the other American Republics, and expressed apprehension especially regarding Argentina, which he felt was not yet to be fully trusted. While favoring continental unity, the General said, Brazil felt that true unity could not be achieved at this time, and that the inter-American defense conference should therefore not be held until the situation clarified, which the General thought most improbable before the middle of 1947 at the earliest. He made it plain that Brazil would like to build up its arms position before the defense conference were held. The General intimated that Brazil would not be agreeable to arms inspections by officials of the United Nations.

⁶¹ Not printed.

⁶² Inter-American Military Cooperation Act, H.R. 6326, 79th Cong., 2d sess.

810.20 Defense/12-1646

The Ambassador in Brazil (Pawley) to the Chief of the Division of Brazilian Affairs (Braddock)

CONFIDENTIAL

RIO DE JANEIRO, December 16, 1946.

DEAR DAN: I have read with interest your memorandum of December 4⁶³ concerning arms and Argentina and was somewhat surprised that Minister Nascimento Brito felt that such a conversation was necessary at this time.

As you know from previous despatches and letters the question of the inclusion of Argentina in an inter-American defense plan has been thoroughly discussed here in Rio with President Dutra and with the Cabinet Ministers concerned.⁶⁴ All of them have expressed in varying degrees their belief that any plan of hemispheric defense is impossible without the cooperation of Argentina. Special reference might be made to my top secret despatch No. 258 of July 17, 1946⁶³ concerning a luncheon meeting which included the Ministers of War, Navy, Foreign Affairs, and Justice at which time this subject was discussed at length and in detail. No one present expressed any opposition to the inclusion of Argentina in the defense pact and on the contrary all expressed opinions that such an agreement would be inconceivable without Argentina.

There is of course present in Brazil a feeling of rivalry toward Argentina that has prevailed for many years. One manifestation of this rivalry is a fear that Argentina may encroach upon the favorable position which Brazil enjoys vis-à-vis the United States and I am sure that Brazilian leaders will be constantly active in efforts to insure that Argentina not obtain any equal footing in this regard. This attitude, however, has nothing to do with the fundamental issue of cooperation with Argentina which would include among other things supplying arms. It is my belief that there exist no fundamental disagreements which might conceivably lead to serious conflict nor is there any deep seated fear among Brazilians that they may be the object of Argentine aggression.

In view of the conversations which we have had in the past I would be most interested in learning whether Minister Nascimento Brito was instructed to initiate this conversation and to express the views set forth in your memorandum.

With kind personal regards to you, Gordon Mein,⁶⁵ and the others, I am

Sincerely yours,

WILLIAM D. PAWLEY

⁶³ Not printed.⁶⁴ For documentation on a mutual assistance pact, see pp. 1 ff.⁶⁵ Acting Assistant Chief, Division of Brazilian Affairs.

**TERMINATION OF THE PROCLAIMED LIST AND DISPOSAL OF AXIS
PROPERTIES⁶⁶**

740.32112A/5-846 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, May 8, 1946—noon.

[Received 1:22 p. m.]

847. Embassy understands that Proclaimed List will not be withdrawn from Western Hemisphere on date originally planned but will be completely terminated throughout world on June 30. Simultaneous withdrawal on world-wide basis would (1) constitute failure to recognize the effective cooperation Brazil has given us throughout the war and the far-reaching measures she has adopted to eliminate Axis influence within her borders; (2) place Brazil in the same category with certain countries such as Spain and Sweden which worked with the enemy throughout the conflict.

There is every reason to believe that such treatment of Brazil would be most disillusioning to the many official Brazilians who did their utmost to stamp out Axis activities and influence; rightly or wrongly it would be resented by the Government which has always taken the stand that Brazil is a full-pledged Ally on the side of the Democracies and it would raise the question of the value of Brazil's cooperation in the future.

The Embassy strongly urges that these factors be given most favorable consideration in connection with the termination of the Proclaimed List and in recognition thereof that the List be withdrawn from Brazil immediately; this without prejudice to continuance Brazilian action to complete her nationalization, liquidation and replacement program.

DANIELS

740.32112A/5-846 : Airgram

The Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, June 11, 1946.

A-414. Urtel 847, May 8. After careful consideration, Department believes that the immediate withdrawal of the Proclaimed List for Brazil is not feasible since similar action would be necessary for countries with records nearly as good or equal to Brazil. Missions in some of these countries believe withdrawal should be postponed as long as possible to support completion of the Replacement Program and to assure satisfactory ultimate disposition of Axis assets.

⁶⁶ For documentation on the elimination of Axis interests in Brazil in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 650 ff.

Department endeavored to give recognition for superior accomplishments in Replacement Program in size and timing of deletion of minor offenders. Withdrawal of the List for all American Republics before withdrawal for Europe would complicate the Argentine situation.

British favor withdrawal for all countries simultaneously.

If the Brazilian authorities raise objection when the List is withdrawn for all countries, you should explain that this Government recognizes Brazil's accomplishments but did not consider earlier withdrawal expedient since this would give rise to odious comparisons, would have necessitated similar action for certain other countries in the case of which such action was not opportune, and that this Government gave recognition in the size and timing of deletion of minor and intermediate offenders.

BYRNES

[For announcement of the Withdrawal of the Proclaimed List of Certain Blocked Nationals, see press release of July 9, 1946, Department of State *Bulletin*, July 21, 1946, p. 112.]

740.32112A/11-546 : Airgram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, November 29, 1946.

A-841. Reference is made to your airgram no. 807 of August 5, 1946, and airgram no. 1161 of November 5, 1946,⁶⁷ requesting an indication of the Department's position with regard to undertakings.⁶⁸

After repeated attempts on the part of the Department to obtain the comments of the British Embassy here on the report that the British Embassy in Rio had received instructions that all undertakings were terminated, the British Embassy has now informed the Department that it has received no instructions on this subject. An Embassy official stated, however, that the instructions which the British Embassy in Rio has received would appear to be in line with what he believed to be London's viewpoint in this matter. It is assumed that no general instructions were circulated by the British, since their Embassy here has received none.

The Department feels that any wholesale release of firms from undertakings might create the impression that the United States is no longer interested in the activities of such firms. The Embassy should,

⁶⁷ Neither printed.

⁶⁸ Term applied to a formal commitment on the part of a company to have no business dealings with firms or companies on the Proclaimed List.

therefore, make no public statement with regard to undertakings and should not take the initiative in releasing firms.

The Embassy should, however, release individual firms or persons from standard undertakings when such release is requested by the signatory firm or person, unless a review of the case reveals any circumstances which would make it desirable to retain the undertaking in effect for the period specified therein. The Embassy may also, in its discretion and upon request by the signatory, release firms or persons from undertakings containing special clauses, but careful consideration should be given to the special provisions and to the effects of release therefrom. When a person or firm requests to be released from an undertaking which the Embassy believes should remain in force, the case should be referred to the Department.

Cases of firms which are known to have signed undertakings in several countries, such as the Bata firms, should also be referred to the Department, so that they may be handled on an overall basis.

ACHESON

740.32112 RP/12-2346

Memorandum by the Assistant Chief of the Division of Economic Security Controls (Monsma) to the Chief of the Division of River Plate Affairs (Mann)

CONFIDENTIAL

[WASHINGTON,] December 23, 1946.

In reply to your recent request received orally through Mr. T. R. Martin of your Division, the following information concerning the Replacement Program for Brazil is contained in the files of this Division:

1. Total number of Axis spearhead firms: 120.
2. Number of firms in which enemy interest has been eliminated through nationalization or liquidation of the firm, vesting, reorganization, etc.: 82.
3. Number of firms in which enemy interest is in the process of elimination: 29.
 - a. Number in which liquidation of firms or elimination of enemy interest has been decreed, but no transfer of enemy assets or interest has been made: 2.
 - b. Number in which liquidation of firms or elimination of enemy interest has begun i.e. part of enemy interest has been sold or transferred: 9.
 - c. Number in which liquidation of firms or elimination of enemy interest is nearly completed and requires only final steps, such as filing documents of dissolution, disposing of certain assets for which no buyer can be found, etc.: 18.

4. Number under administration or intervention, where Government has complete control: 4.

Of these, one is bankrupt and will be dissolved; the locally resident partners of one firm have proposed that the firm be dissolved and that enemy interest be placed into Indemnization Fund; one firm escaped liquidation by exerting political pressure, but it underwent a reorganization which eliminated the principal enemy interest; the fourth is a plantation which is now in the possession of the State of Para.

5. Number under supervision where owner retains control: 2. Conclusive evidence of enemy ownership of these two firms was not obtained until recently, evidence now available may lead to eventual liquidation of the firms.

6. Number in which no action has been taken: 3. These firms were included in the Proclaimed List in February 1946, on information discovered last fall that they were German-owned. A complete report with substantiating evidence was received from Germany in July. It is expected that the firms will be placed in liquidation.

Since the withdrawal of the Proclaimed List in July of this year, Brazil has completed the liquidation of six firms or has eliminated the enemy interest therefrom. In several instances Brazil has expropriated the property of naturalized Brazilians of German origin; one example of such action is the firm Hermann Stoltz & Cia. in which the interest of several Brazilian partners is being liquidated.

**TECHNICAL ASSISTANCE BY THE UNITED STATES TO BRAZILIAN
AIR TRANSPORTATION AND THE NEGOTIATION OF A BILATERAL
AVIATION AGREEMENT**

832.796/1-946: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, January 9, 1946—6 p. m.

[Received January 10—4: 26 a. m.]

61. ReDeptel 28, January 7, 7 p.m.⁶⁹ Embassy has made urgent and strong representations to high and influential officials, including Foreign Office and Air Ministry, against Air Minister's⁷⁰ order revoking authority for additional flights by Pan-American Airways over Barreiras cut-off. I am informed by excellent source that General Dutra⁷¹ is sympathetic to our point of view, and likewise understand that predominant sentiment in Air Ministry, military as well as civilian, supports our view. Accordingly expect favorable action to be taken in cancelling latest order and am continuing to press for urgent action to facilitate planning of flights and schedules.

DANIELS

⁶⁹ Not printed.

⁷⁰ Brig. Armando Trompowski.

⁷¹ Gen. Enrico Gaspar Dutra, President-elect of Brazil.

832.796/1-1846

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

No. 7814

WASHINGTON, February 4, 1946.

SIR: Reference is made to the technical advice and assistance which has been furnished by the Civil Aeronautics Administration to the Brazilian Air Ministry through Mr. C. J. Tippet and his staff.

Officers of the Civil Aeronautics Administration and of this Department have recently conferred with regard to the continued participation of the Civil Aeronautics Administration in this project. It was agreed that the Civil Aeronautics Administration's activities in Brazil have been of mutual advantage to both countries and it is desired, therefore, to continue cooperation in this project.

It will be noted that under paragraph 3(a) of the enclosed draft Memorandum of Agreement,⁷² this Government undertakes to detail from the Civil Aeronautics Administration an initial maximum of three aviation technicians whose salaries and expenses shall be paid by this Government. It is realized that the work of this Civil Aeronautics Administration mission may well require the services of other Civil Aeronautics Administration experts on a permanent or temporary basis, who would go to Brazil for a specific task and return when their work is accomplished. For example, a civil aviation expert with a legal background might be used for a two-month period to aid in drawing up appropriate legislation and civil air regulations. It is believed that the Government of Brazil should be prepared to pay a part or all of the living expenses, salaries, and transportation of such additional Civil Aeronautics Administration personnel under the provisions of the Act of May 3, 1939 (Public No. 63, 76th Congress).

With a view to effecting a more closely integrated program and a clearer definition of the responsibilities of the two Governments and their participating agencies, there is enclosed a draft Memorandum of Agreement concerning which the Department desires to have your opinion before the instrument is presented to the Brazilian Government. If you are of the opinion that the proposed Agreement should be modified please indicate what provisions it should contain.

Very truly yours,

For the Secretary of State:
WILLIAM L. CLAYTON

⁷² *Infra.*

[Enclosure]

DRAFT AGREEMENT

The Government of the United States of America, and the Government of Brazil, for the purpose of establishing in Brazil a civil aviation training program and for the purpose of developing, fostering and promoting civil aviation, hereby mutually agree that future cooperation between the two Governments in the field of civil aviation to which this agreement relates shall be in accord with the following principles and procedures, and that all departments, agencies, or instrumentalities of the two Governments which are concerned with aviation matters shall be directed by the respective Governments to render full cooperation and general assistance in carrying out the provisions of this agreement.

1. *General Purposes:* The general purposes of this agreement shall be:

(a) To assist the Government of Brazil in the development of civil aviation in all its phases, specifically including but not limited to flight instructor standardization, safety regulation, and airways, airport, and technological development.

(b) To aid the Government of Brazil in establishing and conducting civil aviation training programs and to promote the interchange of technical ideas and techniques between the two Governments.

2. *Specific Undertakings on the Part of the Government of Brazil.*

(a) The Government of Brazil shall select a center and standardization school with the advice and concurrence of the Administrator of Civil Aeronautics of the United States Department of Commerce or his duly authorized representative (hereinafter referred to as the Administrator) and shall also furnish such maintenance shop, equipment, classroom and other facilities as may be deemed necessary by the Administrator.

(b) The Government of Brazil shall bear the financial responsibility for continuing the program as outlined herein, as well as for the procurement of such equipment as may be agreed upon by the Administrator and the duly authorized representative of the Government of Brazil.

(c) The Government of Brazil shall furnish all necessary qualified personnel, including technicians, administrative personnel, and such other qualified personnel as may be necessary to carry out the purposes and intent of this agreement, and to that end shall also make available the services and facilities of existing Brazilian aviation agencies and organizations. The Government of Brazil shall pay all salaries of personnel it furnishes.

[Here follow seven undertakings concerning personnel, space, supplies, transportation, etc.]

3. *Specific Undertakings on the Part of the Government of the United States of America:*

(a) The Government of the United States of America shall detail from the Civil Aeronautics Administration an initial maximum of three aviation technicians who shall be consultants and whose salaries and expenses shall be paid by the United States of America to work in collaboration with the personnel detailed by the Government of Brazil. The Government of the United States of America agrees to give the fullest consideration to any request from the Government of Brazil for the detail of more than three aviation technicians from the Civil Aeronautics Administration consistent with the availability of such technicians.

(b) Such aviation consultants shall prescribe flight training course outlines, procedures and methods of flight instructions for the Brazilian civil aviation training programs.

(c) Such aviation consultants shall be responsible to the Administrator for establishing and coordinating the program.

4. *Recall of Personnel:* Each Government reserves the right to recall any personnel involved in the performance of this agreement with the understanding that an adequate force shall be maintained to carry out the requirements and performance of this agreement so long as this agreement is in effect.

5. *Revisions:* No revision of this agreement shall be valid except with the approval of the Secretary of Commerce of the United States of America and the duly authorized representative of the Government of Brazil, as effected by an exchange of notes between the two Governments.

6. *Flight Authorization:* The Government of Brazil shall grant to the personnel of the Government of the United States of America authorization to make flights in Brazil in United States aircraft or in Brazilian Government aircraft as necessary in the performance of this agreement.

7. *Secret or Confidential matters:* The personnel furnished by the United States of America shall agree not to divulge or in any way disclose to any foreign government or to any person whatsoever any secret or confidential matter of which they may become cognizant in their respective capacities in the performance of this agreement.

8. *Force and Duration:* This Memorandum of Agreement shall be made effective by an exchange of notes between the two Governments and shall continue in effect for a period of three years from the date

of that exchange of notes or the date of the note which completes the exchange of notes as the case may be. Either Government may terminate this Agreement by giving sixty days advance notice in writing through diplomatic channels to the other Government.

711.3227/5-2846 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, May 28, 1946—7 p. m.

[Received 9:07 p. m.]

995. ReEmbtel 879, May 13, 7 p. m.⁷³ Yesterday, I again expressed to Gracie⁷⁴ interest in getting official Brazilian reaction to our proposal for bilateral civil aviation agreement. Gracie said matter was currently under discussion between Minister of Air Trompowsky and Director Civil Aviation Grillo. With Gracie's concurrence, I arranged to call on Grillo today personally in hope of getting clear picture current situation.

This afternoon, Tippett and I conversed at length with Grillo and Barbosa da Silva of Foreign Office regarding pending negotiations. It developed that no difficulties have arisen in connection with general clauses proposed agreement as transmitted last September but certain minor points will require clarification and adjustment to new conditions.

Of great importance is fact that, speaking "personally and informally", both Grillo and Barbosa da Silva made it clear that Brazil considered granting Fifth Freedom rights⁷⁵ prejudicial to Brazilian aviation and would be most reluctant to conclude bilateral civil aviation agreement granting Fifth Freedom rights. In fact, from their conversation, it seems there is widespread sentiment in Brazilian circles, private as well as official, flatly opposed to Brazil granting fifth freedom rights.

Probably major reason for this attitude is fear that European lines coming to Rio and Buenos Aires will deprive Brazilian airlines of profitable traffic between these two points. Brazil wishes to avoid discriminatory treatment and while conceivably might grant fifth freedom rights to United States alone, is obviously unwilling to grant Fifth Freedom rights generally to all countries.

⁷³ Not printed.

⁷⁴ Samuel de Souza-Leão Gracie, Secretary General of the Brazilian Foreign Office.

⁷⁵ The right of a commercial aircraft to land, take on passengers and cargo, or discharge the same in a country intermediate between countries of origin and destination. See Department of State, *Proceedings of the International Civil Aviation Conference, Chicago, November 1-December 7, 1944* (Washington, 1948), vol. I, p. 179.

It seems likely on other hand that interior routes will be granted.

Grillo said no official statement Brazilian views would be anticipated for another 10 days pending return to Rio of Brigadeiro Machado da Cunha, chairman of Civil Aviation Committee.

Embassy would appreciate receiving such information as Dept can furnish in reply to three questions raised in Embtel 849, May 8, 3 p. m.⁷⁶

DANIELS

711.3227/5-1846: Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

RESTRICTED

WASHINGTON, May 29, 1946—6 p. m.

714. Before replying to your recent tels re air transport agreement it was thought desirable to await CAB Latin American route decision and to consult with CAB as to how far we should go in offering Bermuda agreement⁷⁷ with Brit as additional basis for our bilateral agreement with Brazil. CAB has just informed Dept that it would strongly prefer to adhere to our original draft, but if Brazilians insist on incorporating certain principles from Bermuda agreement, we should then give serious consideration to their request.

Reur 807 Apr 30,⁷⁶ it is impossible to send Mission at this time to assist Emb in negotiations particularly since officials who might otherwise be available are now in Montreal for PICAO Assembly. However, it is hoped that Emb can push negotiations on basis of original draft.

Following are in answer to points raised in your 849 May 8:⁷⁶

(1) CAB's decision on Latin American routes was announced May 22. Subsequent consultation with Board indicates they wish route pattern to remain as in original draft but with addition of new route 6 as follows:

"US via intermediate points in the Caribbean and West Coast of South America to Asunción and São Paulo to Rio de Janeiro; in both directions."

Also add "in both directions" after route 3 in original draft annex.

Addition of route 6 above reflects new proposed route awarded to Braniff Airways, which you will note in CAB Latin American decision forwarded under separate cover. Routes 4 and 5 of original

⁷⁶ Not printed.

⁷⁷ Air Transport Agreement between the United States and the United Kingdom, February 11, 1946; for text, see Department of State, Treaties and other International Acts Series (TIAS) No. 1507, or 60 Stat. (pt. 2) 1499.

draft via Manaus do not appear in CAB decision, but Board wishes them included in discussions on basis of possible future operations and for trading purposes if Brazilians ultimately refuse to grant them.

Route 1 proceeding to Africa does not appear in Latin American decision, but may be included in forthcoming South Atlantic decision.

(2) Same general language can be used as in Annex A to describe landing-rights and routes accorded to Brazil.

(3) There is no specific reference to Fifth Freedom rights in either agreement or its Annex but in absence of any restrictive clause it is considered as being covered through use of words "international traffic" in first pgh of Annex. This form has been used in virtually all of our pre-Bermuda agreements although there is a more specific reference to Fifth Freedom rights in numbered pgh 6 of Bermuda Final Act.

With above info and with final details of CAB route decision now available, it is hoped Emb can proceed with further discussions without delay.

BYRNES

711.3227/5-3146 : Airgram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

WASHINGTON, June 17, 1946.

A-431. 1. In the course of negotiations with another country, the Department asked the Civil Aeronautics Board for a more specific interpretation of "substantial ownership and effective control" reference paragraph 1 Embassy's telegram no. 1007, May 31, 1946.⁷⁸

2. The CAB replied that insofar as the requirement of "substantial ownership" is concerned, CAB feels this does not connote any definite numerical proportion, but that it should be held to require at the least that the particular nationality referred to shall be the nationality representing the largest interest in the enterprise held in the aggregate by the citizens of any one nation.

3. As to the requirement of "effective control", CAB feels this must be examined in the light of the circumstances of each particular case. It is possible that although Brazilian (or U.S.) nationals might hold in the aggregate a majority interest in a particular enterprise, effective control of that enterprise might not be lodged in the hands of Brazilian (or U.S.) citizens. For example, the Brazilian (or U.S.) block might be made up of a multitude of small fragments, while the

⁷⁸ Not printed; it transmitted inquiries of the Brazilian Foreign Office to which this airgram provided replies (711.3227/5-3146).

balance of the stock might be held in one comparatively large block by a national of some other country. On the other hand, a less-than-majority interest, such as 40% of the stock of the enterprise, might, in a particular fact situation, satisfy the requirement of effective control, as where that block were closely held by nationals of the particular country, and the remaining stock were widely distributed in small blocks among citizens of other nations. In other words, the Board feels that sufficient stock must be held by the nationals of the country concerned to be effective when voted in the aggregate, and that whether such aggregate stock interest in any particular case is to be regarded as representing effective control must be determined upon the facts of that case.

ACHESON

711.3227/7-146 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

RESTRICTED
URGENT

WASHINGTON, July 2, 1946—7 p. m.

897. Reurtel 1189, July 1.⁸⁰ Dept believes bilateral agreements between Brazil, and Portugal, France, and Great Britain in terms substantially same as US proposals to Brazil would enable Panair do Brazil⁸¹ to enjoy fifth freedom rights between Brazil, Paris, Lisbon and London provided those points were named on routes specified in agreements. Bilateral agreement between Netherlands and Dominican Republic would not give Aerovias fifth freedom rights between Dutch Guiana and Ciudad Trujillo, but bilateral agreements between Brazil and Netherlands and Dominican Republic, respectively, could give such rights.

ACHESON

832.796/7-546

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

RESTRICTED
No. 162

RIO DE JANEIRO, July 5, 1946.
[Received July 15.]

SIR: I have the honor to enclose a copy and translation of a note dated June 17, 1946 (received by the Embassy on July 3, 1946) transmitting a proposed memorandum of agreement⁸² providing for the

⁸⁰ Not printed; in it the Ambassador posed questions to which the telegram here printed gave answers (711.3227/7-146).

⁸¹ Subsidiary of Pan American Airways.

⁸² Neither printed.

establishment of an American Civil Aviation Technical Mission in Brazil. It will be observed that the Minister of Foreign Affairs requests that this text be submitted to the United States Government, in order that necessary negotiations may be undertaken to create the aforesaid Mission.

The text transmitted herewith is based on the draft submitted under cover of the Department's instruction No. 7814 of February 4, 1946, modified subsequently as a result of discussions between the Embassy and the Brazilian officials. The major changes were for the purpose of deleting from the memorandum of agreement clauses involving specific expenditures for which the Ministry of Air at this time is unable to accept financial responsibility. While the draft memorandum of agreement transmitted herewith is not necessarily perfect in all respects, the Embassy considers that it affords an adequate basis for establishing a Civil Aviation Mission in Brazil, and it is recommended that the Department authorize the Embassy to address a note to the Ministry of Foreign Affairs accepting this proposal, and thereafter proceed in collaboration with the Civil Aeronautics Administration to place it into immediate operation. Mr. Cloyce J. Tippet, representative in Rio of the Civil Aeronautics Administration, concurs in this recommendation. In this connection the Department's attention is invited to the fact that under Section 5 of the memorandum of agreement changes may be effected at any time by mutual agreement between the two Governments through an exchange of notes.

Respectfully yours,

WILLIAM D. PAWLEY

711.3227/7-2446 : Telegram

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

RESTRICTED

RIO DE JANEIRO, July 24, 1946—7 p. m.

[Received 11:58 p. m.]

1336. Reference Embassy's telegram 995, May 28, 7 p. m. Brazilian counter-proposals for bilateral civil aviation agreement presented today at meeting at Air Ministry attended by Embassy representatives and Brazilian group headed by Brigadeiro Cunha Machado. Complete new draft proposed agreement had been prepared by Brazilians incorporating general provisions US draft plus additional articles, and enlarging annex to include much material from Bermuda agreement. Routes suggested for US carriers radically different from US proposals; Brazilian routes requested for first time specified below.

Impractical telegraph full text of Brazilian proposals or differences from US proposals, but salient features listed below :

1. Article 8 US proposals does not appear in Brazilian draft, but Brazilian article 13 provides that present agreement replaces any privileges or concessions in existence at time of signature granted by either contracting party to an airline of the other country.

2. Section A of annex provides that traffic capacity must be in close relation with requirements.

3. Section C of annex rejects Fifth Freedom by stating that traffic destined to or coming from third countries will be permitted only when national airlines are not rendering same service.

4. Section E annex provides rates to be established by agreement between airlines on same route and submitted to both Governments for approval after reaching understanding through machinery of International Air Transportation Association.

5. Section H annex provides that disagreement between contracting parties on rates must be submitted to PICAQ or successor organization, each government undertaking to use best efforts to adopt recommendations of that body.

6. Routes proposed for US airlines in annex divided into two sections; one route to Brazil and three routes across Brazil. Route to Brazil is same as No. A-4 in US proposals except Belo Horizonte eliminated.

Three routes across Brazil offered as follows:

First from US via intermediate points in the Caribbean and South America to Belém, Natal and Africa in both directions. (Occasionally in case of need to Europe when meteorological conditions of the North Atlantic require it.)

Second from US via intermediate points in the Caribbean and South America to Manaus, Goiania, Guaira and beyond (i.e., Asunción, or Montevideo, etc.)

Third from the US via intermediate points in the Caribbean and South America to Manaus, Goiania, São Paulo, Montevideo and Buenos Aires.

With reference to third route Cunha Machado stated no objection to inclusion Rio de Janeiro, but pointed out deviation from Goiania to Rio on route Montevideo-Buenos Aires. However, international traffic could not be carried from Rio to Buenos Aires or return because of Section C annex referred to above since both Panair do Brasil and Cruzeiro do Sul and possibly other Brazilian lines plan to maintain this service.

It will be observed that Pan American's coastal route (see A-2 US proposals) is eliminated from Brazilian proposals.

Route approved by CAB to São Paulo from West Coast (see A-6 US proposals) likewise eliminated.

Pan American cut-off in Barreiras likewise eliminated.

Corumba likewise eliminated affecting Panagra service.

Cunha Machado stressed advantages direct interior route via Goiania, Cuiba and Guaira, but as Department is aware, these airports are not yet adequate for large airplanes and have not received CAA authorization.

7. Routes proposed for Brazilian airlines provide for three routes to US as follows:

First from Brazil via intermediate points in South America and the Caribbean including Puerto Rico to Miami, Washington and New York or to Washington and New York.

Second from Brazil via intermediate points in South America and the Caribbean including Puerto Rico to Miami and Chicago.

Third from Brazil via intermediate points in South America and the Caribbean including Puerto Rico to New Orleans.

No routes across US are requested.

Full text Brazilian draft proposals follows by air. Foregoing summary salient points will bring home to Department difficulties of pending negotiations as previously reported. Due to great importance of pending agreement suggest reconsideration be given Embassy's recommendation in telegram 807, April 30, 8 p. m.,⁸³ that high-ranking, competent official from Department or Commerce Department proceed Rio de Janeiro immediately with ample authority to negotiate rapidly thus obviating delays to be expected from frequent telegraphic interchange.

PAWLEY

711.3227/7-2646 : Telegram

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

RESTRICTED

RIO DE JANEIRO, July 26, 1946—2 p. m.

[Received 9 p. m.]

1349. ReEmbtel 1336, July 24, 7 p. m. Second meeting held this morning with Cunha Machado and Brazilian group at which Tippet and Daniels presented informally and orally following observations on Brazilian proposals bilateral civil aviation agreement.

1. Elimination Barreiros cut-off route might result suspension Pan American service if proposed route via Manaus-Goiania and Guaira have inadequate radio and landing facilities and lack CAA certification. On this point Cunha Machado said definitely that it was not desired to interrupt Pan American service to Rio de Janeiro.

2. Question of Panagra West Coast service connection with Panair do Brasil at Corumba was raised. Cunha Machado said that such connection could readily be made at Porto Suarez, Bolivia without prejudice to Panagra.

3. Elimination of Pan American coastal route via Fortaleza, Recife, etc. would represent loss of much cargo and passenger business by Pan American [apparent omission] points on international hauls. Cunha Machado replied that Panair do Brasil could adequately handle this business.

4. Elimination of Fifth Freedom rights between Brazilian points and third countries would deny US citizen right to fly from, say, Rio

⁸³ Not printed.

de Janeiro to Buenos Aires on American flag carrier; and be contrary to US aviation policy. Cunha Machado stated that many European airlines likewise interested in the traffic which combined with Pan American service would be too much competition for Brazilian airlines flying between Rio de Janeiro and Buenos Aires.

5. Elimination US proposal 6 for West Coast route to São Paulo (Braniff) excludes another American air carrier from providing an additional service to Brazil by another route. Cunha Machado observed that the route was not very practical and that in any event more direct service to the US was provided by the interior routes in the Brazilian proposal and that if Braniff wished to fly to Brazil it could compete on the Manaus interior cut-off.

6. Rejection of Fifth Freedom rights in proposed agreement would set unfavorable precedent for Brazilian airlines operating or planning to operate in international field such as between Buenos Aires and Santiago (Cruzeiro do Sul) or between European points such as Lisbon, Madrid, Paris, London, Rome (Panair do Brazil and possibly Aerovias and Cruzeiro). Cunha Machado observed that such traffic was already difficult citing alleged Portuguese refusal to permit Brazilian airlines to transport passengers from Lisbon to Madrid.

7. Concern was expressed lest curtailment of US transport services represented by Brazilian draft might be interpreted as out of harmony with policy and cooperation in aviation matters which both countries have been following; and that it would be easier to get full cooperation from American airlines in aviation matters such as radio and fuel facilities if both countries were following similar policies in aviation matters. It was obvious that Cunha Machado and his entire group did not wish any disagreement with the United States on aviation policy but felt it their duty to avoid any agreement which would be prejudicial to development of Brazilian airlines. He was assured that the US as well as Brazil favored the development of Brazilian aviation; it was merely a matter of following long range enlightened policy rather than a short range protectionist policy.

The foregoing observations were stated to be informal and in advance of Dept's instruction to afford more opportunity to study these considerations pending receipt of Dept's instructions. No further meetings scheduled until instructions received but opportunities will be sought in conversations to keep subject active in hope of obtaining satisfactory agreement.

PAWLEY

832.796/8-246 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

RESTRICTED

WASHINGTON, August 12, 1946—6 p. m.

1081. CAA unenthusiastic over Brazilian proposed technical assistance agreement but will probably await Tippet arrival before recommending changes to Dept. Dept. suggests advisability at Emb discre-

tion of deferring conclusion civil aviation technical assistance pending outcome bilateral transport negotiations.

ACHESON

711.3227/8-2646 : Telegram

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

RESTRICTED

RIO DE JANEIRO, August 26, 1946—6 p. m.
[Received 8:20 p. m.]

1505. For attention Norton⁸⁴ and CAB from Landis.⁸⁵ The following route plan is my proposal. All United States routes open with following description: "United States via intermediate points in the Carribean and South America" to a Brazilian point, with exception routes 4 and 5 which recite west coast of South America.

Route 1: Belém, Natal and beyond to Africa and when operational conditions in the North Atlantic so require to Europe.

Route 2: Belém, Barreiras, Rio, São Paulo and beyond to Montevideo and Buenos Aires.

Route 3: Belém, Fortaleza, Natal, Recife, San Salvador and Rio and beyond to Buenos Aires via São Paulo, Porto Alegre and Montevideo and via São Paulo, Curitiba, Iguassu Falls and Asunción.

Route 4: Asunción and São Paulo to Rio.

Route 5 to Corumba.

Route 6 to Manaos, Goiania and Rio.

My comment on above.

Route 2 is Pan American's desired DC-4 route to Buenos Aires.

Route 3 is Pan American's hump route. It omits with tentative approval Pan American points certificated but not desired to be served. Also no excuse for serving Curitiba and Iguassu Falls as international points and these may be eliminated with Pan American's consent.

Route 4 is Braniff's route.

Route 5 is Panagra's route. May have to move Corumba to Campo Grande where adequate connection with Panair. Panagra will presumably consent.

Route 6 inserted for trading purposes. Manaos airport impossible for anything more than DC-3's so authorize elimination if necessary.

Brazilian routes are all described "United States of Brazil via intermediate points in South America and the Caribbean including Puerto Rico".

⁸⁴ Garrison Norton, Deputy Director of the Office of Transport and Communications Policy.

⁸⁵ James M. Landis, Chairman of the Civil Aeronautics Board.

- Route 1 to New York and beyond to Montreal.
- Route 2 to Miami and to Washington.
- Route 3 to Miami and New Orleans.
- Route 4 to Miami and Chicago.
- Route 5 to Washington, Baltimore, Philadelphia and New York.

No comment on above.

Puerto Rico, although included in route description, will in practice be omitted on some routes and Trujillo used. Unlikely that routes 4 and 5 will be operated but inserted for balancing purposes.

Non-stop provision similar to that in our proposal will be inserted.

Please comment speedily on these proposals. The balance is very much to our favor perhaps too much so to be agreeable but impossible to cut our side other than route 6 and would throw this route into discard anyway for operational considerations.

PAWLEY

711.3227/8-2646 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

RESTRICTED
US URGENT

WASHINGTON, August 29, 1946—6 p. m.

1152. For attention Landis. Language proposed item 1 your 1500 Aug 26⁸⁶ still causes Dept concern due to possible complications, and following revision suggested.

“With respect to the exportation of finished products, semi-manufactured products and raw materials suitable and fit for civil aviation, each contracting party shall accord to the other contracting party treatment no less favorable than that which it accords to any third country. Each contracting party also undertakes, with respect to permitting technical assistance from within its territory for the development of civil aviation in the territory of the other contracting party, to accord to the airlines of such other contracting party fair and equitable treatment as compared with the treatment which it accords to the airlines of any third country. It is understood, however, that nothing herein shall be construed to prevent the adoption or enforcement by either contracting party, in time of war or other national emergency, of measures relating to the protection of its essential security interests.”

Confirming telephone conversation Wed between Landis Gewirtz and Walstrom, CAB agrees with all proposals your 1500 and 1505 Aug. 26 but has comments on three points.

Point 1. Re Mexican clause in Art 6 CAB now prefers definite stipulation that substantial ownership and effective control be vested in each respective party, rather than present reservation of right to revoke if this not the case.

⁸⁶ Not printed.

Point 2. US route 6 may have future importance and should be retained if Brazilians agreeable.

Point 3. CAB questions necessity for Brazilian route 4. However CAB does not insist on any of these points at risk of sacrificing agreement.

Re Item 8 your 1500 Aug 26 Depts experience has been that when agreements are not reviewed and approved *in toto* before conclusion there are frequently errors and ambiguities which are difficult to correct once agreement signed. However Dept recognizes overriding importance of getting Brazilian agreement soonest possible and therefore willing to make exception, hereby authorizing conclusion of agreement on basis Embtels 1500 and 1505 Aug 26 and revised language suggested above. Please consult Dept before making substantive revisions. Both Pawley and Landis should sign for US.

Comparison of Portuguese and English texts forwarded Embs despatch 353 July 25⁸⁷ indicate Portuguese version of approved articles in body of agreement to be satisfactory but suggest further minor changes in English version for closer conformity. These suggestions being sent separate telegram and should be incorporated English text if possible.

ACHESON

711.3227/9-746 : Telegram

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

RESTRICTED

RIO DE JANEIRO, September 7, 1946—11 a. m.

[Received September 7—10:33 a. m.]

1570. For Norton and CAB from Landis. Agreement signed.⁸⁸ No coastal route and Asunción is out. Bermuda type. Brazilians full accord with principles and will stick with them in pending negotiations Argentina, England and Portugal. [Landis.]

PAWLEY

711.3227/9-746

Memorandum by the Director of the Office of Transport and Communication (Norton) to the Assistant Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] September 7, 1946.

Wednesday—September 4

Mr. Landis reached me on the telephone when I was in a meeting at the Civil Aeronautics Board at 5 o'clock and said that the agreement was ready for signature, that it represented no departure from

⁸⁷ Not printed.

⁸⁸ TIAS No. 1900, September 6, 1946.

the Bermuda principles and that the only remaining unsettled point was the matter of Pan American routes. He said that Mr. Pawley was simultaneously talking on the telephone with Mr. Clayton and that both of them urged us to authorize them to sign the agreement leaving out Pan American's historic east coast route. This would leave Pan American with the so-called "cut-off" route from Belém to Rio, and would also allow them to serve Belém and Natal on the route to South Africa. At this point I ascertained from the Civil Aeronautics Board that they had that morning been in conversation with Mr. Landis on this matter and had given his proposal their approval. I suggested to Mr. Landis that we ought to clear this with the Army. He said something about being in touch with the US military attaché but the connection was poor and I did not understand him. I said that I also felt we should, in addition to clearing with the military, consult Juan Trippe.⁸⁹ Landis again urged speedy action and authorization to sign at once. After talking to Mr. Clayton who had been similarly urged by Mr. Pawley, I got in touch with General Lauris Norstad⁹⁰ who promised to give us the Army's answer Thursday morning. I asked him to telephone me in Mr. Clayton's office at 8:45 Thursday morning.

Thursday—September 5

General Norstad telephoned and said that the Army shared with the State Department and the Civil Aeronautics Board the desire for the immediate conclusion of an air transport agreement with Brazil that would not do violence to the Bermuda principles. He made it clear that he was fully aware of the significance of such an agreement in view of (a) the Mexican situation; (b) the presence of an Argentine delegation in Washington now attempting to negotiate an air transport agreement;⁹¹ (c) the recent action of Chile in turning down the Argentines on their so-called ABC proposal; and, (d) the imminent departure of Messrs. Landis, Burden, Norton and Brownell to England to confront the British with their deviations from the Bermuda principles. He said that although the Army felt that, from the military viewpoint, it was desirable that Pan American should continue to fly the coastal route, the importance of signing a satisfactory agreement at this time was greater. The Army therefore requested that one final attempt at the highest level be made to retain this route but that if this attempt was unsuccessful they urged that we sign the agreement. Mr. Clayton said that this proposal conformed with our thinking and that we would so do. Mr. Clayton then put in a telephone call

⁸⁹ President of Pan American Airways, Inc.

⁹⁰ Assistant Chief of Air Staff-5.

⁹¹ See bracketed note, p. 339.

for Mr. Trippe and was unsuccessful in reaching him although he made repeated attempts during the day. At 5:30 he turned over to me the matter of trying to reach Mr. Trippe and telephoned Mr. Landis informing him of the Army's attitude as well as confirming the clearances by the Civil Aeronautics Board and asking that Ambassador Pawley see President Dutra and urge on him the desirability of allowing Pan American to continue the coastal route. Mr. Clayton then confirmed this conversation in a cable in which he cited (a) the heavy expenditures made by the Army on that route, (b) Pan American's investment, and (c) the fact that this was Pan American's historic route which the company had pioneered. I continued efforts to reach Mr. Trippe and traced him to his home in East Hampton but was unable to get in touch with him throughout the evening. Mr. James H. Smith, Vice President of Pan American, and General George A. Brownell dined with me that night and the General and I had a frank talk with Mr. Smith on the attitude of Mr. Trippe toward negotiations of this sort. It is believed that Mr. Smith contacted Mr. Trippe late that night and asked him to call Mr. Clayton in his office the first thing next morning.

Friday—September 6

Mr. Trippe telephoned Mr. Clayton who was unable to accept the call and referred Mr. Trippe to me. I informed him of the alternatives presented and of the clearances described above. Mr. Trippe urged that we ask Mr. Landis to press for retention of the coastal route and the cut-off route, offering to the Brazilians what Mr. Trippe described as Pan American's contribution to the solution of this problem; namely, that Pan American give up in favor of Braniff the Rio-Asunción route, thereby enabling the newly certificated American flag carrier to reach Rio without increasing United States competition against the Brazilian lines. I promised to report this immediately to Mr. Clayton and Mr. Trippe asked me to also tell Mr. Clayton that Pan American wanted to be a "good soldier" and would, of course, go along with whatever Messrs. Landis and Clayton felt was in the best interests of the United States. However, he pointed out the serious blow that loss of the coastal route would be to Pan American, particularly as the company is now in the midst of financing its new equipment in a difficult market situation. I asked him what the Pan American investment in the coast route amounted to and he said approximately \$200,000. He said that the company had invested approximately twice that amount in the cut-off route. He also pointed out the complicated relationship of Pan American to the development by the United States of the airfields along this route. He said loss of the coastal route would jeopardize our position with

the Brazilians both under the ADP contracts and under the so-called "Decree Law". He admitted that the traffic volume on this route was relatively unimportant from an income point of view and that the bulk of such traffic would inevitably be carried by Brazilian airlines since it is mostly cabotage.

I asked Mr. Trippe whether the Manaos-Rio route would be acceptable to Pan American in lieu of the cut-off route, provided Pan American could also keep the coastal route. He said that such an alternative would be entirely satisfactory to the company and indeed advantageous, provided that the company were given a year in which to repair and construct the necessary facilities over the Manaos route. He said that the Manaos-Rio route is the shortest of all and that with the new four-engine equipment it would be more desirable than the cut-off route.

I reported this conversation to Mr. Clayton who authorized me to telephone Mr. Landis and to inform him of the alternatives acceptable to Mr. Trippe. Mr. Clayton asked me to tell Mr. Landis that, if he was unable to obtain Brazilian acceptance of these alternatives, he and Mr. Pawley should feel free to go ahead and sign, using their best judgment. I reached Mr. Landis at 3 o'clock and gave him the above information. He said that Mr. Pawley at that moment was seeing President Dutra and urging upon him the contents of Mr. Clayton's cable. Mr. Landis understood the alternative proposed by Mr. Trippe but said that the Rio-Asunción route was "politically impossible" in a bilateral agreement. The connection was poor and I could not ascertain whether he was referring to Pan American's present Rio-Asunción route or to the newly certificated route for Braniff. It was clear, however, that he understood Mr. Trippe's proposal regarding that route as well as my suggestion about Manaos-Rio.

In this connection he said that we could have the Manaos-Rio route any time we wanted it, whether or not it was in the trade as finally worked out under this agreement. He attributed this to the fact that considerable development and expense would be required to get this route going and that the Brazilians would welcome the assistance of Pan American or any other American flag carrier in the development of this route.

I made clear to him that he and Ambassador Pawley were authorized to sign after they had satisfied themselves that all of the above alternatives had been thoroughly canvassed with the Brazilians and after they had done their very best to retain the coastal route for Pan American.

732.5607/10-746 : Telegram

*The Chargé in Brazil (Daniels) to the Secretary of State*RESTRICTED
US URGENTRIO DE JANEIRO, October 7, 1946—3 p. m.
[Received October 8—1:57 a. m.]

1718. Negotiations now underway here between Brazil and Netherlands for bilateral air route agreement. Dutch have proposed and Brazilians have accepted direct route from Europe to South America via Lisbon, Natal, Rio to Buenos Aires. However, Dutch have likewise proposed route from Curaçao to Paramaribo, Belém, Rio and Buenos Aires. Latter route falls entirely within American continental territory and route from Belém south already is being and will be adequately serviced by air carriers of the American Republics. This morning Brigadeiro Cunha Machado consulted me regarding this Dutch proposal with view to ascertaining views of United States Government. He pointed out following considerations:

1. If Dutch are given route from Caribbean area via Belém to Buenos Aires the English and French might make similar request and with equal logic, which would lead to overcrowding of this route not only in general but particularly by airlines of non-American countries.
2. That Dutch interests in the Caribbean area (the same as British and French) were colonial and of a relatively minor character which should be connected logically with their home countries but not necessarily serve as a base of operations southward to American countries.

Brigadeiro Cunha Machado indicated Brazil would refrain from final decision in the matter pending expression our views. I have thanked him for his courtesy and cooperation in consulting us on this point and urge that views of Department and CAB be telegraphed urgently so that they may be taken into consideration by Brazilian Government in pending negotiations with Dutch.

DANIELS

732.5627/10-746 : Telegram

*The Acting Secretary of State to the Chargé in Brazil (Daniels)*RESTRICTED
U.S. URGENT

WASHINGTON, October 10, 1946—7 p. m.

1320. Your 1718, Oct. 7. You may tell Cunha Machado informally that in proposed bilateral with US, Dutch have asked for number of routes radiating from Curaçao and CAB is having great difficulty weighing the justification for such routes.

For your background info US international services are on routes connecting homeland with countries with which US has traffic flow. While grateful for Brazilian consultation we hope Brazil will answer Dutch without indicating its decision influenced by us.

ACHESON

832.796/8-2846

The Acting Secretary of State to the Chargé in Brazil (Daniels)

RESTRICTED

WASHINGTON, October 15, 1946.

No. 281

SIR: Reference is made to the Embassy's despatch no. 162 dated July 5, 1946 transmitting for this Government's consideration a proposed Memorandum of Agreement providing for the establishment of an American civil aviation technical mission in Brazil.

While the Department, as well as the Department of Commerce, is eager to conclude a formal agreement with Brazil for a civil aviation mission, and appreciates the Embassy's recommendation in the premises, a study of the draft Agreement submitted by the Brazilian authorities leads to the conclusion that the Brazilian Government's offer of cooperation is so limited as to give rise to apprehension as to their interest in the whole program. This Government's policy presupposes a minimum of cooperation and sharing of financial burdens by the recipient country in connection with the operation of civil aviation missions abroad. Since it appears that Brazil's offer of cooperation is very restricted it would not be in accord with our policy in such matters, as outlined to the Bureau of the Budget and to Congress in connection with the appropriation of funds, to sign the Agreement in the form proposed.

There are accordingly listed below certain suggested changes to the Agreement which the Department, in concurrence with the Secretary of Commerce, deems it desirable to make in the draft Memorandum of Agreement.

[Here follows list of proposed changes.]

The Department feels that every effort should be made to have the foregoing changes made in the Memorandum of Agreement.⁹³ In the event that these modifications are secured the Embassy should forward the text of the final draft of the Agreement to the Department for clearance in Washington after which appropriate instructions will be issued regarding the exchange of notes to put the Agreement into effect.

In the event that the foregoing changes cannot be secured or that it appears to the Embassy that the conclusion of an agreement would be considerably delayed in obtaining the Brazilian Government's reaction to our proposals, the Department would appreciate receiving the Embassy's views as to whether a temporary aviation mission should be sent to Brazil without the conclusion of an agreement. Such a mis-

⁹³ Despatch 1373, January 6, 1947, from Rio De Janeiro, indicated that the Brazilian Air Minister, Trompowski, had no objections to the suggested changes (832.796/1-647). No final agreement, however, was reached in 1947.

sion would, of course, be sent to Brazil only upon receipt of the latter's official request therefor. Such request should necessarily embody the substance of the proposals advanced by the Brazilians for the governance of a regular civil aviation mission. In the event that the Embassy believes that it would be advantageous to adopt the latter procedure, the Department of Commerce is prepared to send a three-man temporary civil aviation mission to Brazil at an early date.

Very truly yours,

For the Acting Secretary of State:

W L CLAYTON

**CONCERN OF THE UNITED STATES WITH BRAZILIAN INDEBTEDNESS
AND FINANCIAL NEEDS FOR ECONOMIC DEVELOPMENT**

832.51/1-846

Memorandum by the Assistant Chief of the Division of Brazilian Affairs (Braddock) to the Chief of the Division (Chalmers)

[WASHINGTON,] January 8, 1946.

I agree fully with Mr. O'Toole's⁹⁴ recommendation that the United States press Brazil vigorously to reach a satisfactory solution of the coffee realization bonds, whose service and retirement are now in default. The obligation is admitted by Brazil, and the Brazilian Government is financially able and morally bound to do something about the bonds.

Resumption of service and provision for gradual amortization would be easier to ask for than outright liquidation of the obligation because:

1) through our coffee ceiling prices⁹⁵ we are restraining the coffee market, and to insist on sale while our ceilings are in force would be to put Brazil in a disadvantageous position (even though the coffee stocks securing the loan could be sold today at considerably more than the amount of the loan).

2) Brazilian coffee growers fear, rightly or wrongly, that if the stocks of bankers' coffee were thrown on the market all at once, the coffee market would be disrupted.

As long as these bonds are in default, it will be difficult for the United States to entertain Brazilian requests for further loans from the United States. This matter should be cleared up with the least possible delay in order for the way to be opened for us to extend further financial help to Brazil with the confidence that Brazil will live up to her obligations.

⁹⁴ Richard F. O'Toole, Division of Brazilian Affairs.

⁹⁵ For documentation on discussions of coffee problems between Brazil and the United States, see pp. 504 ff.

832.51/1-2446

*Memorandum by Mr. Richard F. O'Toole of the Division of
Brazilian Affairs*

CONFIDENTIAL

[WASHINGTON,] January 24, 1946.

Subject: Status of Coffee Realization Loan of 1930

Ambassador Berle met today with the following departmental officers to discuss the above topic:

OFD—Mr. Livesey ⁹⁶FN—Mr. Corliss ⁹⁷IR—Mr. Cale ⁹⁸

BA—Messrs. Chalmers, Braddock and O'Toole

The purpose of the discussion was to consider the possibility of inducing the Brazilian Government to sell the coffee held as collateral of this loan and to pay off the outstanding bonds. Mention was made of the fact that departmental records indicate an important discrepancy in the figures of coffee stocks held, as furnished by the Minister of Finance in February 1945 and by the head of the DNC in August of the same year. There is also indication, in the Department's records, that part of the coffee collateral may have been sold without the prior consent of the bankers. Under such circumstances it is feared that should Brazil approach our private capital markets, later on, bondholders of the Coffee Realization Loan might well raise objections to such procedure as long as no steps have been taken by the Brazilian Government to redeem this bond issue.

Again, Mr. Cale believes that if the coffee held is of suitable quality it would be decidedly to the advantage of our coffee requirements to bring about its release for marketing in this country.

Ambassador Berle did not believe that this Government has any obligation to act as a collecting agent for these bondholders nor did he feel that it should assume the role of checking the collateral. However, since the Department and the Embassy had assisted in bringing about the debt refunding agreement he saw no reason why we should not inquire as to the present status of this loan. He further expressed the opinion that up-to-date figures should be obtained and suggested telegraphing instructions to the Embassy to procure the necessary information both as to the present aggregate of the outstanding bonds as well as the quantity and quality of the collateral held.

⁹⁶ Frederick Livesey, Adviser, Office of Financial and Development Policy.

⁹⁷ James C. Corliss, Assistant Chief of the Division of Financial Affairs.

⁹⁸ Edward G. Cale, Associate Chief of the International Resources Division.

832.50/3-1246

The Department of State to the Brazilian Embassy

MEMORANDUM

CONFIDENTIAL

The Brazilian Embassy in its confidential memorandum no. 55/822.3(22) (42) of March 12, 1946,⁹⁹ has outlined in general terms a comprehensive program of economic development which the Brazilian Government is now engaged in preparing, and has requested that preliminary consideration be given by the Department of State to the possibility of financial and technical assistance being obtained from the United States for the purpose of carrying this program into effect.

The United States Government is alive to the efforts of the Brazilian Government to strengthen the economic structure of Brazil and will be glad to give careful and sympathetic study to the plans for the realization of the Brazilian development program. The furnishing of financial assistance by this Government for the execution of such plans, however, would be subject to certain limitations which are set forth below.

The character and degree of assistance must, of course, take into account not only the specific needs and resources of Brazil and the equipment and technical skills in the United States that would be available for the purpose, but also the possibility of private financing, of financing through the International Bank, and to the extent that assistance from these two primary sources was insufficient, the amount of capital that could reasonably be employed for this program by the Export-Import Bank in view of the requirements of certain European countries for rehabilitation and the needs of the other American republics for development.

The United States Government will therefore await with interest the receipt from the Brazilian Government of the detailed plan.

WASHINGTON, March 27, 1946.

832.51/3-2846

*Memorandum by Mr. Richard F. O'Toole of the Division of Brazilian Affairs to the Assistant Chief of the Division (Braddock)*¹

CONFIDENTIAL

[WASHINGTON,] March 28, 1946.

The recent experience of Mr. Green² (of our Rio Embassy) in trying to find out the quantity and quality of the coffee pledged for repay-

⁹⁹ Not printed.

¹ Marginal notation by Mr. Braddock reads: "RFO, Good! Why not approach problem from both angles, coffee and finance, in turn as each offers opportunity? I suggest you begin to prepare the ground with Sellon and with Corliss. D.B."

² David S. Green, Senior Economic Analyst.

ment of this loan, strengthens certain beliefs which I have long held about this transaction,—namely :

- 1) that in the absence of a satisfactory, independent verification any information from Brazilian Government sources regarding either the quantity or quality of this coffee should be received with reservations.
- 2) that the Brazilian Government has no intention of recognizing its obligation to the bondholders of this loan.
- 3) that unless this Government exerts pressure upon the Brazilian Government the bondholders will never be paid off and the collateral will sooner or later be wrongfully converted.

Last October I prepared a memorandum in which I set forth the history of this transaction and, apart from the moral considerations involved, mentioned a number of reasons why it would be in the Department's interest to ask the Brazilian Government to call these bonds for redemption. I am now of the opinion that it is both urgent and advantageous to take such a step in the immediate future, because:—

a) Official announcement has been made by the Brazilian Government that the National Coffee Department will be liquidated on June 30 next. As that organization is the custodian of this pledged coffee its prospective liquidation affords ample reason for making pointed inquiries of the Brazilian Government as to its intention with regard to this collateral.

b) On the same date the present coffee subsidy arrangement will expire, so that subsequent policy with regard to price ceilings must be determined by that time.

c) The Brazilian Government will shortly send a representative to this country to take up the question of future coffee price policy.

d) The Brazilian Government intends to seek substantial capital assistance in this country in the near future.

If we are to take action in this matter our first consideration is that of determining procedure. Is it to be looked upon as a matter related to coffee or as a transaction related to public finance? Should action be joined to discussions about coffee price policy or should it be related to Brazilian negotiations for new capital?

If the matter is brought up in connection with coffee price policy discussions then we ought to round out our effort by also including the subjects of coffee export taxes and sales and consignment taxes. Recently Brazilian coffee planters memorialized the Minister of Finance³ and included requests that the export tax on coffee be eliminated and that the sales and consignment tax law be revised. We, accordingly, ought not to lose the opportunity to forcefully press these tax matters in addition to that of the liquidation of the bonds, for it

³ Gastão Vidigal.

is about time that we got some return in exchange for the forty or fifty million dollars of taxpayers' money which we are handing out to these planters under the coffee subsidy.

On the other hand it might prove better strategy to join this question of bond redemption to the coming discussions of Brazil's credit requirements for the following reasons:

1) Any announcement of Brazil's intention to seek capital assistance in this country would almost certainly stimulate strong objection on the part of Coffee Realization Loan bondholders. With a congressional election in the offing, the possibilities of such a situation are too apparent to ignore.

2) The success or failure of any Brazilian Government effort to obtain such new capital would, in light of the foregoing, probably depend entirely upon the redemption or nonredemption of these bonds.

832.51/4-2246

Memorandum by the Acting Chief of the Division of Brazilian Affairs (Braddock) to the Assistant Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] April 22, 1946.

Garcia⁴ of the Brazilian Embassy told me on April 18 that the Brazilian Government was deeply concerned over the apparent difficulty in getting financial assistance here for carrying out Brazil's new five-year economic program. With respect to the suggestions made by Mr. Clayton in his conversation with the Brazilian Minister of Transportation, Dr. Macedo Soares, on April 15, namely that Brazil apply to the Export-Import Bank for a credit sufficient to finance its purchases in the United States up to the end of 1946 and thereafter seek a loan from the International Bank, Mr. Garcia said that the Brazilians feared (1) that the credit they could get from the Export-Import Bank might not be sufficient to carry the plan up until the time when further financing could be arranged through the International Bank, and (2) that indications to date were that countries seeking loans from the International Bank for reconstruction purposes would probably receive preferential treatment over other countries such as Brazil which were in need of loans for development purposes. He said there was also a fear that the possibility of Brazil's getting assistance from the International Bank would be further diminished because of the fact that Brazil proposed to spend the entire amount of her loan in the United States (which while agreeable to this Government might be less agreeable to the Bank Directors representing other countries). Apart from the anticipated difficulty of getting a loan from the Inter-

⁴ Celso Raul Garcia, Second Secretary of the Brazilian Embassy.

national Bank, I gathered that Brazil otherwise had no objection to having recourse to the International Bank instead of to the United States Government.

The Brazilian Government feels that its proved friendship and long record of close cooperation with the United States give it a just claim to our most favorable consideration in the assistance that it is requesting, and that it is to the direct interest of the United States to help make Brazil a strong and effective part of the American community for any eventualities that might arise.

DANIEL M. BRADDOCK

832.51/4-2246: Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, April 22, 1946—5 p. m.

[Received 8:15 p. m.]

737. For Martin Export Import Bank, from Gaston.⁵ Rio Doce⁶ funds for reasons that seem apparent in terms of contract. Therefore, I strongly suggest that in conversations with Macedo Soares plain intimations be given that we should like to see more action on Rio Doce before we commit ourselves further in any amount and I think we should stick to this position even though Soares rejoins, as is true, that he personally has nothing to do with Rio Doce. [Gaston.]

DANIELS

832.61333/4-2946

Memorandum by Mr. Richard F. O'Toole of the Division of Brazilian Affairs to the Associate Chief of the International Resources Division (Cale)

CONFIDENTIAL

[WASHINGTON,] April 29, 1946.

Your memorandum of April 10⁷ (copy of which was received in BA a few days ago) refers to a meeting with Mr. Eurico Penteadó, Brazilian delegate to the Inter-American Coffee Board, in which you and several representatives of OPA participated.

On behalf of his Government the Brazilian delegate proposed, in effect, the removal of coffee price ceilings against an undertaking of the Brazilian Government to offer for sale on the American market

⁵ William McChesney Martin and Herbert E. Gaston, President and Vice President, respectively, of the Board, Export-Import Bank.

⁶ The Companhia Vale do Rio Doce was organized to handle the reconstruction of the Victoria-Minas Railway and to develop the Itabira Iron Mine. For documentation on the participation of agencies of the United States in the project, see *Foreign Relations*, 1942, vol. v, pp. 678-691.

⁷ Not printed.

over a six months period up to 3,000,000 bags of coffee at a price of three cents per pound above current ceiling prices. Mr. Penteado also stated that 3,000,000 bags is the maximum amount which his Government could sell despite the fact that it "owns" slightly more than 6,000,000 bags of coffee,—*including bankers' stocks*. By way of explanation he then added that of the 6,000,000 bags approximately 4,500,000 are of exportable types but that only 3,000,000 bags (of the 4,500,000) are useable in the United States.

As you know, these so-called bankers' stocks are not the property of the Brazilian Government but constitute collateral for repayment of the Coffee Realization Loan of 1930, a substantial part of which is still outstanding and unpaid.

On February 21, 1946, pursuant to the Department's request for information about the outstanding balance of this loan, as well as particulars of the collateral held, an official of our Embassy at Rio de Janeiro received the following information from the President of the National Coffee Department of Brazil: ^s

1. As of December 31, 1945 the so-called bankers' stocks consisted of 6,052,638 bags of coffee worth \$101,000,000.00.
2. The average quality was Type 5 Santos.
3. As of December 31, 1945 the par values of outstanding bonds of this loan, guaranteed by coffee, were U. S. \$12,825,500.00 and Pounds Sterling 4,272,920-/-, respectively.
4. The President of the National Coffee Department knew of no recent reduction of the outstanding loan balance nor had he heard of any since October 1945.

If the statements of the Brazilian delegate, as set forth in your memorandum of April 10, about government stocks of coffee are compared with the information furnished by the President of the National Coffee Department, it is evident that extreme caution should be exercised in any coffee price ceiling discussions involving the sale of coffee owned or controlled by the Brazilian Government. Otherwise, this Government may find itself a party to the wrongful conversion of these pledged stocks of coffee.

If, as stated by the President of the National Coffee Department, on February 21 of this year, the so-called bankers' stocks consist of 6,052,638 bags of coffee then Mr. Penteado's statement that his Government "owns" slightly more than 6,000,000 bags of coffee, including the bankers' stocks, should be considered in light of previous information in possession of the Department that some of this pledged coffee was sold without consulting the bankers.

If, in fact, Mr. Penteado is proposing that his Government will sell any part of these bankers' stocks then it becomes this Government's duty to insist vigorously that:—

^s Ovidio de Abreu.

a. the Brazilian Government agree to call for redemption the outstanding bonds of the Coffee Realization Loan.

b. the Brazilian coffee export tax of Cr\$12.00 per bag be terminated forthwith, since the purpose of this tax is to service the Coffee Realization Loan.

c. Coffee offered for sale should be sold at current ceiling prices and not at a premium of three cents per pound as proposed. Otherwise it would mean a gift of about \$24,000,000 which would be particularly repugnant in light of the facts that the dollar equivalent of the outstanding loan is not quite \$30,000,000, the value of the coffee held as collateral is \$101,000,000, and the subsidy payments to June 30 of this year will have cost our taxpayers in the neighborhood of \$50,000,000.

Finally, if, as Mr. Penteado has substantially stated, only 3,000,000 bags of his Government's coffee stocks (including bankers' stocks) are of a quality suitable for American requirements then it is a reasonable conclusion that the bankers' stocks coffees are far from being Type 5 Santos as they are supposed to be and as the loan contract requires.

832.51/5-146

Memorandum of Conversation, by the Acting Chief of the Division of Brazilian Affairs (Braddock)

[WASHINGTON,] May 1, 1946.

Participants: Col. Macedo Soares, Brazilian Minister of Transportation and Public Works
 Sr. Frederico Roxo, Assistant to Col. Macedo Soares
 Sr. Benedito Silva, Adviser to Col. Macedo Soares
 Sr. Roberto Campos, Second Secretary, Brazilian Embassy
 ED—Mr. Fetter,⁹ Mr. Scanlan¹⁰
 Mr. Nestor Ortiz, Financial Expert, American Embassy, Rio de Janeiro
 BA—Mr. Braddock

At the Minister's request the members of the Department's working group met with him in his apartment at the Shoreham at 3:30 p. m., May 1. The discussion was in many respects similar to that which had taken place in the Minister's meeting with Mr. Clayton and in the first meeting of the working group.

Mr. Fetter introduced the discussion by explaining the relationship of the State Department to the Export-Import Bank and stated that while the Department could not speak for the Bank, questions which the Bank would inevitably raise in the course of any discussion

⁹ Frank W. Fetter, Director of the Office of Financial and Development Policy.

¹⁰ William Scanlan, Assistant Chief of the Division of Foreign Economic Development.

of a loan to Brazil would be (1) whether the Brazilian Government had explored the private capital market, and (2) what part of the loan was to be devoted to development as distinguished from replacement, since replacement would normally be considered a deferred import need to be paid from accumulated foreign exchange.

The Minister expressed understanding of this situation but said that he was not at this meeting speaking as a borrower to a lending agency but rather as a representative of the Brazilian Government to the United States Government. He went on to say that Brazil had projected a program of economic development which had political, economic and social aspects. On the political side he recalled the close ties that united the two countries and referred to the avowed intention of the United States to assist in the development and industrialization of Latin America. He stated that in Brazil the response of the United States to Brazil's development program would be understood by the Brazilian people as above all political, and that for this reason it was impossible to overlook the political factor in these discussions.

He reviewed briefly Brazil's slow progress toward economic development and its need for assistance if it were to attain better living conditions for its people and a position where the country would be an asset rather than a liability. Questioned by Mr. Fetter on the latter point, he replied that he was thinking in terms of military potential.

Colonel Macedo Soares then took up the question that had been previously raised as to why Brazil could not use its accumulated foreign exchange to help finance its program. He said that this exchange was required to meet many needs including: (a) to purchase gold to back Brazilian currency; (b) to pay off certificates of credit held by coffee exporters whose money had been tied up in the United States; (c) to discharge Brazil's new responsibilities to the International Bank and the International Fund; (d) to provide funds to help establish Brazil's Central Bank. Much of the exchange, he said, was frozen, and he mentioned in particular about 45 million pounds in Great Britain. Of the free reserves left after meeting these needs, and the Minister estimated the amount at \$100,000,000, the major part would be required to finance purchases of new machinery. This would leave at the most, he said, some \$35,000,000 to initiate the development program, a sum which he thought fell far below the amount needed.

Mr. Fetter raised the point which had already been made in previous meetings and which he himself reiterated several times during the course of this discussion, that the United States regarded the International Bank as the primary source for development capital. The

Minister said that he knew about the Bank, but he came to talk not to the Bank but to the United States Government. Mr. Fetter explained that because of the position taken by the United States Government in its lending policy, he only wanted to emphasize that the Minister, in fairness to himself, should keep in mind the importance of the Bank to any loan discussions. Mr. Campos stated that Brazil had no objection in principle to dealing with the International Bank but that it did have some misgivings as to (1) the interest it might be charged by the Bank, (2) whether the Bank could lend money in time for the contemplated development program, and (3) whether certain imponderables might not work against Brazil's receiving the loan it required.

On the subject of private capital, the Minister stated that the Government was perfectly willing to consider private loans but doubted whether any could be had on interest and other conditions that would be acceptable to his Government.

The Minister in conclusion stated that Brazil had been led to believe that immediately after the war would be a most favorable time to undertake its development program, and that conversations with industrialists in this country had tended to bear out this impression. He said that in the course of his official discussions it seemed that Brazil, however, had been mistaken. To the "new" lending policy of the United States, representing what he considered a departure from the principles expressed in the Resolutions signed at Mexico City,¹¹ his Government, of course, had no objection, but he stated that he would have to make this new policy clear to the Brazilian Government so that it could re-orient its own economic foreign policy. His Government had hoped, he said, to be able to carry out its development program with American capital, and purchasing only American equipment. This, he felt, under the "new" policy, to be impossible. Mr. Fetter objected to the description of the U.S. lending policy as "new" and said that in fact for the past two years the role of the International Bank had been a consistently important factor in our lending policy.

Mr. Braddock stated that he hoped that the Minister would understand that if it should not be possible for the United States Government to assist the Brazilian Government in exactly the way that the latter had desired, this was not due at all to any lack of willingness on our part or wish to help, but rather because of the multitude of demands with which this Government was confronted, which as a national policy it had decided to meet by using as far as possible the instrumentality of the International Bank.

¹¹ For texts of the resolutions, see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945).

832.51/5-646

*The Chargé in Brazil (Daniels) to the Secretary of State*RESTRICTED
No. 4974RIO DE JANEIRO, May 6, 1946.
[Received May [16?]].

SIR: I have the honor to transmit the original of a letter dated May 3, 1946¹² addressed to the Export-Import Bank of Washington by Mr. R. K. West, representative of the Bank in Rio de Janeiro and a director of the Companhia Vale do Rio Doce. There are likewise enclosed copies of this letter for the Department's information and files, a copy being retained for the Embassy's files.

This letter with its enclosures reports recent developments in the policy of the Government of Brazil relative to the provision of the funds required for expenditure in Brazil in accordance with the memorandum agreement of March 3, 1942.¹³ Attention is particularly invited to the statement of the Minister of Finance as reported in the letter, "that if anyone wished to provide the additional funds required to complete the program he would be pleased to turn over the entire operation of the mines and the railroad on very favorable terms". This statement would appear to afford a good opportunity to explore the possibility of renegotiating the terms of the \$14,000,000.00 credit in such a way as to (a) give the Export-Import Bank a better opportunity of recouping its investment and (b) ensuring a more rapid development and more efficient operation of the mines and railroad. It is assumed that the second objective is of importance because of the desirability of having available in the hemisphere added iron ore reserves.

It is generally known in Brazil that with efficient management and adequate funds the whole project would advance more satisfactorily. In the light of the foregoing considerations it is recommended that Mr. West's letter of May 3, 1946 and in fact that entire project be studied again most carefully by the Department and the Export-Import Bank with a view to instructing the Embassy as to what further specific proposals might be made to the Brazilian Government.

Respectfully yours,

PAUL C. DANIELS

¹²Not printed.¹³For text, see Department of State Executive Agreement Series No. 370, or 57 Stat. (pt. 2) 1314.

832.51/6-546

Memorandum by the Acting Chief of the Division of Brazilian Affairs (Braddock) to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] June 5, 1946.

The prospects for Brazil's getting the loan it has requested are not at all bright, I gathered in a talk this afternoon with Mr. Fetter, Director of the Department's Office of Financial and Development Policy. I had called on him to find out the current status of negotiations, and to get his reaction to the suggestion made to Mr. Braden by Ambassador Martins¹⁴ yesterday that Brazil be granted a loan sufficient to finance the first two years of its economic program, or \$150 million.

Mr. Fetter made the following observations on the subject:

(1) The Directors of the Export-Import Bank feel that before they can seriously consider any new loan to Brazil, that country should carry out the terms of the Export-Import Bank loan for the Vale do Rio Doce Company. The Government has apparently declined to complete the railroad specified in that loan contract and the Directors of the Bank think it almost scandalous that Brazil should now be requesting more money for railroads when it has not even finished building this one railroad.

(2) The Bank's fund for lending is now down to about \$200 million, with so many applications pending that it would be impossible at best to consider Brazil for any large amount. While it is true that the Bank is requesting an additional one and a quarter billions of dollars from Congress this request, according to Mr. Fetter, is not going to be pushed.

(3) The economic divisions of the Department feel that while Brazil's development program is desirable and deserving assistance, it has not the same claim of urgency that several of the war-devastated countries of Europe have.

(4) It would be very difficult for the Bank to justify a loan to Brazil as long as Brazil has large gold holdings in this country which it is apparently unwilling to spend. Mr. Fetter said that Brazil's gold exchange, including sterling which was not presently usable, amounted to about \$750 million.

For the foregoing reasons, Mr. Fetter thought it unlikely that Brazil would be able to get even as much as \$50 million, at least unless and until the Export-Import Bank funds were replenished.

DANIEL M. BRADDOCK

¹⁴ The Brazilian Ambassador, Carlos Martins.

832.51/5-646

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

RESTRICTED

WASHINGTON, June 26, 1946.

No. 15

SIR: Reference is made to the Embassy's despatch no. 4974 of May 6, 1946, transmitting the original and copies of letters addressed to the Export-Import Bank of Washington from Mr. R. K. West, regarding the Companhia Vale do Rio Doce.

The entire Itabira iron-ore project has been carefully studied by the Department and the Export-Import Bank. In as much as the Finance Minister has expressed unwillingness to advance the necessary funds to fulfill the obligations undertaken by the Brazilian Government in connection with this project, but such unwillingness has not been officially communicated to this Government, it is requested that the Embassy address an informal note to the Ministry of Foreign Affairs, pointing out Brazil's original commitment in the Memorandum Agreement of March 3, 1942, stressing the fact that service on the Eximbank loan of \$14 million is limited in time and conditioned upon eventual shipment and sale of iron-ore.

It is requested that when you deliver this Note you bring to the attention of the Brazilian Government, verbally, the unfavorable effects that might result to Brazil's credit standing by not fulfilling the obligations undertaken in the Memorandum Agreement.

The following is the suggested text of an informal note which, subject to your discretion, it is considered should be transmitted to the Brazilian Government:

"The Embassy of the United States of America presents its compliments to the Brazilian Ministry of Foreign Affairs, and has the honor to refer to the Memorandum Agreement of March 3, 1942, entered into between the Governments of Brazil, Great Britain, and the United States of America, for the reconstruction of the Victoria-Minas Railway, the improvement of the port facilities at Victoria, and the development of the Itabira iron mines.

"Title to the Itabira iron-ore properties was delivered to the Brazilian Government as agreed. The Export-Import Bank of Washington extended a credit of \$14 million under the terms and conditions of the Financing Agreement executed March 18, 1943, with the Companhia Vale do Rio Doce and the Brazilian Government, the repayment of the principal amount and interest thereon being limited in time and conditioned upon the sale and transportation of ore which cannot be effected in volume until the mine is equipped to produce and the railway reconstructed to transport the ore.

"The Brazilian Government, on the other hand (Article 8-b of the Memorandum Agreement of March 3, 1942), undertook 'to pay the milreis (cruzeiros) expenditures in connection with the extension and

rehabilitation of the (Victoria-Minas) Railway, the completion and expansion of the port facilities (Victoria) and the development of the Mines'.

"It was understood by all parties to the Memorandum Agreement that the entire project would be expedited as much as possible, and although it has been fraught with considerable delay, it is now estimated that by the advancement of adequate funds by the Brazilian Government, and employing the mechanized equipment and American contractors now present at the site, the project can be completed by the end of 1948.

"Therefore, the United States Government would appreciate being assured that the Brazilian Government intends to expedite the fulfillment of the obligations agreed to under the Memorandum Agreement of March 3, 1942, assuring thereby the repayment of the credit advanced by the Export-Import Bank of Washington."

Very truly yours,

For the Acting Secretary of State:
WILLIAM L. CLAYTON

832.51/8-1246

Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Assistant Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] August 12, 1946.

Subject: Brazilian Loan Application—\$50 Millions

The National Advisory Council¹⁵ will consider this matter on Tuesday (August 13).¹⁶ Consideration in the Staff Committee showed sharp differences of opinion, with Federal Reserve and Treasury being opposed to a Brazilian credit. State has continued to support the credit, largely on political grounds. Eximbank strongly favors the credit, and Commerce has also supported it.

Opposition arguments, in order of strength, are:

1. That Eximbank's limited lending capacity should be reserved for *urgent reconstruction loans* during 1946-47 since it may not obtain additional lending authority. (Bank claims to have sufficient funds to meet urgent loan requirements but may have difficulty substantiating this.)

2. Brazil's needs are not urgent and it can await International Bank or draw on its large gold and dollar reserves.

¹⁵ National Advisory Council on International Monetary and Financial Problems.

¹⁶ According to a memorandum of August 14, 1946, the proposed loan was approved by a vote of three to one, with the Federal Reserve opposing and the Treasury abstaining (832.51/8-1446).

3. Brazil's application is especially appropriate for International Bank and Brazilian issue in initial portfolio of Bank would serve to test and stimulate private interest in foreign lending.

4. Delay of Brazil's purchases would minimize inflationary pressures in the United States.

832.51/8-2946 : Telegram

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

CONFIDENTIAL

RIO DE JANEIRO, August 29, 1946—5 p. m.

[Received 11:59 p. m.]

1529. In conference with Ambassador Gracie,¹⁷ Finance Minister Vidigal and Transportation Minister Macedo Soares discussed Vale do Rio Doce. All three assured me that President Dutra had authorized expenditure of equivalent to US \$25,000,000 additional for completion railroad and ore project. Transportation Minister feared that if this project were necessarily tied in to Export Import Bank loan Brazil might be unable to utilize this badly needed assistance.

I feel confident Brazilian Government will not hesitate to make necessary funds available for completion this project by late 1948 and recommend against tying new loan to Rio Doce project.¹⁸

PAWLEY

832.51/9-646

Memorandum by Mr. Richard F. O'Toole of the Division of Brazilian Affairs

CONFIDENTIAL

[WASHINGTON,] September 6, 1946.

I discussed with Mr. R. K. West, of Export-Import Bank, the above-reported visit of Ambassador Martins and learned from Mr. West that the Ambassador was accompanied on his visit by Messrs. Mello¹⁹ and Garcia of the Embassy staff and that the conversation was with William McChesney Martin, President and Chairman of the Board and Mr. West.

The difficulty over the Itabira transaction was brought up during the conversation and Mr. West mentioned the refusal of the Minister of Finance to advance further monies to complete the project and told the Ambassador that he would like to see this question settled, not only in the interest of good relations between the Brazilian Government

¹⁷ Samuel de Souza-Leão Gracie, Acting Minister for Foreign Affairs.

¹⁸ In telegram 1165, August 31, 1946, noon, the Department instructed the Embassy to obtain written confirmation that the \$25,000,000 would be available immediately, and that more funds would be available to complete the project in 1948. This condition was not to be made, however, a part of the loan agreement covering the new credit. (832.51/8-2946)

¹⁹ Edgard de Mello, Commercial Counselor of the Brazilian Embassy.

and the Bank, but to insure that no question over fulfillment of obligations could arise when the new loan contract is presented to the Bank's Board of Directors. Ambassador Martins took umbrage at this statement and remarked that the United States Government did not always fulfill its own obligations alleging, by way of illustration, that during the war Brazil had leased a number of ships to the United States Government at a dollar a year, that many of these ships had been sunk but that the United States Government had neither replaced them nor reimbursed Brazil for their value. The Ambassador then added that he could not sit by and listen to criticism of Brazil's Minister of Finance without objecting.

Mr. West observed to me that both the statements and attitude of the Ambassador were so preposterous that he made no attempt to answer him.

At this point Garcia of the Embassy referred to a telegram from the Finance Minister to Macedo Soares (while the latter was in Washington) in which the Finance Minister had stated, substantially, that Brazil would not fail to comply with her obligations under the Itabira contract but without mentioning when and how compliance would be made. A copy of this telegram had been given to the Export-Import Bank, to which fact Garcia then alluded and asked whether this wasn't sufficient assurance for the Bank. Mr. West replied that it was not sufficient because it did not cover the equally important question as to the amounts and time of payments since stoppage of the work, through lack of funds, very materially increases costs. "In other words, if the Brazilian Government does not furnish written assurances along the lines indicated then the current loan contract will not be signed?", asked Garcia. Mr. West told me that Mr. Martin thereupon intervened in the matter and said that business matters are not handled in such a manner and that if Brazil did not wish to proceed with its obligation to finance the Itabira project the Bank should be so advised and added that the responsibility for use of the Bank's funds before Congress, was his and that while he did not wish to see the new loan agreement delayed there could be no final action on it until this Itabira matter had been properly settled.

832.51/10-1646 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, October 16, 1946—6 p. m.

[Received 8:30 p. m.]

1770. Following is English translation of letter dated October 10 just received by Embassy from Foreign Office regarding financing of Companhia Vale Do Rio Doce:

"Mr Chargé d'Affaires:

"1. Confirming the conversation which I had with Ambassador Pawley prior to his recent trip to the United States, I am glad to provide certain information with respect to what the Brazilian Government has done as part of the tripartite agreement concerning the Companhia Vale Do Rio Doce, S.A.

"2. Not only by its director in direct participation in the capital of the company under reference, which amount to cr \$200,000,000.00 (200 million cruzeiros), but also through the issuance of debentures the value of which is cr \$300,000,000.00 (300 million cruzeiros), the interest of the Brazilian Government in completing this undertaking is evident.

"3. Further, on September 12 last, by decree law No. 9,845, the Government authorized the company under reference to make a loan with the Bank of Brazil S.A., under its joint responsibility, in the amount of \$50,000,000.00 (50 million cruzeiros).

"4. Furthermore, since it was not possible to conclude the matter before the installation of the legislative power, it has prepared the adequate documentation forwarding to Congress a request for credit operations destined, among others, to the Companhia Vale Do Rio Doce, S.A.

"5. In this way the company under reference will have available, to be utilized in 24 months—the period deemed necessary for the conclusion of the construction work—the amount of cr \$500,000,000.00 (500 million cruzeiros), destined to this end.

"6. I would greatly appreciate your bringing the foregoing to the knowledge of the Department of State.

"I avail myself of the opportunity to renew the assurances of my very distinguished consideration. (Signed) S. De Souza Leao Gracie."

Embassy will inform Martin, who is now on trip in interior. Please inform Pawley and Export Import Bank.

DANIELS

832.51/10-1846

Memorandum of Telephone Conversation, by the Chief of the Division of Brazilian Affairs (Braddock)

[WASHINGTON,] October 18, 1946.

On October 18, 1946 at 5:15 p. m. I telephoned Ambassador Pawley and informed him that the Export-Import Bank in a meeting held this morning had decided that the assurance received from Brazil on the Vale do Rio Doce case was not satisfactory in that it guaranteed nothing; and that Embassy Rio was being informed to this effect in a telegram. I told him that at our request a second telegram was being sent instructing the Embassy not to convey this information to the Brazilian Government yet if it thought the political reaction was going to be very bad. Ambassador Pawley interjected that the re-

action would be "terrible". I stated that BA was urging on the financial officials in the Department that we offer Brazil the alternative of guaranteeing the Vale do Rio Doce loan instead of putting up the money for the completion of the work. Ambassador Pawley approved of this and requested an effort be made to get Eximbank to consider and authorize this approach on Monday, October 21.

Ambassador Pawley said that he thought the best thing to do now was for him to call Acting Foreign Minister Gracie on the telephone and tell him that the written assurance that had been received was not what had been promised to him since it was not a straight guarantee with no strings, that he greatly feared that this assurance was not going to be acceptable to the Eximbank, and that this development was most regrettable since the United States Government wished to be able to help Brazil with the new loan. He proposed finding out from Gracie whether this assurance was the very best that could be obtained. (Ambassador Pawley stated that he knew for certain that the President of Brazil had no fund on which he could draw for the money required to finish the Rio Doce Project without getting prior approval from the Congress.)

I agreed with the Ambassador that the approach he suggested was probably the best in the circumstances, whereupon he said he would put in a call for Gracie at once.

832.51/10-2246 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, October 22, 1946—5 p. m.
[Received 9:24 p. m.]

1790. Deptel 1369, October 2, 7 p. m.²⁰ This morning I went to Foreign Office to discuss Vale Do Rio Doce matter with Foreign Minister Gracie at latter's request. Gracie referred to telephone conversation with Ambassador Pawley and explained situation regarding his letter of October 10 (Embtel 1770, October 16) as follows:

1. Brazilian Government stated in letter its interest in completing project.
2. Letter cited as evidence the policy the credit of 50 million cruzeiros authorized September 12.
3. Since additional credit was not actually opened before installation of Congress, congressional approval must be obtained for additional credit necessary to conclude construction within 24 months. It would not change matters if reference to Congress were omitted from letter inasmuch as congressional authorization is now necessary in any case.

²⁰ Not printed.

4. Since Government policy is to go ahead with project as stated and since Government expects congressional support, letter states credit will be available to be utilized within a stated period of 24 months.

5. In view foregoing, Gracie perceives no way in which letter could usefully be changed and added that any change would necessarily have to be in consultation with the new Minister of Finance and Transportation.²¹

This afternoon I acquainted Martin of Exim Bank with foregoing. He is leaving for Washington October 25 and will discuss matter further with Exim Bank board.

DANIELS

832.51/10-2446

*Memorandum by the Chief of the Division of Brazilian Affairs
(Braddock)*²²

WASHINGTON, October 24, 1946.

In connection with the attached telegram no. 1770 of October 16 and no. 1790 of October 22 from Rio on the subject of the Brazilian loan, it is my belief that the Eximbank should accept the assurance offered by Brazil in these telegrams as meeting the Bank's condition for granting the new \$50,000,000 loan to Brazil. My view is based on the following reasons:

1. Though not iron-clad, this assurance is pretty good and at any rate the best that we can get at this time.

2. If the new loan, which has already been publicized a good deal in Brazil, fails to come off there will be general disillusionment there concerning the friendship of the United States and its desire to help Brazil.

I talked with Ambassador Pawley in Rochester about this and he also strongly favors acceptance of the assurance offered. He especially requests that no final rejection be made by Eximbank without giving the Department and himself the opportunity to find a way out.

Immediately after my talk with Ambassador Pawley Mr. O'Toole and I met with Mr. Havlik and Mr. Stenger²³ of ED to discuss this matter. It was decided that no reply should be given to Brazil pending the return of Mr. William McChesney Martin of the Eximbank from Brazil next week and discussion of the subject with him, on which occasion ED and OFD would see that our views as expressed above were taken into full consideration.²⁴

DANIEL M. BRADDOCK

²¹ Pedro Correa e Castro.

²² Addressed to the Director of the Office of American Republic Affairs (Briggs) and to the Assistant Secretary of State for American Republic Affairs (Braden).

²³ Hubert F. Havlik, Acting Chief of the Division of Investment and Economic Development, and Jerome J. Stenger of the same Division.

²⁴ A marginal comment reads: "This is right move. S. B[raden]."

832.51/10-1646 : Telegram

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

CONFIDENTIAL

WASHINGTON, December 17, 1946—6 p. m.

1541. Emdes 908.²⁵ Eximbank action on additional funds \$7,500,000 complete Rio Doce and on \$50 million credit application postponed pending receipt your views on both questions and also on ForMin letter of intent Oct 10.²⁶ Has Bouças²⁷ any official capacity other than Secretary Washington committees and is he authorized speak for Govt on above subject? He claims Brazil not need \$50 million.²⁸ Is Saurez still authorized carry on negotiations for loans? Cable reply urgently.

BYRNES

**DISCUSSIONS AND UNDERSTANDINGS CONCERNING COFFEE
BETWEEN THE UNITED STATES AND BRAZIL²⁹**

832.61333/1-2446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, January 24, 1946—10 a. m.

[Received 1:19 p. m.]

173. Growing uncertainty and concern noticeable in Brazilian coffee circles as end of current coffee subsidy program approaches. Questions are asked with increasing frequency as to what will happen when the \$24,000,000 subsidy has been exhausted, or after March 31. Embassy would welcome information to enable it to answer intelligently such inquiries. Is any thought being given to some further arrangement to facilitate importation of coffee in US and improve condition of market after March 31? Strongly recommend that Embassy be kept currently informed of any plans which may be formulated so that it may be in better position to assist and at same time offer suggestions or comment.

No discussions with Minister of Finance or Coffee Dept have taken place since negotiations regarding possible use of DNC stocks were suspended last November upon announcement of subsidy. Does Dept

²⁵ Not printed.

²⁶ Quoted in telegram 1770, October 16, from Rio de Janeiro, p. 500.

²⁷ Valentim Bouças, President of the Committees for the Control of the Washington Agreements.

²⁸ Telegram 2028, December 20, 1946, 7 p. m., from Rio de Janeiro, confirmed that the Finance Minister had taken the position that Brazil did not need the \$50,000,000 credit (832.51/12-2046).

²⁹ For documentation on coffee as an Inter-American problem, see pp. 154 ff. For documentation on the procuring of coffee by the United States in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 688 ff.

wish Embassy to take any initiative in reopening such discussions with Brazilian officials?

As time goes on it becomes increasingly apparent that current coffee problems, complicated by uncertainty regarding conditions after March 31, are prejudicial to Brazilian-American relations, whereas coffee should in fact be a major element of strength in relations between the two countries.

DANIELS

832.61333/1-2446: Telegram

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

SECRET

WASHINGTON, February 7, 1946—6 p. m.

192. Reurtel 173, Jan. 24. Dept has just sent letter to Bowles³⁰ advocating no reduction in our present buying prices for coffee in producing countries. Since seven-eighths subsidy coffee already purchased Dept pressing for prompt action to avoid hiatus in flow coffee here. Indications are that Agriculture will support our position and it is probable OPA will too. However, Office Economic Stabilization may have to be sold even on Dept's program.

Embassy will be promptly informed when Collet³¹ makes final decision.

Urgent that this information be kept confidential. Please do not convey it even to other American Embassies.

BYRNES

832.61333/3-1346

The Brazilian Ambassador (Martins) to the Secretary of State

WASHINGTON, March 13, 1946.

EXCELLENCY: Following instructions of my Government, I have the honor to solicit the kind attention of the United States Government to the baffling situation in which is found a considerable segment of the Brazilian economy because of the maintenance in this country of controls bearing heavily on coffee import prices.

2. As your Excellency is well aware the Brazilian economy still rests in large part upon coffee, despite the efforts that lately have been made towards industrialization as well as diversification of agricultural production. However, coffee still remains the main concern of the Brazilian Government not only because coffee prices have a

³⁰ Chester Bowles, Administrator, Office of Price Administration.

³¹ John C. Collet, Director of the Office of Economic Stabilization.

large bearing on the foreign exchange surplus necessary to meet international obligations but also because they have been hit with particular severity by the depression.

3. Unless prices obtained by the exporters and producers are allowed a reasonable increase, the exporting countries, chiefly Brazil, will find that the deadly price schism between industrial imports and agricultural exports that prevailed during the depression will, in this prosperity period, be replaced by an equally painful situation namely a squeeze between rigid selling prices (stabilized since 1941) and increased costs of production.

4. The impact of World War II, bringing about a closer economic cooperation between the two countries, has also served the purpose of alleviating our dependence, for both external obligations' settlements and monetary stabilization, upon the returns afforded by the exports of that commodity. Yet, these wartime changes in the structure of the trade between the United States and Brazil are in their final process of liquidation with the gradual termination of the agreements entered into aiming at the purchases of strategic, critical, and essential materials.

5. Therefore, to fill the gap in part already left by the disappearance of our wartime exports to this market we have to undo the modification in the composition of our war trade with the United States by giving more emphasis to exports that normally figure in the balance of trade between the two countries. This means, in the first place, exports of coffee.

6. However, I beg your Excellency's kind attention to the tremendous difficulties which we are meeting with in the process of undoing the modifications in the composition of the trade referred to above, due to the fact that the purchasing power placed in our hands as a result of the abnormal purchases made by the United States in my country has not resulted in increased ability to import from this country the bare essentials so badly needed to maintain our economy and much less to prevent inflation.

7. In fact, we had to manage with obsolete and worn out transportation equipment, turn to an uneconomic use of charcoal because of lack of coal and fuel, as well as provide our farmers with the most primitive tools with which to till their lands, having into consideration that only lately we succeeded in placing orders in this country for modern agricultural machinery. Furthermore, the machinery, equipment and semi-industrialized materials that we were able to procure, did not even approach the indispensable minimum to avoid the rise in our agricultural production costs.

8. In these circumstances, the Brazilian Government is now facing the task of having to attend to a substantial increase in imports of both

producers and consumers durable goods unobtainable in sufficient quantities during the war, and which will be procured at prices far beyond the levels prevailing even in the year 1945. For this purpose, we are confronted with two alternatives. Either we spend the dollar exchanges and gold reserves so painfully accumulated, in which case practically nothing would be left to take care of our international obligations,³⁴ namely the services of the external debt, Export-Import Bank loans and commitments made in virtue of the Bretton Woods agreements,³⁵ or we shall embark upon an export program that might provide the necessary funds to cover the deferred imports.

9. Upon studying carefully these two alternatives, my Government has found advisable to follow the second alternative. To start with, however, we have to give our best attention to the most important of our markets, that is, the United States import market, inasmuch as the postwar reconstruction going on practically everywhere in Europe and Asia will close to my country, for a longer period of time than anticipated, the other outlets normally opened to our exports in peace time.

10. Be it added, however, that the freezing of coffee import prices in the United States for more than four years and at a level that, for a long time, has ceased to afford producers in Brazil a reasonable margin of profit, has become a problem of capital importance the solution of which cannot possibly be further postponed. The political stability so necessary to a new Government might be endangered in case fundamental economic problems such as the one hereto referred are left unsolved.

11. Therefore, I shall be grateful if Your Excellency will be so kind as to communicate to the other competent authorities of your Government the request of the Brazilian Government hereby made to the effect that a more adequate plan envisaging either the decontrol of coffee or a reasonable increase of present prices so as to cover the production costs of that commodity, as well as to assure compensating returns to producers.

12. I am authorized to assure Your Excellency that, once a decision along these lines is agreed upon, the Government of Brazil is ready to cooperate to the full extent with the United States Government towards avoiding a runaway in prices that might come to endanger both the normal supply of this market and the desired degree of stabilization as sought for by your Government in laying down its price policies.

I avail myself [etc.]

CARLOS MARTINS PEREIRA E SOUSA

³⁴ See pp. 485 ff.

³⁵ For texts, see Department of State, *Treaties and other International Acts Series (TIAS)*, No. 1501; or 60 Stat. (pt. 2) 1401, 1440.

832.61333/3-1346

The Acting Secretary of State to the Brazilian Ambassador (Martins)

WASHINGTON, April 4, 1946.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note of March 13, 1946 regarding the difficulties in which the Brazilian economy is placed by the maintenance in this country of controls on coffee import prices.

The Department has been aware for many months of the inequities caused by increasing costs of coffee production and the stabilized maximum buying prices which up until November 18, 1945 our importers could legally offer for green coffee intended for United States consumption.

During the war period the stabilization authorities of this Government were forced, in order to follow the anti-inflationary policy which was of so much importance to your nation as well as to mine, to refuse reluctantly the several requests of the coffee-exporting nations of this Hemisphere for higher coffee ceiling prices or for elimination of such ceilings. This action was considered unavoidable under the circumstances. I believe that it was understood in Brazil. Indeed, my Government is grateful to the Brazilian Government for having entered into several important coffee supply arrangements during the war.

Following the conclusion of the war late last summer, officers of this Department made renewed approaches to the stabilization authorities on the question of coffee prices. As a result, negotiations were started early in October with your Government, looking toward a price stabilization arrangement in return for suspension of coffee ceiling prices. These negotiations were marked by unusual delays both before and after the change of government in your country late in October. The counter-proposal of your Government, received October 25,³⁶ was carefully examined but was not considered acceptable here. Our supply situation was then so desperate that a swift solution of the dilemma had to be found. The three-cent coffee subsidy was then decided upon as an emergency measure and was announced November 17, 1945.

This subsidy of three cents a pound on green coffee has, as announced on March 19, been continued and will now apply to 13,500,000 bags purchased after November 17, 1945 and imported by June 30, 1946. The proposal for continuation of the subsidy was on March 11 laid before a meeting of the Inter-American Coffee Board at which you were a guest.

³⁶ See telegram 3225, October 25, 1945, from Rio de Janeiro, *Foreign Relations*, 1945, vol. ix, p. 698.

The three-cent subsidy has permitted our importers to increase their buying prices for Brazilian coffee an average of about 25 per cent above the ceiling prices formerly prevailing. This is a very sizeable rise and should go far toward redressing the inequities which you mentioned. Furthermore, the three-cent increase in our buying prices goes more than half way in meeting the requests of the coffee-producing countries as a group for a straight five-cent increase above the ceiling price.

Nevertheless, we regard the continuation of the subsidy to June 30 as a stop-gap measure. It is our feeling that a more permanent type of solution should be reached if possible in the interval before June 30. In this connection, we are interested in the intimations made both in your note and by the Brazilian representative at the March 11 and March 14 meetings of the Inter-American Coffee Board that your Government is ready to cooperate to the fullest extent with my Government in an effort to avoid runaway coffee prices and in working out some form of stabilization arrangement, provided the competent authorities in this Government reach agreement on some plan for either eliminating coffee price ceilings or for a reasonable increase in the ceilings. The matter will be taken up immediately with the stabilization authorities. I am hopeful, therefore, that your Government will not hesitate to make such proposals along these lines as it believes adequate to meet the circumstances.

It is the belief of the officers of this Department, charged with responsibility for coffee matters, that the stabilization authorities will view arrangements such as those described in the paragraph above more favorably if the present subsidy program is successful. If a reasonable stock of coffee can be built up here, pressure for continued temporary stop-gap supply measures will be lessened. Therefore, it appears to these officers that it would be helpful if your Government, as well as those of the other coffee-exporting countries, took all necessary steps to expedite shipments of coffee during the coming weeks of the subsidy period. We are particularly concerned over the serious situation in the port of Santos where a large number of ships are waiting to berth and discharge cargo or to be loaded. Unless conditions there improve very shortly, it is probable that shipping will have to be diverted from Santos. This I am sure your Government will wish to avoid in view of the shortage of United States goods in your country and also in view of the time limit on the coffee subsidy. It would be unfortunate not to have Brazil participate fully in the subsidy program and thereby augment her holdings of dollar exchange which, you point out, have to be husbanded so carefully.

Accept [etc.]

DEAN ACHESON

811.5017/4-2346

The Brazilian Embassy to the Department of State

MEMORANDUM

SN/842.31(42)(22)

With reference to the Department of State's Memorandum, of March 26, 1946,³⁷ the Brazilian Government, while willing in principle to agree with the United States' proposal to the effect of disposing as surplus of the remaining 500,000 bags of coffee from the 2,000,000 furnished for the use of the U. S. Armed Forces, wishes to call the attention of this Government to the advisability of a deferment of the proposed transaction in view of the difficult internal situation which now reaches its peak owing to the disappearance of the Brazilian bonus on coffee as well as to the fact that the subsidies presently in effect will expire next June 30.³⁸

2. Moreover, as we are informed that, legally, the disposal of said amount of coffee by the U. S. Army could only be made at the ceiling-prices established by the OPA, therefore 3 cents below present market levels,—which are the ceiling prices plus 3 cent subsidy—it would have a very disturbing effect on the market for Brazil coffees. This would coincide with the end of Brazilian bonus on its coffee, as well as with a very slow demand for Brazilian grades in the American market (due to unfavorable "differentials" with other growths of coffee, brought about by OPA ceiling-prices) and would put the Brazilian Government in a particularly difficult position before its coffee industry, at a moment when no definite assurances can be made as to the decontrol of coffee or a satisfactory adjustment of prices.

WASHINGTON, April 23, 1946.

811.5017/5-646 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, May 6, 1946—6 p. m.
[Received 10 : 25 p. m.]

835. At the request of Finance Minister Vidigal, I called at his office accompanied by Ovidio de Abreu, President of the National Coffee Department. Minister Vidigal said he wished to discuss the serious coffee situation in Brazil. He said he spoke officially and not solely as spokesman for coffee-producing interests. He referred to the

³⁷ Not printed.

³⁸ For Department's response to this suggestion of deferment, see memorandum dated May 24, p. 515.

greatly increased cost of production of coffee in recent years and today which threatens the coffee producers with economic disaster under present ceiling prices. The problem is aggravated by the fact that not only had all costs going into coffee production risen but at the same time the general cost of living had greatly increased so that general living expenses of producers were much higher at the very time that the increased costs of production made their income less. He strongly urged that immediate consideration be given to increasing ceiling prices to five cents, that is, two cents above present subsidized price.

In the course of the discussion, reference was made to the negotiations of last October-November providing for the sale of DNC stocks under certain conditions to smooth the transition to a free coffee market. Without expressing himself in definite or final terms, Minister Vidigal expressed objection to any such plans on grounds that coffee producers would bitterly attack the Government (*a*) because sales of DNC coffee would lower the market price of their coffee and (*b*) because sales of DNC coffee would be made at prices lower than might otherwise be obtained for it.

Needless to say I mentioned to Vidigal, the same as to many other people in the past, that the major difficulty confronting the US Government was holding the line against inflation, and that any increase of ceilings on certain articles made it more difficult to control inflationary tendencies in general. Vidigal seemed well-informed of this important consideration but again stressed the equally important and perhaps more serious predicament of the coffee producer and the interest of the Brazilian Government in the matter.

Both Vidigal and Abreu expressed desire to discuss coffee problem further in hope of reaching early solution. Embassy has made no proposals in absence instructions from Department. Embassy recommends that serious consideration be given proposal of Minister Vidigal for five cent increase ceiling price (which would make possible elimination subsidies) if it is not found practicable to remove price control altogether.

DANIELS

811.5017/5-646 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, May 9, 1946—6 p. m.

605. Reurtel 835 May 6. Note recently received from Brazilian Embassy states Brazilian Govt through DNC would place at disposal of US market 400,000 bags coffee per month for 6 months at 3 cents above

present US ceilings in return for elimination of price ceilings. This differs from info you received from Minister Vidigal concerning sales of DNC coffee. Would appreciate your comments this offer.

Coffee Board Price Committee discussing possible elimination price ceilings with OPA.

ACHESON

832.61333/5-1446

Memorandum of Conversation, by the Assistant Chief of the Division of Brazilian Affairs (Braddock)

CONFIDENTIAL

[WASHINGTON,] May 14, 1946.

Participants: Carlos Martins, Ambassador of Brazil

A-BR—Mr. Braden³⁹

BA—Mr. Braddock

The Ambassador took up again the question of coffee ceiling prices. He said he had had telegrams from the Minister of Fazenda and the President of the National Coffee Department, as a result of which he wished to submit a second proposal, namely, that the ceiling price for coffee be increased by five cents after the expiration of the present three-cent subsidy. He stated that this solution would be as acceptable to Brazil as suspension of the ceilings against delivery guarantees by the Brazilian Government as previously proposed. Many of the Brazilian coffee producers, according to the Ambassador, were not very pleased at the prospect of competing with Government coffee stocks offered at three cents above the ceiling. Sr. Martins said that the Foreign Office was taking up again with the American Embassy in Rio the coffee discussions that had been broken off last November.

Mr. Braden told the Ambassador that the coffee ceiling price question had been discussed at a large meeting in his office only the day before, in which representatives of the OPA and the OES had been present. He stated that the arguments for suspension had been strongly presented and that the OPA and OES representatives promised to present the case anew to Mr. Bowles, but that it was the impression of the Department's representatives that the price control and stabilization agencies would not be willing to remove the ceilings. Mr. Braden said that thereafter the only recourse would be to John Snyder⁴⁰ and then to the President. He suggested that since the OES and OPA representatives had promised a reply on removal of the ceilings within the next few days, it would be better to withhold the presentation of

³⁹ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

⁴⁰ Director of War Mobilization and Reconversion.

Brazil's proposal for a five-cent increase in the ceiling price until their reply had been received.

D. B[RADDOCK]

811.5017/5-1446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

RESTRICTED

RIO DE JANEIRO, May 14, 1946.

[Received 8 p. m.]

895. This afternoon Ovidio de Abreu, President, National Coffee Dept, explained apparent discrepancy between coffee proposal presented Dept by Brazilian Embassy in note Apr 29⁴¹ and proposal made by Minister Vidigal transmitted Embassy's telegram 835, May 6, 6 p. m. Abreu said that the two proposals, the first providing for elimination of ceiling with guaranteed sale 400,000 bags monthly for 6 months and the other providing for 5-cent increase ceiling prices without guaranteed sales any coffee, could be considered as alternative proposals, and that it was hoped that US Govt would find it possible to accept one or the other. He added that in event 5-cent increase were granted and there were subsequently insufficient sales coffee, DNC would undoubtedly sell some of its stocks, even without commitment to do so, as a matter of convenience.

Please telegraph if either foregoing proposals can be promptly accepted by Dept.⁴²

DANIELS

811.5017/5-2046

The Brazilian Ambassador (Martins) to the Assistant Secretary of State for American Republic Affairs (Braden)

WASHINGTON, May 20, 1946.

MY DEAR SPRUILLE: With further reference to our past conversations on the coffee pricing policy of the United States' Government regarding particularly the imports of Brazilian coffee, I would like to emphasize once more the imperative urgency in reaching an agreement upon the question of prices. It will be reminded that to this effect the Brazilian Government has so far submitted two proposals to be considered by your government.

The first one contemplates the elimination of present coffee price ceilings in exchange for a guarantee by the Brazilian Government to place at the disposal of the United States import market a monthly

⁴¹ Not printed.

⁴² The Secretary of State in telegram 693, May 27, 1946, indicated that the Department had no authority to accept either proposal (811.5017/5-1446).

amount of coffee during a six month period at prices three cents above the price ceilings into effect.

The second proposal contemplates the maintenance of present price controls on coffee followed by a readjustment in its ceilings which should be raised by five cents above its present level.

I repeat again that my Government is prepared to accept either one or the other of the two proposals, because of the fact that the present subsidy plan not only fails to provide our coffee economy with a reasonable margin of profit to cover the increasing costs of production but also because it constitutes a temporary expedient which should now give place to a more permanent one.

On this respect, I feel very happy to ascertain that you hold the same opinion and I wish to take this opportunity to convey to you my appreciation for your statement, as issued in New York, on May the 16th, to the effect that, and I quote, "the subsidies have failed to solve the problem of increasing coffee prices; an urgent solution becomes necessary".

It was indeed very encouraging to notice that your attitude towards this problem was taken in public what leads us to believe that prompt measures to materialize it might be forthcoming.

However, I fail to understand the apparent lack of enthusiasm on the part of the price control authorities of this country in arranging for a meeting where our proposals would be aired to the effect of finding a permanent solution to this pressing matter.

This is as much difficult to understand as you yourself have manifested to me the wholehearted support of the State Department to my suggestion relative to our meeting together with the above mentioned authorities to discuss at length the possibilities of a long range plan based on either one or the other of the Brazilian proposals.

As you know, my dear Spruille, during the next month of June the present subsidy scheme will be inoperative bringing to a standstill the sales of coffee from our producers to the United States' internal market. Therefore, the lack of a reaction on our proposals might contribute to future confusion and retraction in the coffee trade.

Incidentally, I inform you that at such a meeting I will be accompanied by Mr. E. de Mello, Commercial Counselor of the Embassy, Mr. Eurico Penteado, Brazilian Representative to the Inter-American Coffee Board, and Mr. C. Garcia, Second Secretary of the Embassy.

Therefore, I hope that you will let me know as soon as possible that the necessary arrangements are made and the opportunity has come for a meeting with the competent authorities of your Government.⁴³

I am,

Cordially yours,

CARLOS MARTINS

⁴³ The reply of May 23, 1946, indicated that the proposals were under consideration by the authorities concerned with prices and that a further meeting would be held at the convenience of the Ambassador (811.5017/5-2046).

832.61333/5-2446

The Department of State to the Brazilian Embassy

MEMORANDUM

Reference is made to the Brazilian Embassy's memorandum No. SN/842.31(42) (22) dated April 23, 1946, stating the position of the Brazilian Government with regard to disposal by the United States War Department of 500,000 bags of Brazilian green coffee which are surplus to present and future military requirements.

The Brazilian Government's position was communicated to the War Department on April 26, 1946 with a request that disposal of the coffee in question be postponed until after termination of the United States coffee import subsidy program, June 30, 1946, in deference to the Brazilian Government's preference for this procedure. It was felt, however, by officers of this Department, that if, in the judgment of the agencies of this Government responsible for supply, the coffee supply situation in this country should become such as to require the use of these stocks for the domestic civilian market before that date, the timing of the disposal of the coffee should be reconsidered.

The War Department was informed that it would be notified should such a contingency arise. The Brazilian Embassy would also receive notification.

On May 17 [14], 1946 a response⁴⁴ was received from the War Department stating that after consultation with other interested agencies of this Government, it is able to give assurances that the coffee in question will not be declared surplus before June 30, 1946 unless notification is received from the Department of State that earlier disposal is considered desirable.

WASHINGTON, May 24, 1946.

832.61333/5-3146

*Memorandum by the Assistant Chief of the Division of Brazilian Affairs (Braddock)*⁴⁵

[WASHINGTON,] May 31, 1946.

Summary of this memorandum: The OPA has decided to recommend an increase of three cents in lieu of the existing subsidy. This will contribute little or nothing to a solution of the coffee price problem and will probably irritate the producing countries into cutting off our coffee supply in order to bring OPA to terms. Such a move on their part would be effective, as evidenced by the British determina-

⁴⁴ Not printed.

⁴⁵ Addressed to the Assistant Secretary of State for American Republic Affairs (Braden) and to the Director of the Office of American Republic Affairs (Briggs).

tion to raise cocoa prices, but it would not help our relations with the producing countries. We should argue strongly for a 30 percent increase, or a flat five cents a pound increase, over present coffee ceilings.

Coffee: Mr. Robbins, President of the National Coffee Association, informed Mr. Cale,⁴⁶ Mr. Havemeyer⁴⁷ and me this morning that Mr. Baker,⁴⁸ Deputy Director of OPA, had stated to him on May 29 that: (1) The OPA had made up its mind not to suspend coffee ceilings regardless of the inducement that might be offered in the way of a supply commitment, and (2) that OPA had reached a decision to increase present ceilings by three cents in lieu of the current subsidy and would make an announcement to this effect in the immediate future. Mr. Baker has confirmed to Mr. Cale that OPA is going to recommend a three-cent ceiling increase to Mr. Bowles, but Mr. Baker says no action will be taken until the State Department is heard on the subject.

In the opinion of IR and BA it would not be expedient for the Department to insist on a suspension of coffee ceilings at this time because of the practical certainty of a sharp increase in the price of milds in the event of suspension. An increase in the ceilings beyond three cents, and probably to five cents in line with the Brazilian proposal, is, on the other hand, strongly to be recommended as necessary to meet the just needs and aspirations of the producing countries and to assure the United States an uninterrupted flow of coffee. An alternative to a five-cent increase across the board would be a percentage increase, perhaps 30 percent, which would average out at something less than five cents for all grades.

It is evident that the course contemplated by the OPA is not going to meet the situation. A three-cent increase in the ceiling price in lieu of the subsidy is going to please neither the producing countries nor the American coffee importers. It will so irritate the producing countries, who are already disillusioned over the attitude of OPA with regard to their plight, that they will probably refuse to sell any coffee to the United States at the price suggested and will go about taking their own measures to force a break in the ceilings. This they could do by increasing the minimum export prices in their respective countries or by financing the growers to enable them to hold their coffee until the ceiling is broken.

It is unfortunately only by such drastic measures that the producing countries could bring OPA to the point of providing relief. They

⁴⁶ Edward G. Cale, Associate Chief of the International Resources Division.

⁴⁷ John K. Havemeyer, of the International Resources Division.

⁴⁸ Geoffrey Baker, Deputy Administrator for the Price Department, Office of Price Administration.

will know, if they do not already know, that such measures would be effective. (See discussion under "Cocoa" below.) This is not at all the kind of solution that we want. If a coffee increase is to come, as come it surely will, the United States will get no credit for the increase but only ill-will if it has to be wrung from us by a trade reprisal.

This argument should, I believe, be pressed strongly with OPA, in addition to other efforts to convince them that continuation of the present coffee prices is seriously straining our relations with many of the good neighbors.

DANIEL M. BRADDOCK

811.5017/6-546

Memorandum by the Assistant Chief of the Division of Brazilian Affairs (Braddock) to the Assistant Secretary of State (Braden)

[WASHINGTON,] June 5, 1946.

Mr. Cale and Mr. Havemeyer of IR saw Mr. Brownlee, Deputy Director of OES, this morning, who told them that Mr. Bowles had said definitely that he would not take any action at this time to increase coffee ceilings by more than three cents unless he were ordered to do so by the President.

Incidentally, IR points out that if a proportional increase were considered rather than a flat increase, 30 percent would give the Brazilians an average increase of only about 3.6 cents per pound. It would take a 40 percent increase to bring Brazilian coffees up to the neighborhood of five cents per pound increase.

DANIEL M. BRADDOCK

811.5017/6-1446 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

RESTRICTED

WASHINGTON, June 14, 1946—8 p. m.

795. Urtel 1079, June 9.⁴⁹ Coffee proposal outlined immediately preceding telegram⁵⁰ developed after Department strongly recommended average price increase approximately 5 cents per pound. Department unwilling urge decontrol over strong opposition OPA and OES in absence supply commitment involving offer sizeable quantity mild coffees.

OES took position stabilization program likely to be very seriously injured if coffee prices to consumer increase 6 to 8 cents per pound. They fear outbreak new wave of strikes unless action taken promptly stabilize cost of living.

⁴⁹ Not printed.

⁵⁰ Not printed, but see telegram 888, June 29, to Rio de Janeiro, p. 518.

We have discussed proposal with Brazilian representative here who is asking instructions Rio. We believe other producing countries will accept if Brazil accepts. Anticipate possible Brazilian opposition because proposal calls for percentage increase and because sale Government stocks may be involved. They may also object our consultation other importing countries.

OES would approve subsidy as high as 35 percent. Paragraph 2 proposal assures producers continuation of this level returns. Increase over ceilings would be 4.68 cents per pound on Santos 4 coffee.

Embassy requested to take any action possible help obtain Brazilian concurrence. Embassy may point out cost of our exports to coffee countries f.o.b. US has increased less than 20 percent since December 1941 and that high coffee prices might mean future overproduction. Please telegraph progress urgently. Repeated to Bogotá.

ACHESON

811.5017/6-2946 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

US URGENT

WASHINGTON, June 29, 1946.

888. Following text coffee understanding between Mr. Braden and Brazilian Ambassador mailed Emb June 26:

"In order to provide a sound basis for international trade in coffee and to prevent the development of conditions which might lead to an unbalanced situation in such trade in the future, it is understood that:

"1. The Government of the United States will take immediate steps to increase green coffee price ceilings by 2 cents per pound while still maintaining in effect the present coffee subsidy of 3 cents per pound.

"2. If the aforementioned subsidy should be withdrawn in whole or in part while price control of coffee in the United States is still in effect, ceiling prices on coffee will be correspondingly adjusted.

"3. The Government of Brazil will not increase its minimum export prices or its export taxes on coffee above present levels.

"4. The Government of Brazil will not alter its exchange rates in such a way as to increase the cost of coffee to the buyer or otherwise restrict the flow of coffee.

"5. Should such action be necessary to assure an adequate flow of coffee under this arrangement, the Government of Brazil, upon the request of the Government of the United States, will place coffee on the market at the prices provided for in this arrangement up to a total of 3,000,000 bags. The Government of Brazil may be called upon to supply up to 500,000 bags of such coffee per month. The grades of this coffee will range from Santos 2s to Santos 5s, inclusive, the percentage of each grade to approximate the proportion of such grades exported to the United States during 1941 and the cup quality of the coffee to be soft or better.

"6. The Government of Brazil will, in general refrain from taking any action likely to encourage withholding of coffee from the market.

"7. This arrangement will endure until March 31, 1947, or so long as coffee is subject to price control in the United States, whichever is the shorter period."

Trade here and govt agencies disturbed because offerings above prices importers may legitimately pay. Imperative upgrading and evasion price regulations not develop under new arrangement.

Brazilian Emb has been informed our intention ask immediate sale 500,000 bags coffee unless satisfactory volume offerings made by private trade prices importers can legally pay.

Emb has advised Brazilian Finance Minister intends inform Brazilian exporters details understanding with U.S. We have suggested Minister include statement Govt definitely plans take action assure satisfactory volume trade within ceiling prices should this be necessary. Brazilian Emb expressed view trade will be established satisfactory price basis once fate OPA determined.

You are requested take any appropriate action stress desirability establishing trade legitimate price basis and to express our intention to ask immediate sale Govt coffee should this be necessary.

Should coffee pledged as collateral for loans be sold imperative all steps necessary be taken to protect investors' interest in collateral.

Dept will inform Emb should it decide ask for Govt coffee. Dept would appreciate Embs advice whether such request should be made immediately.

ACHESON

811.5017/7-846 : Telegram

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

RESTRICTED

RIO DE JANEIRO, July 8, 1946—7 p. m.

[Received July 9—11:23 a. m.]

1229. Minister of Finance Vidigal in talking to John Naumann, representative National Coffee Association, said that in current liquidation of DNC, liquidation of its assets, including coffee stocks, must necessarily take place. Furthermore, in event of possible coffee shortage in United States Minister said it would be in Brazil's interest to maintain its position in that important market. Avoiding definite commitment to sell DNC stocks he clearly gave impression that such move was contemplated because of foregoing considerations, but he did not give indication when actual sales DNC stocks would commence.

Embassy assumes that termination OPA cancels Brazil's commitment to sell 3 million bags (reDeptel 888, June 29, 1946). Neverthe-

less, it appears probable Brazil will under certain conditions sell some or all of these stocks, and accordingly suggest Embassy be promptly informed if stocks of coffee in United States reach dangerously low level so that request to release stocks may be made officially as matter of mutual convenience even in absence of any commitment.⁵¹

PAWLEY

811.5017/7-846 : Airgram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

WASHINGTON, July 12, 1946.

A-478. Reference is made to the Department's telegram No. 920, July 10, 7 p. m.⁵² and the Embassy's telegram No. 1229, July 8, 7 p. m. concerning the understanding between the Brazilian Government and the U.S. Government for coffee commitments. The coffee stock position in the U.S. appears favorable. The unofficial report of imports of coffee into the U.S. during the month of June is 2,289,430 bags. The estimated number of bags roasted during the month of June is 1,600,000 bags. The U.S. Army has declared surplus 700,000 bags of coffee of which 500,000 are Brazilian coffees (reference Department's telegram No. 503, April 17, 11 a. m.⁵²). Brazilian Embassy requested the U.S. Government to withhold the sale of Brazilian coffees which were surplus in the U.S. Army stocks until after June 30, 1946.

Therefore with the increase of stocks resulting from large imports in the month of June and future sale of Army surplus stock, U.S. supplies can be estimated at approximately 5 million bags. For this reason it is not necessary to request the Brazilian Government at this time to make available government controlled coffee to the U.S. market.

The Department will keep the Embassy advised in regard to any developments concerning control of coffee in the U.S. and will advise the official figures concerning U.S. coffee stocks and roastings when they are available. The Department of Agriculture advises that purchases of coffee from all sources from June 25 through June 30 amount to over 1 million bags. There is still in existence Coffee Inventory Control Order WFO 146 which limits U.S. importers to 1 month's stock and U. S. roasters to a 4 month's stock. Copy to AmEmbassy Bogotá.

ACHESON

⁵¹ In telegram 920, July 10, 1946, 7 p. m., to Rio de Janeiro, the Acting Secretary of State indicated that in case the Office of Price Administration were revived the interim termination would not cancel Brazil's commitments. It was not anticipated that the United States would request the release of Government stocks of coffee. The Acting Secretary advised that discussions on coffee commitments be deferred. (811.5017/7-846)

⁵² Not printed.

811.5017/8-1246

Memorandum of Conversation, by Mr. J. K. Havemeyer of the International Resources Division

[WASHINGTON,] August 12, 1946.

Participants: Mr. Melo, Brazilian Embassy
Mr. Garcia, Brazilian Embassy
Mr. J. G. Mien, BA
Mr. J. K. Havemeyer, IR

On August 10, 1946, Mr. Squires of OPA requested Mr. Havemeyer to secure, if possible, an Understanding with the Brazilian Government concerning coffee price ceilings in the U.S. and the marketing of coffee in Brazil similar to the Understanding signed by the U.S. Government and the Brazilian Government on June 25, 1946.⁵³ The proposed Understanding omits item (2) and changes item (1) of the June 25, 1946 Understanding to read as follows:

The Government of the United States will take immediate steps to increase green coffee price ceilings by 8.32 cents per pound Ex-dock New York above the ceilings announced by the United States Government December 27, 1941 in price schedule RPS 50.

Mr. Mein and Mr. Havemeyer presented the proposed Memorandum of Understanding to Messrs. Melo and Garcia who advised they were not in a position to sign a new Understanding as they were cooperating with Colombia in a request to the U. S. Government to decontrol coffee prices in the U.S.

Mr. Havemeyer stated that he believed that foreign governments and nationals could not make a request for decontrol direct to the OPA. The procedure set up by the OPA Act provides that the request for decontrol be presented by U. S. nationals direct to the OPA. The OPA then forms an Industry Advisory Committee which formulates recommendations concerning the decontrol of coffee prices and forwards same to the Decontrol Board for action. The Brazilian Government representatives were advised that the National Coffee Association had already requested the OPA by letter on August 2, 1946 to decontrol coffee. The Brazilian Government representatives were, also, advised that action on this decontrol request, probably, would not be taken until after August 20, 1946, which is the deadline stated in the OPA Act for the Decontrol Board to replace price ceilings on agricultural products such as meat, grain, etc.

The Brazilian Government representatives were advised that the new prices suggested in the copy of the proposed Memorandum of Understanding will assure the coffee producer 8¢ above the ceilings

⁵³ See telegram 888, June 29, 1946, to Rio de Janeiro, p. 518.

of December, 1941 and 3¢ above the ceiling plus subsidy which was in effect on June 30, 1946. The proposed price ceilings cover approximately 90% of the purchases made by U.S. importers during the period of decontrol.

The U. S. representatives requested prompt action on the proposal because the coffee market has been at a standstill since price controls had been re-established. The Brazilian representatives requested the U. S. representatives to endeavor to delay the OPA action until Wednesday, August 14, 1946, as they would be unable to secure instructions from Rio de Janeiro concerning the Brazilian Government's position until that time.

Mr. Havemeyer requested Mr. Squires to delay announcement of new price schedules until Wednesday, August 14, 1946. Mr. Squires advised he would not be able to secure approval for this delay until Monday, August 12, 1946, and that he did not believe the proposed new price schedules could be held until August 14.⁵⁴

832.61333/10-246

*Memorandum of Conversation, by Mr. J. K. Havemeyer of the
International Resources Division*

[WASHINGTON,] October 2, 1946.

Participants: Ambassador Carlos Martins, Brazil
Mr. Garcia, Brazilian Embassy
Mr. J. K. Havemeyer, State

On Saturday, September 28, I presented a note signed by Mr. Clayton, dated September 28,⁵⁵ requesting the Brazilian Government to place 500 thousand bags of coffee on the market during the month of October 1946. After reading the note Mr. Garcia stated that our stocks were quite large on August 31, 1946 and that this should be over a three months' supply. I stated that in view of the increase in coffee demand in the fall of the year and because the United States is consuming approximately 26% more coffee this calendar year, stocks on August 31 represent a little over two months' supply and therefore with an expected deterioration in stock as of September 30 there will be two months' or less stock in the U.S.

⁵⁴ In telegram 1113, August 20, 1946, 7 p. m., the Secretary of State advised the Ambassador in Brazil that a new coffee agreement was signed. The text was the same as that of June 26 except that the above quoted article replaced articles 1 and 2 in the previous understanding. (832.61333/8-2046)

⁵⁵ Not printed; William L. Clayton was Assistant Secretary of State for Economic Affairs.

Ambassador Martins said he would transmit the Memorandum to the Brazilian Government immediately.⁵⁶

811.5017/10-1746 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

WASHINGTON, October 17, 1946.

1360. Depcirtel Oct 17 unnumbered.⁵⁷ Suspension today OPA coffee ceilings terminated Aug 14 Memo of Understanding between Brazil and US. Dept accordingly delivering note to Braz Emb withdrawing request for October offering 500,000 bags coffee accordance that understanding. Please inform FonOff this withdrawal.

ACHESON

INTEREST OF THE UNITED STATES IN THE OPERATION OF AMERICAN PETROLEUM COMPANIES UNDER BRAZILIAN LAW⁵⁸

832.6363/10-1845 : Telegram

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

WASHINGTON, November 10, 1945—7 p. m.

2599. Reurdes 2977, Sept. 28 and 3229, Oct 18.⁵⁹ Harden, Standard Oil, New Jersey, and Nave, Atlantic Refining, have called at Dept to express serious concern re project currently under consideration by Braz Govt whereby authorizations would be granted to Brazilian companies for construction and operation of two refineries. Under existing decree-legislation (Decree-Law 395 of April 29, 1938, and Decree 4071 of May 12, 1939) foreigners are excluded from direction, management or investment in refineries.

It appears that Braz Govt contemplates some arrangement between refineries and American and other foreign concerns now marketing petroleum products in Brazil, whereby latter would supply crude oil to refineries and then market refined products. Dept feels probable result of such arrangement would be to freeze foreign participation in marketing business at existing levels and among existing suppliers and distributors, and perhaps ultimately to squeeze it out entirely and bring about Brazilian monopoly of marketing as well as refining

⁵⁶ Telegram 1698, October 3, 1946, from Rio de Janeiro, reported that the coffee was in Santos warehouses and "readied for offer to exporters on receipt instructions." (832.61333/10-346)

⁵⁷ Not printed.

⁵⁸ For documentation on Brazilian petroleum problems in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 673 ff.

⁵⁹ Neither printed.

business. Moreover, an agreement between US and other foreign companies and Brazilian refineries to share the market under some sort of exclusive quota arrangement would not only be objectionable from commercial policy standpoint but might be inconsistent with US anti-trust legislation.

In light of very recent conversations here, some company representatives are believed to have somewhat altered their original limited and from various standpoints not satisfactory objective of seeking merely minority interest in refining companies.

In order to further liberal commercial policies of mutual advantage to Brazil and US, and best to protect American interests involved, Dept desires that Emb, unless it perceives serious objection, consult with local representatives of American companies involved, and take following lines in conversations with Brazilian authorities.

Main emphasis should be directed toward elimination of basic cause of present difficulties, i.e., provisions of the decree legislation which restrict ownership and management. Meanwhile, however, Emb should seek postponement of action to give effect to recommendations of National Petroleum Council for establishment of two Brazilian refineries. Were these recommendations adopted, it would make more difficult elimination of nationalistic decrees.

In pressing for elimination of refining restrictions, argument can be used that according national treatment to foreign capital in refining would help establish confidence among potential foreign investors regarding sincerity of frequent statements that Brazil desires foreign capital to aid development. Principles of national treatment, and of assurance of equitable treatment for foreign enterprises were subscribed to by Brazil in Resolution LI (6) of Mexico City Conference.⁶⁰

Moreover, Brazil, at present development, would appear major beneficiary of foreign capital and enterprise. Hence, if it desires to receive benefits of these essentials it should be guided by these principles.

Emb might also note Brazil has received substantial public loans from US which have been made despite increased nationalism evidenced by numerous restrictions on foreigners. However, this Govt in future will probably examine more closely commercial policies of borrowers, as witness current British talks.

⁶⁰ For text of this Resolution, known as the "Economic Charter of the Americas," see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945), p. 92.

Dept hopes in Brazil's interest nationalistic trend will be reversed. Therefore, it feels this an opportune time to press firmly present case.

Please inform Dept of developments.

BYRNES

832.6363/11-1345 : Telegram

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

RIO DE JANEIRO, November 13, 1945—4 p. m.

[Received November 14—2:48 a. m.]

3403. In commenting upon Dept.'s telegram 2599, November 10, I regret to say I am not in accord.

Refining and marketing of oil in Brazil is at present airtight monopoly of Standard Oil probably acting in conjunction with British Shell interests. They have fought tooth and nail every attempt to break this monopoly whether by other American interests, for instance Gulf, or by Brazilians. They know that Brazil has oil reserves, and will eventually find way of drilling and producing oil here. They therefore are presently concentrating on maintenance of monopoly in refining, knowing that this ultimately will be key to situation. During war restrictions and Vargas' regime, effect of legislation was to freeze *status quo*, thus giving them unbreakable monopoly. With free import of oil this ceases to be true. Monopoly was not unprofitable; in 1944 Standard Oil subsidiary made 114% profit on capital after taxes and liberal depreciation.

If Brazilian Govt. or private enterprise wants to go into refining business and can find suppliers of crude, in this case Gulf, I can see no possible justification for making contrary representations. So far as U.S. is concerned, we would be siding with one group against another American group, Gulf. So far as Brazil is concerned, we would be freezing exactly the kind of international cartel monopoly we have been opposing. If representations are to be made along this line, I should prefer that they be made in Dept. leaving me out of it and noting my dissent.

There is sound position which can be taken: namely, that we hope that in any measures taken open-door principle will be wholly observed; and that if Brazilian Govt. goes into refining business, we hope it will do so on competitive basis without impeding other interests legitimately in field competing for their share of market. Since Brazilian market will inevitably grow rapidly there is plenty of room. Our stand should be against measure restricting importation, or cre-

ating any kind of monopoly at all, rather than taking steps whose only effect could be to support existing monopoly. This would be entirely in line with our policy. It would not satisfy Standard Oil and its partner, Atlantic, because result would probably be to bring down price of oil; but in my judgment price ought to come down.

Behind Anderson's⁶¹ visit to Dept. is very unpleasant story.

Gulf sent representative here last June proposing to enter Brazilian market. War restrictions made this impossible until after petroleum control should be lifted, so Gulf made preparations, buying tanks in partnership with Brazilian concern and proposing to finance this Brazilian concern in refining. Standard countered by offering to market Gulf crude if Gulf would stay out. This proposal being rejected Standard then stated it had influence enough with Brazilian Petroleum Council to limit Gulf to 5% of market, possibly capable of being raised to 10. It was endeavoring to make this arrangement at time of fall of Vargas Govt. and was likewise endeavoring to induce Petroleum Council to requisition use of tanks Gulf had recently bought. At one time in discussions Standard in New York is reported to have made statement that it would withdraw from market thereby paralyzing Brazil since Gulf could get no ships from WSA until after January. I gather this was probably bluffing.

It was not reassuring to find that immediately after fall of Vargas and consequent end of that connection, Standard at once has recourse to State Dept. asking it to take step whose immediate desire is to block Gulf, backing step by somewhat shallow argument that if Brazilians should build refinery, they might later impede importation of refined product on "nationalist" grounds. We certainly can oppose restrictions on import of refined products, but that is no reason for using our influence to prevent another American oil company from working with Brazilians to establish refining industry on basis which will apparently be economic without artificial govt. measures.

My distinct impression is Dept. has about half the story and is getting into very dangerous position.

BERLE

832.6363/11-1345 : Telegram

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

RIO DE JANEIRO, November 13, 1945—7 p. m.

[Received 9:55 p. m.]

3411. With further reference to business of oil refining, both Gulf representative and Anderson of Standard Oil came in to see me today

⁶¹ Presumably Paul J. Anderson, representative of the Standard Oil Company of New Jersey in Brazil.

at their request. I likewise have been going into Brazilian end of situation. Standard now takes view that they do not oppose development of Brazilian refining. What they do wish is that American capital shall be permitted to have at least minority interest in such refineries. Gulf representative will come in tomorrow and I imagine will take same position. Further, since visits to Dept. I gather that Anderson talked to his board of directors convincing them that airtight monopoly would not be desirable for them here, and he states to me that they will not fight entrance of Gulf to this market.

There remains question of present setup in Brazilian Petroleum Council. One of late acts of Vargas' regime was to work out snap procedure by which within 30 days (which expire 2 weeks from tomorrow) certain companies were to bid for the privilege of operating Brazilian refineries after which they would get virtually monopoly concessions under a law excluding any Americans from entering business. The law appears to have been rigged so that only two Brazilian concerns could effectively bid on business. I told Anderson that if Gulf would agree, as I think they will, I would ask that matter be reopened in hope of permitting partnership arrangements between Brazilian and American capital to enter refining business. Standard says that while they of course want as large an interest in refining as they can get, they would be satisfied with minority interest. I will report further as developments proceed.

It would appear from what Anderson said that wise counsel has prevailed and that the trade war between Gulf and Standard has been abandoned, at least on Standard side, in favor of ordinary businesslike competition. If this is true it should make it easier for Brazilian authorities (who have no interest in defending one of the late acts of the Vargas dictatorship) to retire from policy of excluding all Americans from market.

BERLE

832.6363/11-1745 : Telegram

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

RIO DE JANEIRO, November 17, 1945—1 p. m.

[Received November 18—12: 16 a. m.]

3449. With further reference to conversation described in Embtel 3448, November 17,⁶² certain additional matters were mentioned and agreement reached.

⁶² Not printed; this concerned a meeting of representatives of the oil companies and of the Embassy, during which discussions were held as to the feasibility of operating refineries in Brazil (832.6363/11-1745).

First, that Dept. would probably wish to reconsider Deptel 2599, November 10 and particularly paragraphs intimating withdrawal of U.S.-Brazil economic cooperation if oil companies' desires were not met. All present agreed with me that any such policy would be impossible in first place and threat of it disastrous. Embassy suggests that Dept. cancel this telegram of record.

Second, all hands agreed that Brazilian refining industry was sure to come within relatively short time either because it is presently profitable now, as Gulf's representative unofficially stated, or because pressure of growing market and need for meeting foreign exchange position will rapidly create both economic base and economic pressure. Standard and Atlantic stated that they prefer not to go into refining business here but recognize that it is sure to come. They and Texas took position that they hoped Brazilian refining would not be so managed as to freeze them out of market and Standard representative indicated personally that he could make arrangements not unlike those which Gulf appears to have made.

Third, all agreed that two refineries Brazilians are proposing to build would supply only minority of market in existence at time of their completion, leaving plenty of room for sales by others. I stated that we had consistently opposed and would continue to oppose any policy building artificial fences around these or any other refineries creating artificial monopoly freezing out other Americans or Brazilians or others from access to market on equal terms.

Fourth, all hands agreed that best thing to do was to let situation go forward as at present but to ask that Petroleum Council so handle matters that further entries into refining business and market would not be precluded. All expressed satisfaction with this disposition.

Fifth, I stated that policy of Government had been and now was to strengthen Brazilian industry in partnership with Americans where they could contribute as they could in this case; that we sought not monopoly but fair competitive arrangements so that prices should be reasonable and service adequate on economic basis and also so that Brazil and Brazilians should be relieved from pressure of paying out foreign exchange for services they could perform in Brazil on economic basis. All appeared to assent to this definition of policy.

Therewith we propose to leave it for time being. Clark⁶³ who handles contact with Petroleum Council is expounding this point of view to head of the Council.

In addition to foregoing, all stated that they had no intention of handling their arrangements so as to squeeze out anyone else or elimi-

⁶³ DuWayne G. Clark, Commercial Attaché in Brazil.

nate competition. They also agreed that we were under obligation to do nothing which would shut off access to market by other countries particularly Britain.

BERLE

832.6363/11-1745 : Telegram

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

RIO DE JANEIRO, November 17, 1945—1 p. m.

[Received 9 : 10 p. m.]

3450. For Braden⁶⁴ from Berle. Re oil matter please see Embtels 3448⁶⁵ and 3449 November 17 which will bring you up to date and leave situation as well as perhaps it can be left. Situation is difficult : Deptel 2599, November 10 was substantially dictated by one of the oil companies and perhaps did not get full policy attention, with result that it looked like diplomatic pressure in favor of cartel group against sovereignty of Brazil—and incidentally against another powerful American group.

Best thing for Brazil at moment would be to put up refining industry in partnership with Americans. Brazil has not as yet technical skill to do this alone and in any case must get supply of crude from outside. Hence partnership is indicated. They should also have competitive conditions. In my judgment price of gasoline has been too high partly because of bad Brazilian taxation but also because of unduly high profits by sellers of refined products at prices nominally fixed by Petroleum Council but actually fixed by agreement between them.

BERLE

832.6363/11-1945 : Telegram

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

WASHINGTON, November 19, 1945—6 p. m.

2631. Urtels 3403 and 3411, Nov 13, and urtel 3420, Nov 14.⁶⁶ Facts in possession of Dept regarding petroleum refining situation in Brazil appear at variance with Embs understanding of situation. Following are principal points of difference :

1. You stated that "refining and marketing of oil in Brazil is at present air-tight monopoly of Standard Oil probably acting in conjunction with British Shell interests." Dept understanding is that

⁶⁴ Spruille Braden, Assistant Secretary of State.

⁶⁵ See footnote 62, p. 527.

⁶⁶ Telegram 3420 not printed.

neither Standard nor any other American company has any refining operations whatever in Brazil, only operating refineries being three small Brazilian-owned plants at Matarazzo, São Paulo, and Rio Grande do Sul. Thus no Standard monopoly of refining. As regards marketing, Dept understands Standard does about 40 percent of gasoline business and 50 percent of residual fuel oil (these percentages including sales by Caloric company which owned by Standard); balance of business divided among Shell, Atlantic, and Texas, with Gulf perhaps having small participation resultant from recent purchase of Brazilian marketing organization.

2. You speak of "Standard Oil and its partner Atlantic." Dept has no evidence of any joint operations by Standard and Atlantic (except certain occasional cooperative transactions requested to be performed by PAW⁶⁷ under Directive 70); both companies deny any intercorporate connection.

3. You state that a stand by this Government against measures restricting importation would not satisfy Standard and Atlantic because "result would probably be to bring down price of oil." Dept informed that prices in Brazil are determined by National Petroleum Council with view to protecting the three small Brazilian refineries, and that large profits of importers of finished products result from such mandatory minimum prices.

If understanding of Dept on any or all of above points is known by you to be incorrect please inform by urgent cable. Otherwise Dept feels that position taken in Deptel 2599, Nov 10, is only sound position that can be taken and regrets it apparently did not make sufficiently clear ideas meant to be conveyed therein. Dept opposes monopoly arrangement as strongly as Emb, whether Brazilian or American. Dept believes in fullest application of open-door principle to which you referred and feels that objective is unattainable so long as decrees 395 and 4071 remain on books. Consequently, Dept reiterates that fundamental objective of Emb should be to seek elimination of restrictive provisions in those decrees. Belief here is that any other approach, such as minority interest in refineries for U.S. companies, would be only compromise solution of doubtful duration. Moreover, because of monopolistic aspects, we oppose exclusive concessions for establishment of refineries, whether wholly or partially Brazilian-owned, and likewise, any sort of exclusive marketing arrangements between refineries and American distributors. In precisely what respects is Emb not in accord with foregoing?

Dept proposed that Emb attempt to forestall final action on recommendations of Petroleum Council merely as initial stop-gap measure

⁶⁷ Petroleum Administration for War.

so as to keep situation fluid and permit attack on root of difficulties, decree-laws 395 and 4071.

Dept's position is re-stated as follows :

Decree-laws 395 and 4071 prevent American nationals from owning or even having minority participation in refineries in Brazil and have retarded development of refining industry Brazil. This situation, while considered by Dept to be essentially unsound, was not cause for serious concern so long as existent Brazilian refining capacity was adequate to supply only small fraction of Brazilian petroleum product requirements. With announcement, however, that Ypiranga and Sampaio groups had each obtained on a duopoly basis refining concessions authorizing construction of a 10,000-barrel refinery, (subject to determination of financial responsibility and guarantee of crude supply), these two refineries in addition to the three small existent refineries would be adequate to supply all of Brazil's requirements of oil products except residual fuel oil and specialty products. Thus one of three results would necessarily ensue: (a) either present United States suppliers would be excluded altogether from Brazilian markets and crude supplies obtained by the Brazilian refineries from other sources, or (b) a rigid market and quota arrangement would be initiated designed to protect the relative market positions of present suppliers and thus to freeze the competitive *status quo*, or (c) some such monopolistic supply arrangement would develop as apparently has been anticipated by Gulf in that one or at most two companies would have exclusive supply contracts with the Brazilian refineries. The Dept felt that all three of these alternative results were undesirable and that it was therefore important to proceed promptly to do what could be done to obtain a modification or repeal of the basic decree-laws which gave rise to this situation. Pending adequate discussion of the issues of commercial policy and international investment policy that are involved, Dept is anxious to obtain a temporary suspension of the arrangements whereunder all refining operations in Brazil would be concentrated in the hands of the Ypiranga and Sampaio groups.

It is accordingly requested that you hold such conversations as you deem appropriate with the Brazilian authorities along the lines indicated in Deptel 2599.

For your information, local representatives of Standard and Atlantic are apparently still under impression that their parent companies would be satisfied with a minority participation in Brazilian-owned refineries (which incidentally will almost inevitably be accompanied by a tacit or overt understanding freezing crude supply positions). Actually, as indicated in third paragraph of Deptel 2599, officials of Standard and Atlantic here have reconsidered and will await outcome of Dept's efforts to obtain a general loosening up of the

situation in Brazil that will permit free competitive entry to both the refining and marketing business in Brazil. Further, the initial acceptance by American companies of minority interests in the development of Brazil's petroleum resources, would have serious effect on this Government's over-all policy with respect to protection of American interests in other Latin American countries; i.e., Mexico.

BYRNES

832.6363/11-2345

Memorandum of Telephone Conversation, by Mr. Charles B. Rayner of the Petroleum Division and the Chief of the Division of Brazilian Affairs (Chalmers)

[WASHINGTON,] November 23, 1945.

Participants: Adolf A. Berle, Jr., American Ambassador, Rio de Janeiro
AP—Mr. Rayner
PED—Mr. Loftus⁶⁸
BA—Mr. Chalmers

In the conversation over the telephone, Mr. Chalmers told Ambassador Berle that Mr. Braden had requested that he be given telephonic instructions to make representations to the Brazilian Government designed to postpone definitive action in connection with the granting of concessions for the refining business to two Brazilian groups in order that the situation might remain fluid until such time as the new government to be elected on December 2 could have an opportunity to review the basic commercial policy involved. Ambassador Berle made it clear that he was opposed to the Department's views in this matter, and while he would, of course, obey instructions given him, he made it clear that he, as an individual, wished to have no part of it. At different times during the conversation, Messrs. Rayner and Loftus also talked to Ambassador Berle.

It was not entirely clear at this end on exactly what grounds Ambassador Berle objected to representations to the Brazilian Government. He stated that the Brazilians had a right to go into the refining business in their own country and that any effort on our part to oppose such a development would be construed by the Brazilians as an unwarranted interference with an internal matter, pointing out that the refineries in question, when completed, would only absorb a relatively small portion of the Brazilian market and that plenty would be left, with the development of Brazil's activities, for continued American participation in the market. Ambassador Berle stated that he believed that the Department's instructions, if carried out, might

⁶⁸ John A. Loftus, Divisional Assistant, Petroleum Division.

lead this Government into an embarrassing position, and cautioned the Department against making any representations to the Brazilian Government that we would not be equally prepared to make to other Governments.

An effort was made to convince Ambassador Berle that the issue in this case, in the Department's view, was not on the relative size of the market but the theory of operations restricted only to the nationals of a given country. Mr. Loftus told him that one of our main objections to the proposal in question was the fear that a cartel arrangement would result from the supply of crude oil to these refineries, and that such an eventuality was directly opposed to our commercial policy. Ambassador Berle stated that if the Department wished the representations in question to be made to the Brazilian Government, it should telegraph the text of the precise language to be used, which he would transmit to the Brazilian Government without personal responsibility of his own. He pointed out that, in his view, it would be desirable to make the instructions sufficiently flexible so that he could, if it appeared preferable, make the representations in question to the President of the National Petroleum Council. Ambassador Berle stated that he did not expect that the concessions in question would actually become effective before November 30 and that there would therefore be time for the Department to telegraph its wishes in this connection.

Following the foregoing conversation with Ambassador Berle, it was decided that Mr. Loftus would draft a telegram to Ambassador Berle containing the text of a note which the Department would like to have forwarded to the Foreign Office, but that Ambassador Berle should be given discretion to take the matter up instead with the President of the National Petroleum Council if, in his judgment, this would be the preferable or more effective method of approach. It was further agreed, in general principle, that no request would be made to the Brazilian Government that the Department would not be equally willing to make to other Governments under like circumstances. It is hoped that the instructions in question can be drafted and cleared by Monday evening or Tuesday, at the latest, of the coming week.

832.6363/11-2745 : Telegram

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

WASHINGTON, November 30, 1945—7 p. m.

2693. Dept is pleased to observe from urtel 3523 Nov 27⁶⁹ that the granting of refining concessions is not an automatic consequence of

⁶⁹ Not printed.

the closing of bids Nov 30 and that the National Petroleum Council is disposed to recommend to the new government an amendment of existing laws and decrees so as to permit the participation of foreign capital in refining and exploration activities. This indicated liberalization of concept is viewed by the Dept as being a most heartening step toward elimination of many of the problems facing foreign petroleum interests.

Dept understands the desire of the Brazilian Government to promote the establishment of a refining industry, particularly in view of the beneficial effect which it could have upon Brazil's foreign exchange position. Dept feels, however, that any such action under existing laws would be inconsistent with the principle accepted by Brazil under Article VI of the Economic Charter of the Americas, would eventually prove detrimental to present or contemplated foreign petroleum investments and might react disadvantageously upon the future expansion of the Brazilian economy.

Under Article VI of the Economic Charter of the Americas adopted at Mexico City the Brazilian Government accepted the principle that "The American Republics will undertake to afford ample facilities for the free movement and investment of capital, giving equal treatment to national and foreign capital, except when the investment of the latter would be contrary to the fundamental principle of public interest." It is the Dept's opinion that the present restrictive petroleum legislation can justifiably be interpreted as being inconsistent with this accepted principle.

I suggest, therefore, that you continue to encourage the National Petroleum Council in its expressed willingness to further liberalization of present laws and that every effort be made to convince them that, until modification of these laws may be considered by the new government, a postponement of a decision on refining concessions is essential in order to avoid giving force, effect, and precedent to laws which, it is contemplated, will be revised.

In pursuing this course, it is highly desirable that no impression be left with the Brazilian Government that this Government would view with favor the establishment of any fixed percentages of participation, minority, or otherwise. As you no doubt realize, our acceptance of such a principle would inevitably encourage the adoption of furtherance in other countries of restrictive policies harmful to American commercial interests. Accordingly, every effort should be made, in the encouragement of modification or abrogation of present restrictive measures, to press for the elimination of any limitations on participation.

Time being of the essence in this situation, I am sure that you will agree that we should take steps in furtherance of these ends at the earliest possible moment.

BYRNES

832.6363/12-445 : Telegram

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

RIO DE JANEIRO, December 4, 1945—6 p. m.

[Received 10:27 p. m.]

3604. Embassy has been working on Deptel 2693, November 30, 7 p. m. referring to oil situation. Since entire case is rested on Economic Charter of Americas we shall at once be asked whether Dept. is prepared to implement article II of Charter which provides for equal access to commerce and raw materials of the earth, and also article IV which provides for prompt action by agreement between govts to prevent cartels or other private commercial arrangements from obstructing international competition, stifling competition etc., so as to arrive at competitive prices for consumers.

Point is that rule that capital should freely invest in refining industry is meaningless unless refining industry has free access to supply of raw material, otherwise oil companies could simply decline to provide the material for any refinery they did not own or control.

In our judgment this point is certain to be raised. Guilherme Guinle,⁷⁰ well known to Dept, told me last night that about week ago Anderson of Jersey Standard had visited him suggesting that Guinle and Ypiranga should tie up with Standard, Shell-Mex, Texas, Atlantic group and offering to open credit of 8 million dollars should this be done. Incautiously, Anderson added that his head office had made representations to Dept which Jersey Standard thought would prevent any licensing of refineries at this time. Guinle thereupon sent to Petroleum Council to ask if this were so and reply appears to have been that Brazilian Govt would not take such interference kindly.

Position that Brazil cannot grant concession for refineries because the laws do not comply with article VI of Economic Charter (which I personally think does not follow) will immediately be countered with request whether we mean to live up to articles II and IV. In this respect Brazilian Govt would not find it difficult to secure support of both Mex and Venezuelan Govts whose interest in marketing here to refineries has likewise been reported.

We are of course encouraging liberalization of laws and have made

⁷⁰ Presumably the president of Companhia Siderurgica Nacional.

good progress along this line, already having received indications that if concessions are granted they will be subject to any change in such laws. This will satisfy (Nacional?) of situation but of course will not satisfy Jersey Standard group which would like to block any concessions. According to its statement to us it would prefer no refining industry here.

This matter is now subject of general talk throughout Rio and undoubtedly will be in newspapers either here or in US at any time. If representations were made at FonOff they would undoubtedly decline to deal with matter until new administration comes in, though they would probably sympathize with liberalization of laws.

Time for receiving concession applications expires December 6; probably no decisions thereon for about 10 days thereafter if then, such decision being permissive but not mandatory.

BERLE

832.6363/12-445 : Telegram

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

WASHINGTON, December 11, 1945—8 p. m.

2748. Reurtel 3604, Dec 4. Articles II and IV of Economic Charter of Americas represent undertakings of US Govt and there can be no question of its intention to live up to them.

From standpoint of access to raw material indicated situation would hardly seem to leave anything to be desired by Braz refining industry. As you know at least five American companies are endeavoring to negotiate crude oil supply contracts with applicants for concessions under existing restrictive laws, despite Dept's hopes to secure a liberalization of the laws before such negotiations have gone too far.

While Braz Govt's statement is reassuring that granting of concessions under existing laws would not establish vested interests under such laws, it could hardly be expected that successful concessionaires under laws assuring them a market would not oppose changes in the laws that would expose their enterprises to all the hazards of competition. Rather than run the risk of having powerful refinery groups in opposition when revisions in the laws come up for consideration, is it not more desirable that all commitments of Braz Govt on refining concessions be delayed until hoped for revisions can be accomplished? Dept therefore considers that before your departure, and in line with pgh 4 Deptel 2693, Nov 30, it would be wise for you place on record with the Braz FonOff hopes of US that action will not be taken on applications for refinery concessions under laws which it is further

hoped will be revised by new Braz Govt to bring them into conformity with article VI of Economic Charter of Americas.

From your 3631, Dec 7,⁷¹ Dept assumes Brit Emb will take parallel action.

BYRNES

832.6363/12-245 : Telegram

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

RIO DE JANEIRO, December 12, 1945—6 p. m.

[Received December 13—3 : 03 a. m.]

3672. Embassy is appreciative of Deptel 2748, December 11. Unfortunately the instruction seems to be both highly dangerous and highly unsound and in that feeling Economic Counselor's Office agrees. We further feel that immediate animosities and inevitable publicity engendered, with accompanying change that American diplomacy is being used at behest of group. Companies which have not competed and have openly opposed refining industry here, would be gravely prejudicial.

Instruction is in effect a request from US Govt to Brazilian Govt that it shall not, under its existing law, permit building a refining industry unless and until legislation which we consider satisfactory under economic charter shall have been passed.

I have every reason to believe that British Embassy will not take parallel action unless it can state that it does so at instance of US Govt. We shall be held responsible.

If representation is successful as it probably will not be, we should block the one real chance Brazil has had in many years to create competitive refining industry in substantial partnership with American companies. I have no faith in theory that successful representation would merely delay, because I am very clear that Jersey Standard group will use every influence as long as they can to continue impasse, and so go on in control of refined market. They certainly have powerful financial reasons to do so, and this is only conclusion I can draw from their statement both here and to Dept. that they will enter refining business only as last resort despite recognition that it is ultimately inevitable. My surmise is that the immediate result of representation when made will be instant declaration by Brazilian Govt that they consider refining of industry affected with a public interest under Economic Charter, closing the door to free capital movement in this industry for some time to come, and killing the very

⁷¹ Not printed.

promising attempt which Petroleum Council is now making towards liberalization. Since I expect to be in Washington by Tuesday of next week, there will be time for discussion which I hope may prevent Dept. from making very grave mistake. In honesty I should add that I personally would not wish my name to appear in connection with the proposed representation and cannot make it with the sincerity which alone might make it successful. Dept can of course make this representation through Ambassador Martins, preferably await my visit to Washington, thereafter cabling appropriately to Embassy here.

BERLE

832.6363/12-2145

Memorandum of Conversation

[WASHINGTON,] December 21, 1945.

Participants:

| | | |
|---------------------------------------|-------------------|---------------------|
| Ambassador A. A. Berle | CP ⁷⁴ | Col. H. R. Turkel |
| AP Mr. C. B. Rayner | | Mr. William F. Gray |
| A-BR Mr. James Wright ⁷² | PED ⁷⁵ | Mr. Rex Townsend |
| ARA Mr. Ellis O. Briggs ⁷³ | | Mr. D. A. Robertson |
| BA Mr. P. O. Chalmers | | Mr. C. M. Pigott |

Meeting held in Mr. C. B. Rayner's office—December 20, 3:30 P. M.

Ambassador Berle was invited to describe the situation surrounding the present intention of the National Petroleum Council of Brazil to grant refinery permits for at least two 10,000 bbl. refineries. He outlined in most helpful detail the historical background of Brazil's desire for an approach to self-sufficiency in petroleum and the steps taken via decrees to limit participation in such development to Brazilian nationals and Brazilian capital. He further expressed his conviction that the foreign oil market organizations now operating in Brazil definitely opposed the intended establishment of refineries and went on to describe the more recent development of the entry of the Gulf Oil Company into the marketing picture and its tie-up with the Ypiranga group.

It was Ambassador Berle's contention that any effort by the United States Government at this time to bring about postponement of the granting of refinery permits would have serious political repercussions and would bring down upon the head of this Government the accusa-

⁷² Assistant to Assistant Secretary of State Braden.

⁷³ Director, Office of American Republic Affairs.

⁷⁴ Division of Commercial Policy.

⁷⁵ Petroleum Division.

tion of meddling in Brazil's private affairs as well as of supporting the alleged monopolistic aspirations of existing foreign oil interests in Brazil.

Mr. Rayner explained that his concern and that of PED was for the future of present or prospective American oil interests in Brazil from an industry standpoint and that it was his feeling that the establishment of a Brazilian national refining industry wherein present marketing organizations were placed in a dependent position without the opportunity of participation of management might readily result in a gradual elimination of these organizations from their normal place in the Brazilian economy. It was, therefore, his hope and that of PED that liberalization of present laws might be affected in order to permit foreign capital and management participation in refinery operations and perhaps eventually in the exploration and development of potential Brazilian petroleum resources.

Ambassador Berle explained that this desire had been expressed just prior to his departure from Rio through a note submitted to the Brazilian Foreign Office which, in effect, indicated the hope of the United States Government that the creation of a national refining industry would not result in the establishment of vested interests or in a discriminatory situation prejudicial to prospective foreign interests and that Brazil would lend effect to its apparent intent to liberalize present laws so as to permit participation of foreign capital.

Following further discussions of the varying points of view surrounding this general subject, Mr. Rayner stated that while he felt that a liberalization of laws could more readily be affected if such liberalization preceded rather than followed the granting of refinery permits he would bow to the Ambassador's view that such a course might be more prejudicial to the ultimate goal than were the granting of refinery permits be allowed to pass without comment and steps taken thereafter to urge the desired liberalization.

832.6363/1-1546 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, January 15, 1946—6 p. m.

[Received 7:42 p. m.]

102. Today the Dutch Counselor of Legation called upon the Commercial Attaché to discuss the general petroleum situation in Brazil particularly as regards the projected creation of a refining industry. He was provided with general information and in reply to a direct question was informed that this Mission has not objected to the creation of the refining industry excepting on the basis of the Final Act of the

Inter-American Conference of Chapultepec, chapter L, sec. 4,⁷⁷ which provides for the free movement and investment of national and foreign capital. The Dutch Counselor somewhat reluctantly displayed a copy of a note written to the Brazilian Ministry of Foreign Affairs under date of January 8, 1946, in which it was stated that it was hoped that the Brazilian Government would postpone any further steps as regards the creation of a local refining industry until such time as existing legislation has been so altered as to permit the participation of foreign capital.

This note would appear to be closely comparable to that reportedly submitted by the British Embassy and it is assumed that the identification of the Dutch in opposition to the Brazilian refining industry can be traced to the Dutch capital participation in the Dutch Shell organization which in turn is locally represented by the Shell Mex Company.

DANIELS

832.6363/3-2946 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, March 29, 1946—noon.

[Received 2:28 p. m.]

593. Embassy has not received reply its confidential despatch 4326, Feb 25⁷⁸ requesting Dept's policy re petroleum development in Brazil. If Embassy is to exert discreetly and tactfully any influence toward liberalization of the constitution to permit foreign capital to participate, it must be done now. It has been suggested by certain officials Brazilian Govt that Embassy's influence would be helpful. Early reply to above despatch is important.

DANIELS

832.6363/3-2946 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, April 2, 1946—3 p. m.

435. Urdes 4326, Feb 25,⁷⁸ Embtel 593, Mar. 29. Dept has consistently advocated access by all peoples on equal terms to trade and raw materials of world. See Atlantic Charter,⁷⁹ Economic Charter of

⁷⁷ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945), p. 91.

⁷⁸ Not printed.

⁷⁹ Joint Statement by President Roosevelt and Prime Minister Churchill, August 14, 1941, *Foreign Relations, 1941*, vol. I, p. 367.

Americas⁸⁰ and Proposals for Expansion World Trade and Employment (i.e. proposed International Trade Organization). It has pledged itself as did other American Republics at Chapultepec to this principle, to equality of opportunity for national and foreign capital and to elimination of all forms of discrimination inconsistent with these ends. It seeks for its nationals no preferential treatment with respect to foregoing and would consider extension preferential treatment to other nationals incompatible with pledges given at Chapultepec.

Dept is most hopeful that Braz Govt will, in considering modification present laws and constitution, bring into alignment those provisions now inconsistent with commitments abovementioned.

Emb is authorized to discuss matter informally with Braz authorities within above framework.

ACHESON

832.6363/4-346

*Memorandum of Conversation, by the Chief of the Petroleum Division
(Loftus)*

[WASHINGTON,] April 3, 1946.

| | |
|--------------------------------------|-----------------------|
| Participants: [Department of State:] | Standard Oil Company: |
| Mr. Braden | Mr. Orville Harden |
| Mr. Wright | Mr. George Koegler |
| Mr. Braddock | Mr. William Haley |
| Mr. Rayner | |
| Mr. Loftus | |

Mr. Harden, who had requested the appointment with Mr. Braden, stated that his company had been advised by their representative in Brazil that the Gulf Oil Corporation was willing to negotiate with one of the Brazilian refining concessionaire groups on the basis of contributing the total dollar requirements of refinery construction costs in the form of cruzeiro debentures. It was to be anticipated that the other Brazilian concessionaire groups would demand the same terms. In fact the group which had been negotiating with the Gulf (namely Ypiranga⁸¹) had informed the Jersey representatives that the only terms Ypiranga would consider involved the contribution of total dollar cost requirements on cruzeiro debenture basis with *no* provision for the subsequent convertibility of the debentures into an equity interest if the laws should be modified so as to permit such conversion.

⁸⁰ Resolution 51 of the Inter-American Conference on Problems of War and Peace was approved as the Economic Charter of the Americas.

⁸¹ São Paulo Ipiranga, oil developing company that appears to have collaborated with Gulf Oil Company in marketing plans.

Mr. Harden stated that he regarded this proposal as most unsatisfactory and threatening to the future of oil operations in every foreign country. If Standard were forced to accept it because of action by Gulf, Standard would do so with great reluctance. Before making any decision, however, he wanted the advice of the State Department about whether there would be any objection to negotiations along the lines indicated.

Mr. Braden and Mr. Wright made it clear that the Department was exerting every effort to obtain a liberalization of the laws governing petroleum operations in Brazil and hoped that problems such as this would not continue to arise. In the meanwhile, however, while it was to be regretted that any American company should be required by circumstances, arising out of nationalistic legislation in Brazil, to enter into such an unsound business deal, there was no basis upon which the Department could object to the Gulf Oil Corporation accepting the proposed terms. If such acceptance were to set the pattern for other crude supply contract arrangements in Brazil this would be unfortunate, but the Department could not ask the Standard Oil Company to refrain from meeting the only terms that appeared likely to be acceptable to the Brazilian concessionaires.

Mr. Harden asked if there was anything the Department could do with respect to the situation in Brazil. Mr. Loftus stated that we were considering one more effort to persuade the Brazilians to reconsider and liberalize their governing legislation before the present refinery arrangements should be finalized. There could be no assurance, however, that this would be successful.

As an instance of how the Department is prepared to use its negotiating strength to promote conditions favorable to American trade and investment abroad, Mr. Braden stated the firm position which he had taken in opposition to the extension of an Ex-Im Bank loan to Chile for oil development purposes. Mr. Koegler asked if it might not be possible to indicate at the present time to Brazil that a similar attitude would be taken toward Brazilian applications for Ex-Im credit unless laws antagonistic to the entry and activity of American nationals were modified. Mr. Braden and Mr. Wright stated that any such indication in advance of the receipt of specific credit requests from Brazil would be impossible.

There was some discussion of the legislation governing petroleum exploration and development in Brazil and of the work which the Department and the Embassy at Rio have been and are doing in this regard. It was reported by the company officials that the Standard Oil Company had submitted a written proposal to the Brazilian authorities outlining the range of terms under which the company would be willing to undertake exploratory operations in Brazil.

832.6363/5-746 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, May 7, 1946—7 p. m.
[Received 9 : 20 p. m.]

845. This afternoon in the course of conversation with Gracie⁸² I said I wished to consult him in regard to a matter of which I was somewhat uncertain as to how to proceed. I said I understood that consideration was currently being given by the competent Brazilian authorities to the possibility of revising Brazilian legislative and constitutional provisions to permit participation of foreign capital in the petroleum industry, both refining and production. I asked Gracie if he thought it would be appropriate for me to express to the Foreign Office the official views of the US Government in regard to this important matter, bearing in mind our natural desire to avoid taking any step which might be construed as intervening in a domestic matter or making representations which might cause embarrassment. I added that, as a matter of fact, I assumed our official views were already quite well understood, and in fact had been stated in a general way in the Embassy's note No. 349 of December 12, 1945 to the Foreign Office (see Embdespatch No. 4073 of January 23, 1946).⁸³ Gracie recalled that note, and I pointed out that our views were based on the recommendations of the Mexico City Conference last year, specifically the Act of Chapultepec.⁸⁴ As he well knew, I added, our views favored the participation of private foreign capital in the petroleum industry refining as well as production, but that I was uncertain as to how far to proceed in presenting those views officially to the Brazilian Government or whether they would be welcome.

Gracie suggested that I give him, personally and confidentially, a memorandum setting forth our views on this subject. He said that after consultation with Foreign Minister João Neves he could determine what use could best be made of it, if any, bearing in mind the obvious desirability of avoiding political embarrassment. I said that personally I would be delighted to give him such a memo, but even on the proposed personal and confidential basis felt it would be necessary for me to have prior authorization from the Department. Any such memo would not need to go into great detail in regard to the various considerations involved, most of which are by now fairly well known to the Brazilian authorities, but would rather be a summary of the

⁸² Samuel de Souza-Leão Gracie, Secretary General of the Brazilian Foreign Office.

⁸³ Neither printed.

⁸⁴ The Act of Chapultepec was Resolution VIII of the Inter-American Conference on Problems of War and Peace.

major considerations supporting our position favoring the participation of foreign capital in the oil industry; and its use and distribution would be under control of Gracie and Foreign Office to avoid any embarrassment to the Brazilian Government or the Department.

I think such a memo handed Gracie at this time would be useful, and request telegraphic instructions whether to proceed along this line.

DANIELS

832.6363/5-1046 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

CONFIDENTIAL

WASHINGTON, May 10, 1946—8 p. m.

620. Embtel 845, May 7. Dept believes Emb should avail itself of opportunity to present informally US Govt's views on liberalization Brazilian laws affecting petroleum.

Emb may wish to emphasize following points:

(1) US Govt believes Brazil's attainment self-sufficiency petroleum at earliest economical moment a highly desirable element in hemispheric defense quite aside from its important contribution to Brazilian economic development.

(2) Attainment self-sufficiency dependent upon long range, comprehensive and properly integrated program of search for oil which over large and geologically unexplored areas would involve heavy initial capital investment and attendant large risks.

(3) Minimization of risks and rapid attainment objective suggests desirability of participation in program of highly skilled organizations familiar through long experience with integration of broad programs.

(4) Properly controlled, investment of foreign capital would be asset to Brazilian economy without prejudice to Brazilian patrimony.

(5) Liberalization of present petroleum laws would facilitate Brazilian self-sufficiency and would be in line with commitments at Chapultepec.

ACHESON

832.6363/5-1446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO [undated.]

[Received May 14, 1946—7: 50 p. m.]

896. ReEmbstel 894, May 14, 5 p. m.⁸⁵ This afternoon when presenting Admiral Bieri to President Dutra latter spoke to me aside

⁸⁵ Not printed.

and said he had read the memorandum on petroleum policy I handed Gracie yesterday afternoon. Dutra expressed satisfaction with memorandum and added that he expected no unsurmountable difficulty in obtaining desired revision Brazilian legislative provisions permitting foreign capital participation.

DANIELS

832.011/5-3146 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

CONFIDENTIAL

RIO DE JANEIRO, May 31, 1946—7 p. m.

US URGENT

[Received 11:17 p. m.]

1014. This afternoon Minister Rubens de Mello of Foreign Office told me he had been named by President Dutra to a committee to study those sections of new draft constitution, just submitted to Constituent Assembly for debate, having to do with question of foreign capital investment in Brazil. He said that policy of Foreign Office and President was to encourage entry of foreign capital into Brazil. He said he would like to have from me a "personal" letter giving my frank views as to the clauses in draft constitution now under consideration bearing on this. I replied that I was reluctant to give him any document commenting on the draft constitution which might prove to be embarrassing either to him or the Foreign Office, or to the Embassy or my Government. I added that I had heard doubts expressed in some quarters regarding drafting of certain articles, including the one relating to development of petroleum industry, but hesitated to make any comments in writing without specific authorization from Department.⁸⁶

Rubens de Mello assured me that a "personal" letter to him for use by his committee would not be embarrassing, and that I could commence it by stating that it was in response to his request. He said such a letter, to be of maximum use, should be received by him not later than Saturday, June 8. My own view is that handled in this way the possible advantages of such a letter would outweigh the possible risks involved, and accordingly recommend I be given immediate telegraphic authorization to take this step. There will be time to cable full text of letter to Department for approval, which I shall do upon receipt of Department's instructions.

DANIELS

⁸⁶ In telegram 732, June 1, 1946, noon, to Rio de Janeiro, the Secretary forwarded authorization to address a personal letter to Mello (832.011/5-3146).

832.011/6-746

The Chargé in Brazil (Daniels) to the Secretary of State

[Extract]

RESTRICTED

RIO DE JANEIRO, June 7, 1946.

No. 5259

[Received June 17.]

SIR: With reference to the Department's telegram No. 758 of June 6, 7 p. m. [732 of June 1, noon]⁸⁷ authorizing me to send a personal letter to Minister Rubens Ferreira de Mello of the Ministry of Foreign Affairs, commenting on certain clauses of the new Brazilian draft constitution affecting the investment of foreign capital in Brazil, I have the honor to enclose, for the Department's records, a copy of my letter of today's date⁸⁷ to Minister Rubens de Mello, with enclosure,⁸⁸ sending him these comments in the form as approved by the Department.

Respectfully yours,

PAUL C. DANIELS

[Enclosure]

The following clauses of the new draft constitution seem to have a direct bearing on the investment of foreign capital in Brazil. Undoubtedly many other clauses of the draft constitution will be of interest in this same connection, particularly those affecting the rights, privileges and opportunities of foreigners resident in Brazil, but for sake of brevity comments are submitted only on the following articles:

Article 164, paragraph 6. It seems likely that reference to the "progressive nationalization of banks, insurance and investment companies", et cetera, will have the effect of deterring further foreign capital investments of such enterprises. While it is recognized that the Government of Brazil, as well as any other country, may wish to reserve to itself the right to nationalize such institutions at any time it deems convenient to do so, to insert into the constitution the phrase "progressive nationalization" might be interpreted as an indication of policy on the part of Brazil which would render it speculative and unattractive to invest private capital in these enterprises. Not only would there be a danger of discouraging foreign investment in these particular enterprises but also the policy of nationalization implied by the article might have a deterrent effect on foreign capital investment in all other types of enterprise. Furthermore, the broad constitutional powers granted the Union under paragraph 3 of the same article would seem to render unnecessary specific reference to the possibility of nationalizing certain specified types of enterprises.

⁸⁷ Not printed.⁸⁸ Printed herewith.

Article 164, paragraph 7. The same comments made above in regard to paragraph 6 apply with equal force to the first sentence of paragraph 7, which refers to the "nationalization of public services".

In addition, to provide in the basic law of the land a procedure for determining the rate structure of the various types of public utilities would seem to be going beyond the normal scope of the Constitution, particularly when the entire question of rate fixing in public services is so highly technical, complicated and controversial.

Article 164, paragraph 9. It is understood that one of the major objectives of the Brazilian Government is to permit and encourage the participation of foreign capital in the development of Brazil's mining and petroleum resources. A careful reading of this paragraph leads to the conclusion that the participation of foreign capital in such enterprises is permitted in the present draft, but doubts have been expressed as to whether such capital participation is encouraged. In other words, the interpretation of the phrase "empresas organizadas no país" appears to be susceptible of subsequent legal interpretation by the congress and the courts in such a way as to have an adverse effect on foreign capital participation. In such circumstances, foreign companies would be reluctant to make large-scale investments of capital unless their constitutional right to continue in business were more fully guaranteed by the constitution and not subject to the vicissitudes of congressional action at any given time. It would not seem difficult, by very slight rewording, to make this guarantee absolutely unequivocal and thereby give effect to the Brazilian Government's desire to create conditions favoring the investment of foreign capital in the development of these major resources.

832.6363/7-3046 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, July 30, 1946—6 p. m.

1023. Dept informed (1) that Drault-Ernanny group probably prepared to meet supplementary requirements for refinery concession including refinery site by Aug 3 deadline, (2) that doubtful Sampaio group will be able to do so due lack of site, (3) that Ipiranga group now understood to be associated with Drault-Ernanny, and (4) that in event Drault-Ernanny only recipient concession group will seek concession for second refinery Sao Paulo in hopes obtaining strong monopoly position in Rio-Sao Paulo area.

Concentration of all refining in main consuming centers in hands strong Brazilian group would represent unfortunate development at this stage our efforts to achieve entry foreign capital.

Can you confirm above? Are there any further useful and prac-

licable steps which should be taken now to keep refining concession matter open until laws modified?

ACHESON

832.6363/7-3146: Telegram

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

SECRET

RIO DE JANEIRO, July 31, 1946—4 p. m.
[Received 7:09 p. m.]

1370. Your telegram 1023, July 30.

(1) Drault-Ernanny will probably meet all conditions August 3 except final acquirement of refinery site. He is negotiating for Government owned land and has obtained approval of 6 Ministers and the President but must obtain approval of 5 other Ministers which cannot be done by August 3. Ernanny will probably ask further time extension on ground that his failure to acquire land is due to delay caused by Government. Under the law Council cannot grant final approval but can grant further delay.

(2) It is believed Sampaio cannot meet conditions due to failure to acquire refinery site. Informed that during past 24 hours negotiations proceeding between Ernanny and Sampaio for joining of forces to build one 20,000 barrel refinery in Rio, using Ernanny site. If negotiations successful believed Sampaio will ask time extension to work out arrangement.

(3) Reliably informed that Ernanny and Ipiranga are not together on Sao Paulo refinery. Ipiranga reported to have no further interest in Sao Paulo, but plans at proper time to proceed with 3,000 barrel refinery at Rio Grande.

(4) Do not believe anything can be done until after August 3 when more is known about nature of proposal and council's action. Anderson of New Jersey⁸⁹ says he does not know where his company stands if Sampaio Ernanny deal materializes.

PAWLEY

832.011/8-746

The Counselor of Embassy for Economic Affairs (Brooks) to the Secretary of State

RESTRICTED
No. 425

RIO DE JANEIRO, August 7, 1946.
[Received August 13.]

The Embassy has the honor to refer to the Department's Instruction no. 97 of July 25⁹⁰ concerning an amendment to the proposed Constitution referred to in the Embassy's despatch no. 16 of June 17.⁹⁰

⁸⁹ Standard Oil Company of New Jersey.

⁹⁰ Not printed.

After due consideration of this amendment and many other amendments, the Constitutional Commission on August 1 adopted a revised wording of Article 164 paragraph 9-1, under a new heading entitled "Social and Economic Order" composed of seventeen articles. Article 8 thereof reads:

"The exploitation of mineral resources as well as the hydraulic energy depends on Federal authorization or concession under the terms of the law."

Section 1 of Article 8 reads:

"Authorizations or concessions shall be granted exclusively to Brazilian physical or juridical persons, granting to the owner of the land indemnity for damage or for the occupation of his land."

The chief officers of the American oil companies operating in Brazil* have discussed the revised wording with their legal advisors here and generally are of the following opinion:

(1) They hoped that the paragraph would be so worded as to confer on "foreigners" equal rights with Brazilians, by using the word "foreigners". Such a wording would eliminate from a petroleum law the necessity of any definition of the rights of foreigners.

(2) The paragraph as now worded makes it necessary for a petroleum law to define the rights of foreigners, and makes any "juridical person" subject to that law or any other law which may be in force and applicable.

(3) Concessions granted to "juridical persons" composed of foreigners, so long as the "juridical person" complies with the terms of the law could not be cancelled on grounds of constitutionality.

The oil company executives feel that under the revised wording of the Constitution their willingness to expend large sums of money in exploration work now depends on the wording of a petroleum law and other pertinent laws such as taxation laws.

Even with the adoption of the constitutional provision referred to herein, the foreign oil companies will not be able to proceed with any exploration work until a petroleum law is passed, which will define the rights of foreign capital and the terms and conditions under which concessions will be granted. It will also be necessary for Standard Oil Company, Texas Oil Company, and Atlantic Oil Company to form Brazilian Corporations before they can be granted concessions. The Gulf Oil Company operating as *Corrêa e Castro*, is a Brazilian Corporation for marketing operations. Gulf probably would form a Brazilian Corporation for exploration and development work if it wishes to enter that field. This may require several months. Nor can foreign capital participate in the refining industry until a petroleum law is passed or until the President cancels the Decree denying

*Gulf Oil Company, Standard Oil Company, Texas Oil Company, Atlantic Oil Company. [Footnote in the original.]

foreign capital the right to participate in the refining industry. It is rumored that the President has been asked to cancel the Decree, but his disposition in this matter is not known.

It is generally believed that the wording of Article 8-1 of "Social and Economic Order" is in final form and in this form will be adopted by the Assembly. An effort is being made by the Constitutional Commission to complete its work soon in the hope the Assembly will adopt the new Constitution on September 7.

C. C. B[ROOKS]

832.011/10-846

The Chargé in Brazil (Daniels) to the Secretary of State

[Extract]

RESTRICTED
No. 845

RIO DE JANEIRO, October 8, 1946.
[Received October 18.]

The Chargé d'Affaires ad interim has the honor to refer to the Embassy's telegram No 1629 dated September 19, 1946⁹¹ advising of the promulgation of the new Brazilian Constitution, and to submit hereunder comments regarding certain provisions of the new Constitution as of possible interest and assistance to the Department. Comments regarding other provisions of the Constitution are in the process of preparation and will be forwarded as soon as possible. The submission of this information has been delayed by a shortage of personnel in the sections of the Embassy responsible for the reporting thereof.

Petroleum.

Article 153 of the Constitution provides that the exploration and exploitation of the mineral resources shall depend upon federal authorizations or concessions as provided by law. Under the provisions of Section 3 of Article 153 it is contemplated that at some time in the future the States, rather than the Federal Government, may exercise the right of granting concessions and supervising them. It is not considered probable that this will be done in the near future and it is possible that it may never be done.

It will not be practical for foreign oil companies to operate under the provisions of Article 153 until such time as a petroleum law is enacted by the Assembly, nor will it be possible for foreign capital to participate in the ownership of refineries until certain Presidential

⁹¹ Not printed.

decrees which are in conflict with the Constitution, forbidding foreign participation, are canceled either by action of the Assembly, or by action of the Courts.

All the oil company representatives in Rio are fairly well satisfied with the provisions of the new Constitution as they pertain to petroleum. They all feel that the door is now open to foreign capital under such conditions as may be established by a new petroleum law.

Mining.

This Constitution differs from the former one in that it grants authorizations or concessions "for mines and subsoil riches" to companies organized in Brazil. The phrase "ou a empresas organizadas no país" is generally interpreted to mean that non-Brazilians may organize a company under Brazilian law; that company may then acquire mining rights under the procedure specified in the Code of Mines. The Code of Mines must be revised to conform to the new Constitution.

Brazilians in policy-making positions in their government have stated that it was their hope in drafting this measure that Brazilians would be offered participation in such companies, and that under the cited provision of the Constitution, there was no requirement to do so, and in any case the management and control could be in the hands of non-Brazilians.

It is understood that under Brazilian corporate law, the *directors* of a Brazilian company must be *residents* in Brazil.

The policy of granting the owner of the surface preference to the mineral rights is new and is believed to be the result of a compromise. The land-owners wanted to retain the preferential right to the subsoil but the non-land-owning element and particularly the members of the Conselho de Minas e Metalurgia (and the Conselho de Petróleo) only wished to allow indemnization to the owner of the surface for any damages caused as a result of prospecting development or working.

As a practical solution, the owner of the mineral rights would be well advised to purchase the surface rights to avoid expense and trouble in the interpretation of this feature—(Article 153, final sentence of paragraph 1).

It is the Embassy's opinion that this Constitution gives an opportunity to foreign capital to participate in mining in Brazil for the first time in ten years; much depends upon the interpretation of the law in its application to non Brazilians.

The above comments result from a compilation of materials submitted by the responsible officers of the various sections of the Embassy concerned.

832.6363/10-1046 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, October 15, 1946—2 p. m.

1341. Embtel 1736, Oct 10.⁹² Suggestions to committee via Garner ⁹³ on proposed Braz petroleum law should be in form basic principles rather than specific provisions. Dept submits following as principles basic to progressive petroleum legislation :

(1) Equality of access to exploration exploitation rights and market for products thereof irrespective nationality capital.

(2) Freedom disposal proceeds exploitation; due regard however national requirements.

(3) Concession areas of sufficient size make feasible expenditure sums necessary adequate investigation. Concessions could, perhaps should, vary in size according relative difficulty expense development.

(4) Concession life should permit sufficient time completion each phase without undue burden concessionaire provided due diligence exercised. Life each phase might vary according locale.

(5) Equitable production royalties providing maximum possible benefit grantor while insuring return concessionaire commensurate risk and investment.

Suggestions: Where provisions being considered stimulation prompt development or discouragement holding inactive acreage Dept recommends consideration methods forced reduction acreage at stated periods or progressive increase rentals areas retained or both. Also as stimulus development customary grant duty exemption necessary imports during exploration development stages.

Actual provisions of law presumably will be result of discussions and study between grantor and prospective grantees as to equity and maximum feasible conditions. Dept not inclined suggest officially any specific terms but willing that petroleum attaché furnish advice and assistance informally if requested.

ACHESON

832.6363/10-2446 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, October 24, 1946—1 p. m.

[Received 9:18 p. m.]

1798. Refinery concessions have been granted by National Petroleum Council to Drault Ernanny and Sampaio with capacity 8,000 to 10,000 barrels per day each, both concessions for Rio de Janeiro area, no concessions for São Paulo area having been yet approved. It had

⁹² Not printed.⁹³ Of the firm of De Golyer and MacNaughton.

been naturally supposed by interested persons and concerns here that no further concessions would be granted pending approval proposed petroleum legislation, since otherwise equal opportunity participate in refining would be denied foreign concerns.

However, information now received to effect that National Petroleum Council considering seriously granting application of Sampaio to move concession already granted for Rio to São Paulo area, and at same time doubling authorized capacity. If approved, this would pretty well pre-empt major refining possibilities of Brazil and have effect of excluding American concerns from participation refining business in these major areas which serve 85 percent Brazil's needs.

Standard Oil has pointed out to Embassy seriousness of action apparently contemplated by Petroleum Council, since they have been contemplating possibility of establishing refinery as well as engaging in drilling. Same observations would apply presumably to other American concerns interested in competing for refinery business.

Embassy feels that approval now by Petroleum Council to expand refinery concessions in São Paulo and Rio as well would be contrary to announced policy of Brazilian Government regarding foreign capital participation and not consistent with objectives of new constitution as well as proposed petroleum legislation. In view these important considerations, does Department wish Embassy to bring matter to attention Brazilian Government in hope forestalling action by Petroleum Council prejudicial American interests? Telegraph urgently because Petroleum Council apparently giving preferred attention Sampaio application.

DANIELS

832.6363/10-2446 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, October 25, 1946—7 p. m.

US URGENT

1386. Embtel 1798, Oct 24. Granting of refinery concession Drault Ernanny Sampaio considered out of consonance with spirit of economic charter of the Americas (Chapultepec) and new Braz constitution especially since bids and negotiation for concessions carried out under laws precluding non-Braz participation.

Even accepting concessions as irremediable *fait accompli* Dept feels strongly that transfer Sampaio concession to São Paulo and doubling capacities both refineries would automatically preclude any future participation of American Cos in refining regardless of law and would

effectively vitiate intent new constitution since combined refining capacities approximately equal Braz consumption all products.

Emb should bring above to attention appropriate Braz authorities. Emb may further wish to point out that exclusive control refining operations by two Braz groups places marketing Cos in position of being completely dependent upon refiners with possible prejudice freedom of operation and consequent damage of their market position.

ACHESON

832.6363/10-2846 : Telegram

The Chargé in Brazil (Daniels) to the Secretary of State

SECRET

RIO DE JANEIRO, October 28, 1946—5 p. m.

[Received October 29—8:48 p. m.]

1813. This morning I expressed interest in pending petroleum legislation to Foreign Minister Gracie and Minister Rubens de Mello (now Secretary General Foreign Office) and hoped that it would be passed rapidly and in terms consistent with Brazilian Government policy objectives of constitution favoring foreign capital participation on equal terms. At same time I mentioned refinery matter (reDeptel 1386, October 25, 7 p. m.) and said that information had come to me to effect that consideration was being given by National Petroleum Council to expanding pending refinery concessions and including São Paulo area in concessions in such way as to preempt, for practical purposes, refining industry in Brazil to exclusion of American or other foreign capital. I said I was passing this report on simply as matter of information in which I was sure they would be interested, but naturally hoped that no action would be taken contrary to objectives of constitution and Brazilian policy as previously expressed publicly on repeated occasions. Rubens de Mello stated that it was still Government policy to permit foreign capital participation in refining as well as development and drilling; and asked if I could let him have a confidential letter on the subject. I said that in response to his request I would be glad to provide him a confidential letter on this point adding that I naturally felt the matter should be handled with discretion, to which both he and Gracie agreed.

In view apparent urgency matter am sending Rubens de Mello confidential letter immediately incorporating in general terms Department's views as expressed in Deptel under reference. Text letter⁹⁴ will be sent Department by air.

DANIELS

⁹⁴ Not printed.

832.6363/12-2046 : Telegram

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

SECRET

RIO DE JANEIRO, December 20, 1946—7 p. m.
[Received December 21—1:40 a. m.]

2029. Since first arriving in Brazil have endeavored through conversations with President, Cabinet members, principal Senators, Representatives, to obtain preparation groundwork for petroleum law which would be acceptable to American companies. During argument of new constitution it was necessary at one point to use Embassy interest to avoid damage of petroleum development by anti-foreign element. President appointed National Petroleum Council which has been delegated responsibility drafting legislation to cover exploration, development and refining.

National Security Council, which includes members Cabinet, military and civil officials, plus President, charged with responsibility of preparing statement of general principles for guidance National Petroleum Council.

Prior my departure for Washington September 1, I discussed this subject with President Dutra, advising him Peruvian Government had employed firm of Herbert Hoover Junior to assist in writing Peru's new petroleum law and if Brazil sincerely interested in participation by American companies in petroleum development law should be one generally acceptable to American industry. At that time I furnished Dutra with Portuguese translation of Peruvian proposed law.

Upon returning December 11 I learned no substantial progress made in 3 months and during visit to President I referred to growth within Brazil of anti-foreign propaganda which had reached sufficient proportions to greatly endanger participation American capital and technicians in development some of Brazil's principally desired industries. I mentioned specifically petroleum. President stated that Communists and Vargas⁹⁵ were mainly responsible. I asked President not to overlook small groups of selfish national interests who would strongly pressure Government and if successful retard Brazil's progress for many years.

Following day ex-Foreign Minister Aranha visited Embassy and during 2-hour discussion in which he showed great interest in obtaining American Government, industry and technical assistance for Brazil, I again mentioned this danger. Following day he brought to Embassy General Barreto,⁹⁶ principal member Petroleum Council,

⁹⁵ Former President Getulio Vargas.

⁹⁶ João Carlos Barreto, president of the National Petroleum Council.

who gave me shocking explanation of methods by which he proposed this petroleum development to be handled and which would unquestionably delay progress for years. In this conversation in presence Aranha I attempted to show great and logical development of petroleum industry in United States because of liberal laws equal opportunity for all. Pointed to immense investment of Shell Co. in United States refineries, roads, filling stations, development automotive industry because of farsighted planning of United States legislation. Told General Barreto Brazil apparently dealing in this matter as if it involved pennies whereas it required capital of hundreds of millions and unlimited technical skills not available here in sufficient quantities.

Aranha telephoned me later to report that Barreto had arranged for interview with President for purpose immediately proceeding with drafting of law satisfactory to American petroleum industry and further suggested that if it were possible for United States Government to enter into discussion with Brazilian Government officially, or formally sponsoring American companies, he felt a much quicker and more satisfactory solution could be obtained. He said Brazilian Government would find it easier and less embarrassing to discuss details of proposed legislation with American Government, than with the individual oil companies as interested parties. I advised Aranha this not usual procedure. I was not certain American companies would approve such procedure but would consult Department and industry immediately.

Embassy enjoys excellent relations with all people connected with Petroleum Council and we feel in excellent position to make available information to them which might be useful to Drafting Committee. It is suggested that Department arrange early meeting with heads of American petroleum industry in United States in hopes of obtaining from them unanimous agreement regarding provisions of legislation best fitted to meet Brazilian requirements and at same time equitable to American and other foreign interests.

I met today with heads of American Petroleum Industry located here and discussed this matter fully. All agreed that this proposal should be submitted to Washington and that agreement among companies on proposed legislation would be desirable and could be reached best through such meeting in Washington.

Pending ascertaining whether American companies can reach agreement on terms proposed by Brazilian legislation it seems desirable to avoid discussing matter with Shell Oil Co. Later on if satisfactory program is agreed it would obviously be desirable to coordinate fully

with Shell to further enhance prospects of obtaining equitable legislation.

An important point to consider in connection with active Embassy participation in or sponsorship of discussions with Brazilian authorities of terms proposed legislation is growing concern among American oil and other interests here at manifestations of anti-foreign capital sentiment. Some have expressed view that Embassy might be more effective in overcoming such resistance than companies acting independently.

Does the Department feel it advisable that Embassy suggest to Brazilian Government desirability employment of American firm to assist in preparing legislation? To what extent does Department concur in Aranha's views with reference to American Government sponsoring American companies and assisting in preparation this legislation?

PAWLEY

832.6363/12-2046 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Pawley)

SECRET

WASHINGTON, December 27, 1946—7 p. m.

1566. Embtel 2029, Dec. 20. Official sponsorship by this Govt either of draft legislation Braz petroleum law or American Co minimum position could, Dept feels, subject US Govt to charges domination or interference Braz internal affairs.

Dept inclines to position suggesting Braz Govt employ as advisor to drafting committee person or firm experienced in oil legislation such as Max Thornburg author Guatemalan law, Hoover Curtice and Ruby whose Curtice wrote Peruvian law, Schuster and Feuille authors Dominican Republic law or possibly DeGolyer and MacNaughton whose Garner now technical advisor to committee. In addition Harmon ⁹⁷ could be available consultation.

Advisor could serve committee as formulator of law and liaison for correlation views private Cos and other interests. Dept would prefer no direct association with legislation in formative stage, therefore favors advisor as channel informal views which channel Emb should feel free to use at all times.

Dept desirous maintaining interest all stages law and may wish to comment officially when project ready legislative action but meanwhile feels its official views should be made known to Braz Govt only at instigation latter and then only with reference specific proposals.

⁹⁷ Petroleum Attaché.

In view above Dept feels it should not call together Cos for purpose coordinating Co views on legislation nor act as transmitter therefor. Co views coordinated or individual should go through designated Braz committee. Dept though not associating itself with views nevertheless interested substance. If assistance eventually necessary Dept believes this most appropriate and effective at or just prior to time project presented legislature.

ACHESON

CHILE

THE POLICY OF THE UNITED STATES OF SUPPLYING ARMAMENTS TO CHILE¹

825.30 Missions/1-946

The Ambassador in Chile (Bowers) to the Assistant Secretary of State for American Republic Affairs (Braden)

SECRET

SANTIAGO, January 9, 1946.

MY DEAR SPRUILLE: I have just received the report of the conversation between Commander McIntyre, Chilean Naval Attaché, and Mr. Wells² regarding the feeling here concerning our Naval Mission. I can only say that Commander McIntyre has reflected very accurately the effect of our failure to carry out what we think is our obligation to the Naval Mission. It is as described.

As I have reported to the Department frequently our prestige is involved in the success of these Missions and it is too bad that nothing can be done to contribute to their success. It is especially bad, as I have pointed out, because we made an earnest effort to get the Mission when the English were pressing the Chilean Government to accept a Mission of theirs. It is unfortunate after they turned down the British to accept ours that we are unable to furnish them the slight equipment necessary to make it a success. I have pointed this out before but I notice that Commander McIntyre makes the point that the "United States had nothing more than political reasons for urging a mission upon Chile, and was not too concerned about advancing Chile's naval efficiency." You wrote me recently that you would write more fully about the case of the Missions. I can assure you that they are vitally important.

I am afraid that at the conclusion of the contract made for the Aviation Mission, it may not be renewed unless that Mission is able to get what it has asked for as necessary and, in that event, I should not be surprised to see the British or some other Mission in its place.

With best regards [etc.]

CLAUDE G. BOWERS

¹ For documentation on the cooperation of Chile and the United States in 1945 on defense measures, see *Foreign Relations*, vol. ix, pp. 733 ff.

² Milton K. Wells, Assistant Chief of the Division of North and West Coast Affairs.

825.248/1-1146 : Telegram

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

SECRET

WASHINGTON, January 11, 1946—9 p. m.

30. In conversation January 8, Assistant Secretary Braden agreed with General Arnold³ to approve interim allocation of military aircraft to Chile as follows: 2 PBV's or OA-10's, 12 B-25's, 25 P-47's, 10 C-47's, 5 AT-11's, 5 AT-7's, 8 C-43's or C-64's.⁴ Because certain of these types of planes are now in short supply, it may be necessary to substitute other types for them.

Approval of this interim allocation is subject to your concurrence and subsequently to views of Chilean Govt should it not wish to receive full number approved by you. Approximately the same number of tactical planes (P-47's and B-25's) have been allocated to Colombia, Peru and Chile, with a smaller allocation to Venezuela.

It was further understood that any "implied commitment" on the delivery of planes to other American republics resulting from staff conversations will be discharged when planes in interim allocation are made available. No further allocations of military planes to other American republics will be made until State and War Depts review and agree on basic policies of program of military collaboration.

No decision as to exact price for planes has as yet been made, but combat planes will probably be made available at low figure, and prices will be same to all countries. Dept has recommended that General Arnold not discuss question of price with officials of other govts on his forthcoming trip.

Please telegraph Dept whether you approve allocations mentioned above. Although you will no doubt wish to consult U.S. military air officers, your decision should, of course, take political and economic factors into account.

The foregoing information is not to be disclosed to Chilean officials. For your information questions of procedure on disposal of planes are still to be worked out. Dept. will inform Chilean Ambassador⁵ here as soon as ground and air force equipment can be made available, and you will be informed.

ACHESON

³ Gen. Henry H. Arnold, Commanding General, Army Air Forces.

⁴ PBV and OA were designations for naval patrol bombers, B-25, bomber; P-47, dive bomber; C-47, transport plane; AT-11 and 7, light transport planes; C-43 and C-64, freight aircraft.

⁵ Marcial Mora.

825.248/1-1646: Telegram

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

SECRET

SANTIAGO, January 16, 1946—7 p. m.

US URGENT

[Received 11:26 p. m.]

66. Naval Attaché⁶ has been informed by UndSecy Chilean Navy⁷ that Defense Minister⁸ “expects to abrogate contracts of both Air and Naval Missions in near future, quite possibly during Arnold’s visit.”

Naval Attaché, Military Attaché⁹ and Chiefs Naval and Air Missions were informed in strict confidence of content Deptel 30, January 11, re interim allocations military aircraft for Chile. In view Dept’s admonition that this was not to be disclosed to Chilean officials Naval Attaché could not refer to that interim allocation military aircraft. From remarks which UndSecy made, Naval Attaché gained impression he knew something was in wind re aircraft but there was nothing said to indicate whether Minister Defense was aware of this when he made reported statement to UndSecy re abrogation of Air and Naval Mission contracts. As explained above, Naval Attaché could of course not seek clarification this important point.

In any event, as frequently reported our failure implement staff conversations could only lead to Chilean Govt questioning desirability continuing Naval and Air Missions and above report lends further emphasis to plea contained my 58, Jan 14¹⁰ that interim allocation military aircraft should be offered Chile soon as possible. I earnestly hope Dept will proceed this matter without further delay to be followed soon as possible with offer interim allocation for naval and ground material.

Memo Dept’s conversation with Mora on Dec. 28¹⁰ states that though it was hoped interim program may be put into effect future, making available limited amount ground equipment and possibly some non-tactical aircraft, no hope could be held out in respect availability combat aircraft. I assume this was known to Defense Minister and was a determining factor in influencing his attitude reported above and that therefore Dept’s subsequent decision to offer combat aircraft described in its 30, Jan. 11, may be sufficient to alter attitude Minister Defense, especially if coupled with above mentioned offer interim allocation for naval and ground material. In view Dept’s admonition of secrecy, I am taking no steps here.

⁶ Capt. Paul L. F. Weaver.

⁷ Horacio de la Fuente.

⁸ Brig. Gen. Arnaldo Carrasco.

⁹ Brig. Gen. Joseph P. Cleland.

¹⁰ Not printed.

Naval Attaché also reports according to UndSecy Chilean Navy that Levenson, representative of Vickers-Armstrong who is now in Lima, is due return to Santiago Jan 20 with "specific details for sale destroyers, frigates and [submarines.] British Ambassador¹² twice offered Chilean Govt British Naval Mission and I have no doubt they would be delighted to furnish Naval and Air Missions with necessary ships and planes to Chile, should they be given opportunity.

BOWERS

825.248/1-1646 : Telegram

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

SECRET

WASHINGTON, January 16 [17] 1946—8 p. m.

US URGENT

42. Reference your 66, Jan. 16. You are authorized to inform Chilean Govt of allocation of aircraft contained Depts tel 30, Jan. 11. In so doing you should avoid any reference to "interim" program or any other implication that would tend to commit this govt to further transfers. A word of caution would also be desirable to effect that certain types of planes are in very short supply and that some substitutions may be necessary.

You should also mention that technical and legal questions of procedure governing transfer and of price are not yet clarified so no assurance can be given on delivery date.

Dept is urgently seeking clarification these questions with other agencies concerned here.

On General Arnold's arrival you should inform him of the foregoing and of your conversations with Chilean officials since he will of course wish to coordinate his information with yours.

ACHESON

810.24/1-1746 : Telegram

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

SECRET

SANTIAGO, January 17, 1946—6 p. m.

[Received 9:02 p. m.]

68. Mytel 1586, December 22.¹³ I called on British Ambassador last night to inquire whether he had yet received any instructions from his Govt re Vickers Armstrong armament matter and recalled that on December 21 he had informed me that he had at that time not received any instructions. Leche replied he had received no instruc-

¹² John H. Leche.¹³ Not printed.

tions whatsoever in matter. He added he had no information as to nature of what Levenson was interested in selling but Vickers has, of course, sold arms and great many other articles. On absence of instructions from London he as British Ambassador would put Levenson (penultimate paragraph my 66, January 16) in touch with appropriate people should he so desire. Leche felt that obviously policy of British armament sales to South America had to be decided on by his superiors and could not be determined by him without instructions from London.

When Leche volunteered opinion that Great Britain had every right to compete with United States in Chilean market, I pointed out that question was of special interest to us since there had devolved upon American nations through inter-American commitments the obligation to take necessary measures for effective protection of Hemisphere. He said he appreciated this point.

In any event steps taken by Dept with Lord Halifax¹⁴ (Deptel 934, December 10¹⁵) and our Embassy in London with British FonOff (London's December 10 to London¹⁵) have borne no fruit.

BOWERS

810.24/1-2146 : Telegram

The Secretary of State to the Acting Secretary of State

SECRET

LONDON, January 21, 1946—1 p. m.

[Received 4:18 p. m.]

710. For Secretary Forrestal.¹⁶ I talked with Bevin¹⁷ who knew nothing of Levenson's activities. He believes in regulating the sale of munitions of all kinds. He says however prior to war they built ships for South America and regarded it as legitimate business. Because nothing concrete resulted from conversation hope you will consult Acheson and use your best judgment. I know of no reason why we should permit Levenson undersell us.

BYRNES

810.24/1-2946 : Telegram

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

SECRET

WASHINGTON, January 29, 1946—7 p. m.

998. Urtel 710, Jan. 21. Embassy Santiago reported Jan 17¹⁸ that British Ambassador to Chile apparently received no instructions from

¹⁴ British Ambassador in the United States.¹⁵ Not printed.¹⁶ James Forrestal, Secretary of the Navy.¹⁷ Ernest K. Bevin, British Secretary of State for Foreign Affairs.¹⁸ Telegram 68, p. 562.

London regarding reported activities of Levenson, Vickers representative, to sell armaments to Chile. Levenson reported intending offer Chileans destroyers, frigates, submarines. Acheson has discussed this with Forrestal.

Please again take up with FonOff saying Dept views activities such as those of Levenson in Chile as matter of high concern to both Govts in view purpose of both to prevent arms race Latin America. (Your 13285 Dec 19¹⁹.) You should request Brit Govt prevent any Levenson deal with Chile or other Latin American country until Brit and US can go further into matter of limiting arms traffic. Instructions to Brit Emb Chile are urgently needed to that end.

For your info, and in your discretion, you may inform Brit Govt, that during the war US incurred certain obligations to provide some arms to other American republics and that Dept has reluctantly agreed to make limited amounts of surplus ground force equipment and aircraft available to some of those countries. We have kept such transfers to a minimum and we are holding to that point with view to working out satisfactory way effectively to limit arms traffic in future.

Please repeat your reply to Santiago. Dept will discuss matter with Brit Emb Washington.²⁰

Repeated to Santiago.

BYRNES

825.248/2-846 : Telegram

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

SECRET

SANTIAGO, February 8, 1946—3 p. m.

[Received 5 p. m.]

159. Embassy now has Foreign Office's reply to its memo conveying substance Deptel 42, January 17, 8 p. m. Pertinent parts are as follows:

"According to Air Force Command matériel offered has been included in plan of acquisitions of that branch National Defense.

Naturally impossibility of stating exactly type of airplanes to be delivered, their price and date of transfer as indicated in memo 2819,¹⁹ as well as fact that approval of this year's plan of investment of Air Force of Chile is still pending make it necessary for latter to withhold for time being its confirmation of receipt of airplanes."

¹⁹ Not printed.

²⁰ In telegram 1571, February 8, 1946, 1 p. m., Ambassador Winant indicated that Mr. Byrnes and Mr. Bevin had exchanged views on the subject (810.24/2-846).

Embassy would appreciate receiving any further details regarding this allocation of planes which could be given to Foreign Office. Copy and translation by airmail.

BOWERS

810.24/2-1146 : Airgram

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

SECRET

WASHINGTON, February 25, 1946.

A-81. In reply to your telegram 170, February 11, 6 p. m.,²¹ there are quoted below those sections of Mr. Bevin's letter of January 14 to the Secretary of State concerning the sale of arms by British representatives in Latin America :

"You spoke to me on January 10th about the question of the arms traffic, and, you mentioned, in particular, the sale of arms to Latin America.

"I have been looking into this matter, and find that, about a month ago, your Department approached our Embassy in Washington in connexion with the visit to Brazil and certain other South American countries of Mr. Levison [*Levenson*] of Vickers, and suggested that we ought to renounce our old-established trade in armaments with the Latin American countries, because it might lead to an arms race, and would interfere with the orderly development of inter-American defence plans.

"We do not seem to have received any information from you as to the scope or nature of these plans, but, before we received your Department's above-mentioned request, we had set on foot a far-reaching enquiry into our own arms export position, with a view to initiating a discussion with you as a first step towards a world arms traffic control convention.

"We are pressing this enquiry forward, but, until its results are known, we must naturally reserve our position, and can return no final reply to your above-mentioned request about Latin America. This trade is quite legitimate in itself, and it is an old established one—most of the South American navies, for example, are and have always been British built, and we know also that some of these countries want to keep up their old connexions. But I am sure that I do not need to assure you that we are as alive as anyone can be to the disadvantages of an armaments race, whether in Latin America or elsewhere throughout the world, and that we are always willing to discuss suggestions for dealing with special cases. You will recollect that we have agreed with you in the last few months to withhold warlike supplies from Argentina, for example, and from Santo Domingo."

BYRNES

²¹ Not printed.

810.24/3-646: Telegram

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

SECRET

SANTIAGO, March 6, 1946—6 p. m.

[Received 9: 12 p. m.]

268. Military Attaché informs me he learned yesterday from Sub-Secretary Ministry Defense ²³ that British had submitted voluminous lists war equipment to Chilean Govt at very low prices. Lists included US equipment. Date list not ascertained. He said Ministry Defense was taking no action in hope making arrangements for arms from US.

Today British Military Attaché ²⁴ in reply to direct question of US Military Attaché acknowledged in part truth above and vaguely hinted British commercial interests may have made offers to Chilean Govt.

(US Military Attaché especially requested British Military Attaché not be quoted this connection).

Dept will recall that for several months past I have submitted frequent reports and recommendations this subject setting forth my opinion that we should in our own interest meet this issue. I expressed hope that we should arrive at some hard and fast arrangement which would prevent any non-American country particularly Russia and Britain sending any arms whatever to this hemisphere (see particularly my telegram 1517, December 5 ²⁵ and previous). This apprehension would appear to be borne out by Dept's secret A-18, February 25, ²⁵ kindly furnishing me most illuminating passages from British Foreign Secretary's letter to SecState dated January 14 ²⁶ in which Bevin said Britain was preparing initiate discussions with US as first step towards world arms traffic control convention; pointed out their arms trade in South America was legitimate in itself; that most of South American navies had, for example, always been British-built; and that some these countries would keep their old connections.

Re list arms submitted by British, their Military Attaché has quite understandably declined thus far furnish US Military Attaché with copy and it is most unlikely Chileans would be willing do so either.

Accordingly would be very helpful to Embassy if Dept might consider requesting British Govt in London furnish information and I would needless say be most grateful any data which Dept in position furnish.

BOWERS

²³ Horacio de la Fuente.

²⁴ Col. G. O. Simson.

²⁵ Not printed.

²⁶ See Airgram A-81, February 25, 1946, to Santiago, *supra*.

825.248/3-846 : Telegram

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

SECRET

SANTIAGO, March 8, 1946—11 a. m.
[Received 1:57 p. m.]

273. Two officers public relations AAF Hdqs Washington visiting Santiago informed me today that number of combat and transport aircraft are being assembled at San Antonio Texas which it is planned to fly complete with crews and maintenance supplies to appropriate SA Republics where they may be stationed up to 180 days. Title will remain in US Govt as represented by various American Ambassadors and air missions until US Congress passes legislation enabling sale.

If legislation necessary before transfer can be made am puzzled by statement in Deptel 97, February 13,²⁷ reading "final step is being taken in connection with making aircraft available to Chile". Grateful for clarification as well as information whether Foreign Liquidation Commission or other appropriate authority has yet discussed with Chilean representatives in Washington prices and availability equipment for Chile in sense first paragraph this telegram or any other sense and if so how far negotiations have progressed.

This matter would seem particularly urgent in view British overtures sell arms to Chile reported separately.

BOWERS

825.248/3-846 : Telegram

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

SECRET

WASHINGTON, March 12, 1946—1 p. m.

142. Your 273 March 8. Information given by AAF officers incorrect. Dept today informed Chilean representatives aircraft as follows would be made available to Chile under provisions of Surplus Property Act: 2 PBY's (OA-10's), 12 B-25's, 25 P-47's, 9 C-47's, 10 C-45's (AT-11's, AT-7's). Reduction in the number of planes from that given in Depts 30 Jan 11 due to lack of availability in surplus. Question of possible substitutes to compensate for reduction to be discussed by Chilean representatives with Foreign Liquidation Commission. FLC will also handle details regarding prices and terms. Chileans also informed of availability of military ground equipment for 1 Regiment of Infantry, 1 Battalion, Field Artillery.

For your confidential information Navy Dept formulating similar program for provision of surplus naval material.

BYRNES

²⁷ Not printed.

825.24/4-146: Telegram

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

RESTRICTED

SANTIAGO, April 1, 1946—7 p. m.

[Received 10:32 p. m.]

350. General Tovarias, Chief Chilean Air Force, informed General Duncan²⁸ today he was making following recommendations to Chilean Embassy in Washington re aircraft being made available under Surplus Property act:

1. That transport aircraft C-47 and Beechcraft type be made available immediately as need is urgent.

2. Delivery on [of] combat type aircraft be delayed until a later date following receipt of above mentioned transport equipment with priority on delivery given to fighter aircraft.

3. Chilean Air Force prefers equipment be ferried to Chile by US personnel provided a nucleus ferry pilots remain on temporary duty attached to air mission for necessary transition and training purposes.

General Duncan concurs and requests to be advised as to decision reached on these recommendations.²⁹

Repeated to Panama for CDC.

BOWERS

810.24/4-846

*Memorandum by the Chief of the Division of American Republics Analysis and Liaison (Dreier)*³⁰

[WASHINGTON,] April 8, 1946.

FLC Field Commissioner for Latin America, Mr. Kidd, has, on the advice of the FLC here, solicited and obtained offers from Uruguay and Chile to purchase surplus construction equipment which is located in the Pacific Islands.

Uruguay offers to buy \$1,000,000 worth of equipment. They offer fifty percent down payment in cash, the remaining to be paid in one year.

Chile offers to buy approximately \$1,500,000 worth of equipment. They offer one-third down, the remainder in two equal annual payments.

²⁸ Brig. Gen. Early E. W. Duncan, Chief, United States Military Aviation Mission to Chile.

²⁹ In telegram 202, April 11, 1946, 10 a. m., to Santiago, the Department indicated no objection to the delivery of transport types of planes, and the War Department joined the Department of State in approving the ferrying of planes by American crews (825.24/4-1146).

³⁰ Addressed to Thomas C. Mann, Assistant Chief of the Division of River Plate Affairs, and to Ellis O. Briggs, Director of the Office of American Republic Affairs, each of whom indicated in the margin his "O.K." The memorandum was also addressed to Joseph Flack, Chief of the Division of North and West Coast Affairs, after whose name appears the following: "Wells and I both approve and think this is a fine idea."

Mr. Kidd intends to detail a man from his staff to accompany representatives of these two countries to the Pacific for the purpose of inspecting and selecting the material they wish to buy.

There are several problems, including shipping, which have to be worked out before these transactions can succeed. These problems are being discussed on Tuesday morning, April 9, at a meeting of the State-War-Navy Subcommittee for Latin America, at which Colonel Smith of FLC will be present. Solution of these problems will open the way for further purchases of surplus from the Pacific by Latin American countries. FLC has been advised not to solicit any more offers until these problems are cleared up.

In regard to Uruguay and Chile the immediate problem is to approve the credit which they have requested as outlined above. The arrangements outlined seem to me to be entirely satisfactory, and I recommend that we inform FLC of ARA's approval.

Please indicate your opinion of this recommendation so that I may inform FLC.

JOHN C. DREIER

825.34/4-1246 : Telegram

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

SECRET

SANTIAGO, April 12, 1946—4 p. m.
[Received 6:30 p. m.]

393. For Byrnes or Acheson and Braden. Very confidentially Admiral Mayfield's³¹ Chilean aide has told him that the British have heard of our proposition re offers to Chilean Navy and has asked the Chilean Govt to be in no hurry since at a lower cost England will let them have transports, tankers, etc at a much lower cost than we will ask and that the British may also make available some cruisers. Because of the confidential nature of this disclosure by the Chilean aide of Mayfield's it is a delicate matter to inquire into further but shall transmit promptly any more info we may get through our Naval Attaché or Mission.

BOWERS

825.34/4-1246 : Telegram

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

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p. m.

206. Approval has been given by Dept to sale from surplus of following small naval vessels to Chile. You may notify appropriate representatives that Navy Dept and FLC will negotiate in Washing-

³¹ Adm. Irving H. Mayfield, Chief of the United States Naval Mission to Chile.

ton details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversation.

[Here follows a list of numbers and types of vessels approved for sale.]

For your conf info Navy plans similar program of Naval aircraft and naval equipment.³²

BYRNES

825.20 Missions/4-1746 : Telegram

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

SECRET

SANTIAGO, April 17, 1946—2 p. m.

[Received 4:50 p. m.]

403. Mytel 384, April 10.³³ Chief Air Mission has received letter from Chilean Air Force stating that Foreign Minister³⁴ has given necessary instructions to Chilean Ambassador Washington proceed with renewal contract US Military Aviation Mission in accordance with proposal made by General Duncan.³⁵

BOWERS

825.34/4-2346 : Telegram

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

SECRET

WASHINGTON, April 26, 1946—7 p. m.

223. Your 416 Apr 23.³⁶ Sale by Navy of heavier vessels to Chile must await enabling legislation. It is hoped that such legislation may be submitted to Congress in the near future. Pending passage of legislation impossible set any date for sale or cost of vessels desired by Chile. Navy Dept advises cannot for personnel and budgetary reasons hold open to Chile offer of small vessels enumerated in Deptel 206, Apr. 12. Understand Navy Dept has telegraphed Chief of US Mission in above sense.

ACHESON

³² In telegram 416, April 23, 4 p. m., the Ambassador reported that Chile was unwilling to obligate funds for these vessels until more information was at hand as to the availability of larger combatant ships (825.34/4-2346).

³³ Not printed.

³⁴ Joaquín Fernández Fernández.

³⁵ The Acting Secretary of State notified the Ambassador in telegram 348 of July 11, 1946, 4 p. m., that a renewal of the Aviation Mission Agreement was accomplished by an exchange of notes on April 26 and May 15, 1946 (825.20 Missions/6-2746).

³⁶ Not printed, but see footnote 32, above.

825.248/4-1346

*The Director of the Office of American Republic Affairs (Briggs) to
Colonel R. L. Vittrup of the War Department General Staff*

CONFIDENTIAL

WASHINGTON, May 7, 1946.

MY DEAR COLONEL VITTRUP: I refer to your memorandum of April 13, 1946,³⁷ concerning the transfer of aircraft to the Army Air Forces mission in Chile. Your memorandum discusses the movement of aircraft to Chile, and then proposes that aircraft of the types agreed upon in the interim program for other American republics should be sent to the other countries, when they so request, by the Army Air Forces in order that the air forces of the recipient countries may secure transitional training to enable them to receive and handle the aircraft which they wish to purchase.

It is the Department's opinion that the provision of adequate training facilities in connection with the transfer of aircraft under the interim program is extremely important. Since the objective of this program is to further good relations with the other American republics and to collaborate in the standardization of military organizations, it would not be to the benefit of this country merely to turn over aircraft to the other governments without being satisfied that they were capable of handling the planes to their own satisfaction.

Consequently, the Department believes that it would be desirable for the Army Air Forces to transfer to the air missions in the other American republics planes which those countries agree to be under the interim program, and take the necessary steps to insure that the air forces of the recipient countries are adequately trained in the handling of these planes when they purchase them.

I should like to point out, however, that the Department of State does not advocate transferring planes to the military missions unless the War Department is satisfied that the requirements of the Surplus Property Act³⁸ can be met in regard to sale of these planes to the other governments. For example, I believe there is still some question as to the availability of certain cargo planes under the interim program. In making the suggestion contained in the previous paragraph, I believe it should be understood, therefore, that the War Department will accept full responsibility for the transfer of these planes to the military missions, insofar as the provisions of the Surplus Property Act are concerned. For this reason, I assume the War Department will wish to be satisfied that the recipient countries are actually prepared to acquire the specified planes at the price established by the

³⁷ Not printed.

³⁸ 58 Stat. 765; approved October 3, 1944.

Foreign Liquidation Commission before sending them to the missions in other American republics.

Sincerely yours,

ELLIS O. BRIGGS

811.2310/6-1446 : Telegram

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

CONFIDENTIAL

WASHINGTON, June 14, 1946—8 p. m.

310. War Dept with concurrence of State Dept is at request of Chilean Military Attaché³⁹ here ferrying to Chile 42 planes included interim arms program. These planes will be assigned to US military air mission for training and subsequently sold to Chilean Govt as surplus at prices established here. Delivery will extend over a few months.

Military Attaché⁴⁰ has been requested to ask you to obtain necessary permission from Chilean Govt for entry of these planes, also permission for temporary presence US officer to control flights. Blanket permission is sought to facilitate movement of planes, but Chilean Govt will of course be notified of arrivals.

Unless you perceive objection please request permission desired by War Dept.

ACHESON

825.24/8-1646

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

CONFIDENTIAL

WASHINGTON, August 16, 1946.

No. 5654

The Acting Secretary of State transmits for the confidential information and files of the Embassy copies of a note of even date to the Chilean Embassy in Washington and of Statement LL-8,⁴¹ showing charges made against the Government of Chile during the period from December 1, 1945, through February 28, 1946, for defense materiel transferred to Chile under the Lend-Lease Agreement signed on March 2, 1943.⁴²

It will be noted that the amount of charges during the period under reference is \$98,387.10, and that charges through February 28, 1946 for all materiel transferred to the Government of Chile aggregate the grand total of \$20,253,953.48. Of this total the sum of \$6,076,000 represents the approximate appropriate percentage due on account.

³⁹ Col. Ernesto Medina.

⁴⁰ Brig. Gen. Joseph P. Cleland.

⁴¹ Neither printed.

⁴² See bracketed note, *Foreign Relations*, 1943, vol. v, p. 816.

Since two reimbursement payments amounting to a total of \$5,000,000 have been received, the sum now due under the terms of the agreement is \$1,076,000.

This Government will continue to maintain the policy of requesting reimbursement payments in accordance with the terms stipulated in the Lend-Lease Agreements with the various American republics.

825.248/8-2346 : Telegram

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

[Extract]

CONFIDENTIAL

WASHINGTON, September 4, 1946—7 p. m.

442. Urtel 765, Aug. 23.⁴³ Ground equip allotted Chile in interim program consists of equip for one inf regiment and one batt fld artillery. FLC last wk offered Chil Emb Wash equip for these units with exception items FLC is not authorized sell at this time under Veterans Preference Act and items not presently available as surplus. Aforementioned items consist mainly vehicles under 2½ tons. . . .

CLAYTON

825.34/9-646 : Telegram

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

CONFIDENTIAL

SANTIAGO, September 6, 1946—5 p. m.

[Received 11:45 p. m.]

809. Rear Admiral Holger, Chief Naval General Staff, requested Chief United States Naval Mission approach me and ascertain if minor vessels and auxiliary vessels of interim program offered Chile and listed Department's telegram 206, April 12 could be paid for in five yearly installments. Holger said between 20 and 25 million paper pesos available each year taken from special taxes for this purpose i.e. to obtain general material and types of naval craft other than cruisers. Holger emphasized that Chilean Government desired acquire these vessels soon as possible. Re last paragraph Department's telegram 442, September 4, it may be pointed out Holger stated all of vessels, including transports and tankers will be commissioned in Chilean Navy.

Though I am not aware of terms on which these sales are customarily made I hope Department may find it convenient and possible

⁴³ Not printed.

reach agreement with Chile on terms suggested.⁴⁴ In making this recommendation I have in mind fact that we have been unable offer Chile larger combatant vessels which they are primarily interested in obtaining and therefore it seems desirable meet their wishes on smaller vessels which we have offered Chile. Furthermore, I feel British offer three cruisers (Embassy's telegram 794, September 3⁴⁵ and previous) lends emphasis to wisdom of giving at this time earnest of our desire implement Staff conversation on terms attractive to Chile.

BOWERS

825.34/9-2546 : Telegram

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

CONFIDENTIAL

SANTIAGO, September 25, 1946—2 p. m.

[Received 4:53 p. m.]

863. Mytel 809, September 6; urtel 460, September 18.⁴⁶ Chief Chilean Naval Staff has again inquired concerning proposal to pay in five annual installments for minor vessels and auxiliary vessels of interim program offered Chile and listed Deptel 206, April 12.

Twenty months have elapsed since Naval Staff conversations and above-mentioned offer ships is virtually only step we have taken toward implementing those conversations. Chile has bought Canadian corvettes and has been offered British cruisers. Over Chilean protest, we withdrew Chief US Naval Mission before expiration his contract. Chile is anxious get combatant vessels and we have offered none. Now Chile wants accept our offer of minor and auxiliary vessels and has available money to pay for those vessels without further recourse to Chilean Congress at price we have asked provided we accept five annual payments.

I believe it is clearly in interest of US Govt to accept Chilean offer and close deal now before Gonzalez Videla takes office⁴⁷ in November since that will no doubt entail changes in naval personnel and many other important problems must necessarily arise at that time.

BOWERS

⁴⁴ The Embassy was informed by the Department in telegram 460, September 18, 1946, 7 p. m., that it was not the policy to extend credits for equipment sold under the Interim Program (825.34/9-646).

⁴⁵ Not printed.

⁴⁶ Latter not printed.

⁴⁷ Of the Presidency.

825.34/11-3046 : Telegram

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

SECRET

WASHINGTON, November 30, 1946—11 a. m.

US URGENT

571. Ref sale ships (Embtel 1041 ⁴⁸), FLC ready sign contract now for sale two AKA transports included in interim program (Deptel 206 Apr 12) at 25% cash payment balance 5 years. Chilean Chargé here obtaining final clearance from his Govt on technical clauses contract.

Two AO tankers (also part of interim program) must under law be sold by Maritime Commission (Deptel 442 Sept 4) which has not yet straightened out legal questions involved in credit sale of naval vessels to foreign governments including question of mortgage. Same situation applies merchant cargo vessels which Chile wants outside interim program.

In view these difficulties it was suggested to Chargé on Nov 26 that no further crews be sent to the States until all matters concerning further purchases vessels completely resolved.

You may make such use above info as you deem appropriate.

ACHESON

EFFORTS BY THE UNITED STATES TO SECURE THE COOPERATION OF CHILE IN ELIMINATING AXIS BUSINESS INTERESTS IN CHILE ⁴⁹

835.20225/1-946 : Telegram

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

SECRET

SANTIAGO, January 9, 1946—7 p. m.

[Received 11:22 p. m.]

37. I was called urgently to FonOff this afternoon and as FonMin ⁵⁰ was absent in Cabinet meeting, I was received by Under Secretary Aliaga ⁵¹ who read to me AP despatch from Washington dated January 8 attributing to Ambassador Berle ⁵² a statement to effect that GOU in Argentina, a secret military organization which was founded in 1940 under tutelage of German Intelligence Service, had extended its activities from Buenos Aires to Chile and that this information was certain but not new. (See my 35, Jan 9 ⁵³ quoting pertinent portion text).

⁴⁸ Not printed.

⁴⁹ Continued from *Foreign Relations*, 1945, vol. ix, pp. 770-787.

⁵⁰ Joaquín Fernández Fernández.

⁵¹ The Under Secretary for Foreign Affairs, Claudio Aliaga Cobo.

⁵² The American Ambassador in Brazil.

⁵³ Not printed.

Aliaga read telegram he was sending to Mora⁵⁵ categorically denying allegations and instructing him request explanation from Dept. He said he regarded this statement at this time as very grave and only hoped Ambassador Berle had been misquoted.

Aliaga said Chilean Army was absolutely loyal to Chilean Govt which was outstanding in its cooperation with US in suppressing Nazi firms and subversive Nazi activities. He pointed out that neither this Embassy nor Dept had ever made to Chilean Govt such allegation as that attributed to Berle. He seemed genuinely moved and spoke with considerable warmth.

As Dept is aware from numerous reports from this Embassy and, despite rumors to contrary, neither Embassy nor any of its Attachés has ever been able obtain any proof there exists any such relationship between Argentine GOU and Chilean military. See particularly my despatch 11249, Dec. 9, 1944⁵⁶ and previous.

BOWERS

740.25112A/1-1046 : Telegram

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

CONFIDENTIAL

SANTIAGO, January 10, 1946—11 a. m.

[Received 2:45 p. m.]

38. At meeting of Chilean Economic Controls Commission held yesterday in office of Under-Secretary Aliaga and attended by representatives of British, Canadian and US Embassies Commission's memorandum dated Dec 31, 1945⁵⁶ was discussed. This memorandum reproduces text of identical memorandum taken to Washington by Ruiz⁵⁷ in which immediate withdrawal of Proclaimed Lists for Chile was requested on ground that Chilean liquidation of spearheads had been satisfactorily completed. Memorandum goes on to say that pending decision on withdrawal of lists Chilean Govt requests deletion of 62 PL individuals most of whom Embassies here consider as unmistakable hard core cases. Copy of this memo and translation being forwarded first air mail.

Ruiz was present at meeting and claimed that absolute assurances had been given him in Washington that list would be withdrawn in Chile as soon as this Embassy reported on final liquidation of spearheads. Aliaga reversed his previous position that Chile did not wish elimination of lists as reported Embtel 1458 Nov 21⁵⁸ and A-

⁵⁵ Marcial Mora, Chilean Ambassador in the United States.

⁵⁶ Not printed.

⁵⁷ Julio Ruiz, Under Secretary of Economy and Commerce.

⁵⁸ Not printed.

613, Nov 24⁵⁹ and sided with Ruiz in requesting immediate withdrawal except for names of liquidated Axis firms. It is probable that personal friction has existed between Aliaga and Ruiz and possible explanations for Aliaga's previous stand are (1) that he did not know about Ruiz proposal in Washington (2) he thought he could defeat it here or (3) he has not been straightforward with Embassies although if (3) true, undoubtedly because he was subjected to irresistible pressure from above.

Commission agreed to submit promptly up-to-date report on liquidation remaining spearheads which they said would fully corroborate Ruiz, statements in Washington. Since deletion of the 62 individuals asked for by Commission would be farcical it is difficult to see how fulfillment of assurance given Ruiz in Washington if they are as definite as he claims can be avoided.

These developments here probably due to political pressure and impending elections but I doubt wisdom of attempting to oppose Chilean desires if liquidation report is satisfactory. British and Canadian Embassies here have as yet expressed no definite opinion as to their attitude but appear to be in general agreement with foregoing analysis of situation.

Problem of Axis trademarks is closely tied in with foregoing problem but will be reported in separate telegram as soon as possible.

BOWERS

835.00/1-946: Airgram

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

CONFIDENTIAL

WASHINGTON, January 11, 1946—9 p. m.

US URGENT

29. Urtels 35⁶⁰ and 37 January 9. Ambassador Mora called at Dept today with reference to Ambassador Berle's press conference. Sincere regret was expressed and he was informed that the reference in question 1) had been clearly made "off the record" and 2) that it had not been accurately reported.

Berle was speaking in answer to an inquiry concerning a recent article by Virginia Prewett filed from Buenos Aires January 6 and after pointing out that the report of activities of the GOU was not new he stated "I think I had better stick to my own district. *Off the record*, we knew that in late 1943 and early 1944, attempts were made to foment such groups in Bolivia, Chile, Peru and probably in

⁵⁹ For text, see *Foreign Relations*, 1945, vol. ix, p. 784.

⁶⁰ Not printed.

Paraguay. These met with varying degrees of success—not very successful anywhere except in Bolivia. *End of off the record.*”

The matter was also discussed today with the Associated Press which is cabling the following additional story to Santiago:

“A State Department spokesman said today that a statement concerning the Argentine GOU in Chile was misquoted. The spokesman explained that at his news conference on January 8 Mr. Berle was questioned concerning an article written by Virginia Prewett of the Chicago Sun Syndicate filed from Buenos Aires on January 6 to the effect that the GOU in Argentina was attempting to form similar Army Officer groups in other South American countries.

“In response to this question the spokesman pointed out that as correspondents knew attempts had been made, some time ago and without success, by the GOU to foment such groups in various countries.”

It is hoped that this will prove satisfactory to the Chilean Foreign Office. We are of the opinion that for the Department to issue a press release would merely draw further attention to the matter.

ACHESON

740.25112A/1-1046

Memorandum by Mr. Alexander Schnee of the Division of North and West Coast Affairs ⁶¹

[WASHINGTON,] January 14, 1946.

When Ruiz was in Washington in November he was informed that the Chilean PL consists of following three groups:

1. Japanese.
2. Spearheads and related cases and cloaks or trading cases connected with spearheads.
3. Miscellaneous cases.

Group 2 constitutes the real problem.

Ruiz stated that all of the spearheads excepting seven had been liquidated and that in these seven the Axis interests have been divorced. The Department agreed to request a current report from Santiago on the basis of which a decision will be reached with respect to Group 2. If the information in this report indicates that group 2 can be deleted on the basis of the progress of the spearhead elimination program, group 1 can be deleted as the Japanese present only a minor problem. Group 3 is not expected to present insoluble problems. On the basis of the foregoing it would appear that there is not necessarily much distance between the Department's position and that taken by the Chilean Government as set forth in the telegram under reference providing the Chilean liquidation report proves to

⁶¹ Addressed to NWC: Mr. Flack; ARA; and A-Br.

be satisfactory. I have briefly discussed this with George Monsma of ES, and I believe he will draft a reply somewhat along the lines outlined above.

There appears to be no difference in policy or principle, our ability to go along with the Chilean request being subject to the information contained in the liquidation report being assembled by the Chilean Economic Controls Commission.

740.25112A/1-1546

Memorandum by Mr. B. C. Brundage of the Division of North and West Coast Affairs ⁶²

SECRET

[WASHINGTON,] January 15, 1946.

Secret Despatch 13,075, November 21,⁶³ from Santiago.

Our Commercial Attaché in Santiago⁶⁴ has brought up the difficulties which will surely confront this Government should the present trend (of U.S. firms appointing German or pro-German firms in Chile as their representatives) continue.

The last paragraph of this despatch brings in the political aspect of this problem which, while not immediate, could nevertheless be serious in the future. I think that the possibilities of discussing this situation with the Department of Commerce should be explored, with the end in view of taking some such step as Mr. Baldwin advises, namely, that of contacting "leading foreign trade organizations and trade associations with a view to having those organizations educate their members with regard to the undesirability of establishing relations with foreign firms which would again become hostile if the opportunity were presented."⁶⁵

740.25112 R.P./2-1946

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

CONFIDENTIAL

SANTIAGO, February 19, 1946.

No. 13,528

[Received March 6.]

SIR: I have the honor to transmit herewith the Spanish text and free English translation of a Memorandum dated February 14, 1946 ⁶⁶

⁶² Addressed to NWC: Mr. Flack and Mr. Schnee.

⁶³ Not printed.

⁶⁴ Charles F. Baldwin.

⁶⁵ Two marginal comments read: "Commerce has already been approached and has agreed to take a stand on suitability of PL firms as agents for U.S. exporters when the opportunity arises. Press release in support of Baldwin's position now in process of being cleared A. S[chnee]."

"Also supports position suggested long ago in ARA by Messrs. Butler and Cochran. J. F[lack]."

⁶⁶ Not printed.

prepared by the Chilean Ministry of Foreign Affairs, in which an account is given of the progress achieved in liquidating the last of the Axis spearhead firms in Chile and a request is again made for the immediate elimination of the Proclaimed and Statutory Lists in Chile. Copies of this Memorandum were also delivered simultaneously to the British and Canadian Embassies in this city.

The Memorandum in question was discussed in detail today at a meeting of representatives of the three Embassies, and it was agreed that, while the facts contained in the memorandum appear to be substantially correct, it would undoubtedly be helpful to obtain additional figures on the amount and value of Axis property remaining to be liquidated. The Ministry of Foreign Affairs has promised to supply any additional details that the Embassies may desire, although it does not wish to include such details in memorandum form. A further report embodying concrete figures on the various points brought out in the Ministry's Memorandum of February 14 will therefore be prepared and transmitted as soon as possible.

Through the Chief of the Commercial Policy Section of the Ministry, Minister Fernández has made a special request for the urgent elimination of the Lists in Chile, on the ground that adequate control measures have now been adopted and carried into execution for the liquidation of all Axis interests here which could be regarded as dangerous for the United Nations. The final reaction of the Embassy on this point will be transmitted to the Department in the detailed report for the Department mentioned above, which is already under preparation and will be forwarded at the earliest possible moment.

The British and Canadian Embassies concur in the procedure outlined in the present despatch, and will communicate with their respective Governments along similar lines.

Respectfully yours,

CLAUDE G. BOWERS

740.25112A/3-2246 : Telegram

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

CONFIDENTIAL

SANTIAGO, March 22, 1946—2 p. m.

[Received 5:26 p. m.]

316. Under Secretary Aliaga yesterday confidentially informed Economic Counselor ⁶⁷ that he personally hoped that PL (Proclaimed List) would not be withdrawn at any time soon for Chile since such action while politically expedient here would be against best international interests of Chile. He said that certain other names might well be deleted but the list as a whole retained.

⁶⁷ William E. Dunn.

Aliaga also suggested that it would be highly convenient from the standpoint of local replacement program⁶⁸ for Allied Control Commission in Germany to announce that they had taken over all Axis property in Chile, and other Latin American countries, including trade marks. When asked how such unilateral action could be justified, he replied that it could easily be adjusted so far as Chile is concerned and would greatly simplify work of Chilean Control Commission (see Deptel 951, Dec 17⁶⁹). Aliaga's remarks were probably prompted by press report that a deputy for Santiago will interpellate the Govt concerning Axis property and funds "confiscated" here. Aliaga also remarked that, of course, no funds had been "confiscated" but merely "intervened". He obviously fears a campaign to restore such funds to their original owners and, therefore, suggested ACC announcement as best way to obviate such danger. There are reasons for believing that Aliaga is in distinct minority with respect to this problem and that he may not be able to implement his views.

There have been persistent rumors that Aliaga may be replaced by Under Secretary Ruiz, but no confirmation.

BOWERS

740.25112 RP/2-1946 : Airgram

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

CONFIDENTIAL

WASHINGTON, March 25, 1946.

A-119. Reference is made to your despatch no. 13,528 of February 19, 1946 and telegram no. 284 of March 9⁷⁰ concerning a memorandum of February 14 from the Chilean Government.

The Committee has always required detailed reports on the elimination of spearhead firms in considering substantial changes in the Proclaimed List and the Chilean Government's memorandum of February 14 presents little information not already known to the Department and previously presented to the Committee. Therefore, before further consideration can be given to the Chilean Government's request for complete withdrawal of the list, a detailed description of the status of each spearhead with respect to its elimination will be necessary. The following questions should be answered in all appropriate cases:

1. Was the business liquidated, transferred, reorganized, or otherwise disposed of and what are the details? If not completed what remains to be done?

⁶⁸ The replacement of Nazi financial controls with local financial interests.

⁶⁹ Not printed.

⁷⁰ Latter not printed.

2. Have the funds resulting from sale been blocked?
3. Has all undesirable personnel been removed?
4. If trademarks are involved what disposition has been made of them?

When complete information is submitted by the Chilean Government, the matter will again be presented to the Interdepartmental Proclaimed List Committee for its consideration.

The Department is compiling information available in Washington concerning the status of each spearhead not known to be completely eliminated and this will be forwarded to you to be amended as the changed status in many cases will require. If the Chilean government has not yet submitted full information when this is received it can be used to indicate to the Chileans wherein our information is insufficient.

ACHESON

740.25112 RP/3-2946

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

CONFIDENTIAL
No. 13,734

SANTIAGO, March 29, 1946.
[Received April 9.]

The Ambassador has the honor to refer to the Department's circular airgram No. 170 dated March 4, 1946,⁷¹ requesting information on current replacement situation. In this connection reference is made to Embassy's despatch No. 13528 dated February 19, 1946, and enclosure of a memorandum from the Chilean Minister of Foreign Affairs dated February 14, 1946,⁷² which memorandum contained all the information available at that time. Upon receipt of airgram No. 170 the following memorandum was transmitted to the Minister of Foreign Affairs under date of March 11, 1946.

"Reference is made to the memorandum of the Ministry of Foreign Relations dated February 14, 1946, pertaining to the immediate elimination of the Proclaimed List of Certain Blocked Nationals for Chile, copies of which were furnished to the Embassies of Great Britain, Canada, and the United States of America. This memorandum was immediately forwarded by the Embassies to their respective government, and has later been the subject of discussion by the Control Committee of the Embassies. This Committee is of the opinion that certain additional details would be helpful in expediting a final decision by the authorities in Washington. It would therefore be greatly appreciated if the Ministry of Foreign Relations would supply the following information pertaining to each of the five Axis firms referred to in the Ministry's memorandum of February 14:

⁷¹ Not printed.

⁷² Memorandum not printed.

1. Total value of assets of each firm under liquidation.
2. Value of assets already disposed of.
3. Value of assets still unsold, and the nature of such assets.
4. Estimated period of time which Hamdorf and Compañía will require to complete its voluntary liquidation.

For the Allied Control Committee:
W. E. Dunn, Chairman"

In answer to our request for additional details concerning liquidation of certain spearhead firms, the enclosed report ⁷³ from the Corporación de Fomento de la Producción (Interventor for Ferrostaal G.M.b.H.; Cía. General de Anilinas y Productos Químicos, Soc. Ltda.; Química Bayer y Cía. Ltda. and Merck Química Chilena, Soc. Ltda.) has been received.

The information given in the present report on current replacement situation in conjunction with the information presented in memorandum of the Chilean Minister of Foreign Relations dated February 14, 1946, presents a fairly accurate picture of the actual status of the firms mentioned in the report.

With reference to the five specific points mentioned in paragraph three of the Department's circular airgram of March 1946, the following information is submitted:

(1) Report on the current status of each spearhead firm which has not been eliminated, giving estimated net worth of each firm and the percentage of enemy interest: It is assumed that a report is desired only on the five spearhead firms (not seven) which were discussed with Señor Ruiz during his visit to Washington. The attached report gives the net worth of each of these firms, with the exception of Hamdorf and Company which is undoubtedly bankrupt and going through voluntary liquidation. There is no enemy interest in any of the remaining four firms as each of them has entirely been taken over by the Fomento Corporation, except for certain trade-marks.

(2) Likelihood of effective action in near future against spearheads not yet intervened or otherwise placed under government control: There is very little likelihood that any further action will be taken against other prominent firms which were believed to have had Axis sympathies. In fact, the Chilean Controls Commission considers that all spearhead firms which could constitute any danger to the Allied cause or the United Nations have been placed under adequate control or intervention. It is very difficult to take issue here with this point of view.

(3) Estimate of time required to complete replacement program: It is very difficult to make any estimate of the time that would be required to liquidate all property which has been intervened by the Chilean Government, but as has already been stated all assets are now in the possession of the Chilean government except trade-marks

⁷³ Not printed.

and there is little or no likelihood that enemy interest will be allowed to come in again. The actual disposal of certain real estate, stocks, trade marks, etc., however, may yet require a considerable period of time to complete.

(4) Effectiveness of local controls and any recent action taken to increase or lessen their effectiveness: It is felt that local controls to date have been fairly effective and the Chilean government deserves full credit for having eliminated all of the important Axis firms which have had any international organization. Those firms that remain are regarded as purely Chilean. The fact, however, that it is known to be the firm policy and desire of the present Chilean government to abolish the list immediately has undoubtedly tended to lessen its future effectiveness.

(5) Present prestige of the list locally: The Proclaimed List is extremely unpopular in Chilean administrative circles, but it is still respected and feared.

The local Allied Controls Committee is now working energetically to bring about definite action with reference to Axis trade-marks in Chile before the Proclaimed List is eliminated or withdrawn. This problem is extremely complicated because there are distinct cross currents in the Chilean government which have opposing views as to what disposition should be made of such marks. It is hoped, however, that within the next ten days or two weeks a satisfactory program can be agreed upon, although this outcome can by no means be assured.

[For the Ambassador]
W. E. D[UNN]

740.25112A/5-846

*Memorandum of Conversation, by Mr. Alexander Schnee of the
Division of North and West Coast Affairs*

[WASHINGTON,] May 8, 1946.

Participants: Sr. Mario Illanes, Commercial Counselor, Chilean
Embassy
ES —Mr. Monsma
Miss White
NWC—Mr. Brundage
Mr. Schnee

This meeting was called by the Department in order to provide Mr. Illanes with the opportunity to review the status of the Proclaimed List with the interested Departmental officers.

Mr. Illanes opened the conversation by stating that an impression existed in Chile that the United States would not consider the with-

drawal of the Chilean list prior to the time when the United States Government was prepared to withdraw proclaimed lists throughout the world. He added that Chile had cooperated very closely with the United States in this matter but that the feeling prevailed in Santiago that no matter what action they took they would not be able to obtain the withdrawal of the list prior to the withdrawal in other countries. He said that his Government felt that in view of their whole-hearted cooperation they expected to obtain a prior withdrawal of the list in Chile. Mr. Illanes stated that his Government was under the impression they had complied completely with the requests emanating from the discussions in this matter in October–November 1945.

Mr. Monsma at this point referred to the November conversations with Mr. Ruiz and stated that we had not received the information requested at that time. Mr. Illanes again referred to the fact that no progress had been made since that date.

Mr. Schnee then stated that on the operating level in the Department we had been studying a memorandum drawn up by Mr. Monsma setting forth precisely the information required in order to enable us to give further consideration to the Chilean request. A copy of this memorandum was given to Mr. Illanes with the understanding that it did not constitute a memorandum to the Chilean Embassy but that for his convenience we were pleased to give him a copy of this “work” document.

Mr. Illanes read the document and said that he was very pleased to have it and that for the first time he understood exactly what was required of the Chilean Government. He said he would transmit it to Santiago. Mr. Monsma and Mr. Schnee pointed out that considering the length of time this matter had been under discussion we had been confident that the appropriate Chilean authorities were fully informed in this matter but that as time went on and we did not receive the data required we thought it advisable to draw up such a memorandum for our own use.

Mr. Illanes again referred to the prevailing opinion in Santiago to the effect that the Chilean Government had supplied all the information required but that it would be of little avail in view of their belief that the United States Government would not permit prior withdrawal of the list in Chile. Mr. Illanes reiterated that this memorandum would help in clarifying the situation. (A copy of the memorandum in question is attached.)⁷⁴

⁷⁴ Not printed.

862.20210/5-846 : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*CONFIDENTIAL
U.S. URGENTSANTIAGO, May 8, 1946—1 p. m.
[Received 8:28 p. m.]

455. Office of Legal Attaché has prepared following summary report on status German schools propaganda media and other institutions as requested Dept's circular telegram April 30, 1946, 8 a. m.⁷⁵

"In general there has been relatively little effective liquidation on part Chilean Govt of German political and cultural organizations. Majority those organizations which have ceased operation have done so voluntarily, have died natural deaths due to nonsupport of their adherents or were dissolved as natural result Germany's defeat. Examples these are: Nazi Party (National Sozialistische Deutsche Arbeiter Partei) the German Club (Deutscher Verein), German Sporting Club (Deutscher Sportverein), German War Veterans (Deutscher Militaerverein) et cetera. No German school has been liquidated since last school census in 1941 which reflected that there were 45 German schools with enrollment 5300 pupils. These are still in operation today although financial aid on German Embassy was cut off after repatriation of German diplomatic mission Sept 1943. There exists no legislation prohibiting teaching of courses in foreign language. Of propaganda agencies liquidated only three have been closed due to direct Govt intervention namely: Transocean News Agency closed by executive decree Nr. 548 dated Jan 26, 1943, German language newspaper *Deutsche Zeitung fuer Chile* and Spanish language supplement this newspaper called *El Aleman* as well as Axis controlled radio station 'Radio Maipo' (also known as Radio Hupke) closed by virtue general security law Nr. 7401 dated Dec 31, 1942. Of many political and cultural institutions that Germans organized in Chile only one is known to be existence, German-Chilean Bund (Liga Chilena-Alemana) which publishes magazine called *El Condor*. Operating as adjunct of this organization is the German-Chilean Cultural Institute (Instituto Cultural Germano-Chileno) which publishes monthly cultural review known as *Academia Spiritus*. That these institutions exist indicates there is no adequate or effective legislation or decrees banning German schools propaganda media and cultural or political institutions."

President Rios at one time told me that teaching in German language had been forbidden in Chilean schools. Prior to war teaching in German schools was conducted exclusively in German whereas now I understand instruction is in Spanish and German is taught as language. However this question will be investigated further.

While no specific legislation exists restricting German political penetration the provisions of general security law referred to above could be employed to suppress such activity.

BOWERS

⁷⁵ Not printed.

740.00112A EW/7-1146

*The American Ambassador in Chile (Bowers) to the British
Ambassador in Chile (Leche)*⁷⁶

SANTIAGO, June 12, 1946.

MY DEAR COLLEAGUE: On March 29 last an interdepartmental press release⁷⁷ was issued in Washington informing American businessmen that before establishing or resuming commercial and financial relations abroad with former Proclaimed List nationals, they might do well to check with the Commercial Intelligence Branch of the Department of Commerce and with the Commercial Sections of our Embassies as to the desirability of such relations. The statement went on to say that "such connections with former Proclaimed List individuals and firms, except those who have been deleted from the Proclaimed List without prejudice, would have to be a factor considered in cases arising for the protection of American interests abroad and that while our Government always will protect the legitimate rights and interests of American business abroad it would not wish to take any action which would assist those who had formerly worked against our vital national interests and who might do so again if opportunity offered."

I have recently been approached by the Chamber of Commerce of the United States in Santiago with respect to the aforementioned announcement, inquiring as to how such a policy would be applied in Chile. I have replied to the Chamber that as long as the Proclaimed List is continued there could obviously be no business dealings between firms and individuals still on the List; that with respect to those deleted from the List a distinction should be made between those deleted for merit (i.e., those who really should never have been placed on the List or could properly be removed because of reorganizations eliminating obnoxious elements), and those who had not been removed for merit. I said that the Embassy would be glad to supply interested parties with information which would enable them to distinguish between the two classes of former Proclaimed List nationals, but without any desire to dictate to them as to their final decisions.

The American Chamber of Commerce also inquired as to what policy the British and Canadian Governments were likely to adopt in the same premises, and I naturally replied that I did not know. However, I regard the matter of such importance that I am taking this occasion to inquire as to whether your Government has adopted a definite policy on this problem, and if it has not, what your own personal views may be.

⁷⁶ Copy transmitted to the Department in despatch 14185, July 11, 1946, from Santiago; received July 18.

⁷⁷ See p. 77.

I may add that I am hopeful that our Governments will continue to work together as in the past, exchanging information and adopting a common policy as to post-war business relations of British, Canadian and American firms with those firms and individuals who were known not to be friendly to the Allied cause.

Your comments on this matter will be greatly appreciated.⁷⁸

Sincerely,

[CLAUDE BOWERS]

740.25112 RP/7-1146

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

No. 14184

SANTIAGO, July 11, 1946.

[Received July 16.]

SIR: I have the honor to transmit herewith two copies of the official printed report of the Chilean Economic Control Commission entitled, "Informe de la Comisión Chilena de Control Económico de Bienes del Eje o Pro-Eje², (Report of the Chilean Economic Control Commission on Axis and pro-Axis Properties)⁷⁹ which has just been released by the Chilean Ministry of Foreign Relations. This comprehensive report of 245 pages covers the entire history of Chilean action against Axis and pro-Axis firms from the date of the creation of the Economic Control Commission in May, 1944 to the termination of the activities of the Commission at the close of 1945 and the early part of 1946. Twenty copies of this Report were furnished to the Embassy by the Chilean Ministry of Foreign Affairs, and fifteen additional copies are being forwarded to the Department by steamer pouch.

The Report in question was prepared almost in its entirety by Under Secretary Aliaga and his immediate staff, and covers exhaustively the measures of control taken by the Chilean Government against Axis and pro-Axis firms which have been "interviewed" here. In my opinion this Report confirms my previously expressed opinion that Chile has done an excellent job in eliminating the most dangerous spearhead Axis entities and deserves commendation for the action it has taken along these lines. It is true that certain properties, including various trade marks, have still not been entirely liquidated, but such assets are entirely in the possession of Chilean official entities and there is no danger so far as can be foreseen, that Axis interests will ever regain control over these properties. Some of the leading trade marks have already been sold to satisfactory purchasers

⁷⁸ In his reply of June 25, 1946, Ambassador Leche indicated his interest to discourage any hasty resumption of relations between British and Proclaimed List firms and individuals (740.00112A EW/7-1146).

⁷⁹ Not printed.

or are now in the process of being sold at public auction, and thus far those marks having Axis connotations have been blocked under the control of the Fomento Corporation. With the withdrawal of the Proclaimed List for Chile as of midnight of July 8 last, the final chapter in the history of Chilean economic cooperation in the recent war has been brought to a close, and the Report which is now being transmitted with the present despatch provides an interesting detailed account of this aspect of the late conflict.

Respectfully yours,

CLAUDE G. BOWERS

740.25112A/7-2246 : Airgram

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

CONFIDENTIAL

WASHINGTON, July 22, 1946.

A-269. Reference your despatch no. 14,021 of May 31, 1946⁸⁰ concerning the status of spearhead firms in Chile. The Department appreciates receiving the information contained therein and it is hoped that the detailed report from the Chilean Government mentioned in the penultimate paragraph of this despatch will cover all points in question mentioned in a memorandum handed to Mr. Illanes, Commercial Counselor of the Chilean Embassy here, on May 8 which was based on instruction no. 5478 of April 23.⁸⁰ The Department will also be interested in the Chilean Government's reply to the questions posed in the British Embassy's memorandum of May 15, 1946 which was quoted in the despatch under reference.

It is possible that the Chilean Government may not believe it necessary to furnish this information since the Proclaimed List is no longer in effect, but it should be emphasized that this Government continues to view with importance the receipt of detailed reports on reorganizations or liquidations of spearhead firms. The withdrawal of the Proclaimed List does not mean that all former Proclaimed List nationals are regarded by this Government as satisfactory agents for American business and it will be necessary for this Government to be informed at once of reorganizations and liquidations in order that the Department of Commerce may accurately report the status of such firms.

The Department also believes that exchange of information pursuant to Resolution 8 of the Washington Conference⁸¹ concerning reorganizations and liquidations before they are actually consum-

⁸⁰ Not printed.

⁸¹ 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, June 30-July 10, 1942* (Washington, 1942), p. 21.

mated and concerning proposed release from control of any concern with respect to which the Chilean Government has taken any action will continue to be mutually helpful. Considerable information is being received from Germany which may disclose enemy ownership previously unknown. This information no doubt would be of interest to the Chilean Government and could be made available under a continuation of consultations between the two Governments.

BYRNES

462.OOR/10-3146

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

CONFIDENTIAL

No. 14583

SANTIAGO, October 31, 1946.

[Received November 21.]

SIR: I have the honor to refer to the Department's confidential airgram No. A-346 of September 30, 1946,⁸² on the final disposition of German assets in the Western Hemisphere, and to report that in reply to an inquiry from this Embassy the Chilean Ministry for Foreign Affairs, in Note No. 10794 of October 28, 1946, outlined its views and commented on the local legislation on this subject. A copy and translation of this note are enclosed.⁸²

The note in question states that Chile considers that whatever formula may be adopted for the final disposition of German assets in this Hemisphere should apply not only to German assets, but to all Axis assets. With reference to the contemplated action of the United States in waiving any claim to German assets in the other American Republics, the Chilean Government believes that this "generous" action should be followed by all of the other American Republics, that is, that none should request a share in the Axis assets controlled by the other American Republics. (This statement apparently ignores the fact that German assets available in the United States are believed to be wholly inadequate to satisfy the legitimate reparations claims of the United States, whereas the German assets in the case of some of the other American Republics will be in excess of such claims.) The note states that any obligation to give up excess assets would react most unfavorably on the economies of some of the Latin American countries and points out that such assets are incorporated into the national economy of each country and have been produced or built up by the natural resources and labor of the countries concerned.

The note refers to the various economic control measures adopted during the war period and concludes with a reference to Decree No.

⁸² Not printed.

740 (reported in my Despatch No. 14,366 of August 27, 1946,⁸³ file 400, entitled "Government Designates Chilean Commission to Receive Chilean Claims Arising from the War") and the statement that "with the termination of the tasks of this Commission, it is logical to assume that a series of legal measures will be approved that will determine the final destination of the Axis assets in Chile". It would appear, therefore, that the present intention of the Chilean Government is to determine locally the final disposition of Axis assets in Chile without reference to the decisions of the Inter-American Economic and Social Council's Special Committee on Enemy Property.

Respectfully yours,

CLAUDE G. BOWERS

**INTEREST OF THE UNITED STATES IN THE STATUS OF CHILE'S
EXTERNAL DEBT AND POLICY TOWARD ADVANCING CREDITS FOR
CHILEAN DEVELOPMENT⁸⁴**

825.51/3-946 : Telegram

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

RESTRICTED

SANTIAGO, March 9, 1946—1 p. m.

[Received 3:09 p. m.]

283. Alfonso Fernández, manager Caja de Amortización confirmed to Embassy that decree reinstating full service on external debt on basis of law 5580 of January 31, 1935⁸⁵ had been approved and should be officially published early next week. He also confirmed that another decree would authorize issue of up to one million dollars of new external bonds with 5 percent interest and 1 percent annual amortization to be sold at not less than 90 which would probably be taken up by the Caja itself. Fernández stated that Govt plans gradually to [restore?] funds diverted from bond service since 1939 of which proposed one million dollar issue would be first step. He also said a special amortization of 2½ percent on short term dollar debt would be authorized for 1946. Detailed memo by Caja on foregoing points is being mailed to Rogers⁸⁶ of Bondholders Council and Collado⁸⁷ Fernández stated. Despatch will follow.

BOWERS

⁸³ Not printed.

⁸⁴ Continued from *Foreign Relations*, 1945, vol. ix, pp. 809-824.

⁸⁵ On March 28, 1946, the Acting Secretary of State wrote to Senator Guy Cordon that the decree provided for service on the foreign debt from Government participation in the nitrate business, income tax on copper companies, and duties on oil destined for the copper and nitrate business. The proceeds were to be divided, half for interest, half for amortization. Holders of bonds who did not assent to the plan received no interest. Since 1940, the amount for amortization was diverted to earthquake relief. (825.51/3-1146)

⁸⁶ James Grafton Rogers, President of the Foreign Bondholders Protective Council, Inc.

⁸⁷ Emilio G. Collado, Director of the Office of Financial and Development Policy.

825.51/3-1546

The Secretary of State to the British Ambassador (Halifax)

The Secretary of State presents his compliments to His Excellency the British Ambassador and has the honor to refer to the Embassy's note (Ref. 966/15/45 No. 316) of October 25, 1945⁸⁸ which invited the Government of the United States to join with it in representations to the Chilean Government with a view to securing the observance by the Chilean Government of its undertakings under the Chilean External Debt Settlement of January, 1935.

As is well known, it is the traditional policy of the United States to avoid formal interposition or the assumption of direct representation of American bondholders in cases of default. The Government of the United States in such cases customarily limits its action to the use of informal good offices on behalf of the holders or their representatives.

In the instant case the Department of State soon learned that on October 29, prior to the receipt of the above-mentioned note by the Department of State, the Foreign Bondholders Protective Council, Inc. had quite independently and through the open mail addressed a letter to the Chilean Minister of Finance asking the Chilean Government's consideration of protests of American holders of Chilean bonds on the same points specified in the Embassy's note. The Council made no request for action by the Department. Early in January the Council reported receipt of a reply from the Minister of Finance which on the first point expressed the hope that the termination of the war will bring about a stabilization of the general economic conditions which will permit a more satisfactory performance in respect of amortization, but on the second point presented argument in rebuttal of criticism of Law No. 7160.

The Council subsequently informed the Department that it had been visited by Mr. Alfonso Fernández, the General Manager of the Caja de Amortización in charge of the foreign debt service of Chile who in lengthy discussion assured the Council of his expectation that diversion of sums from the annual amortization quotas will soon terminate and provision will be made for restoration by installments of amounts already diverted. Mr. Fernández subsequently visited the Department of State and repeated these assurances, while stating that he was not prepared to make public announcement thereof at the present moment.

In these circumstances the Department of State does not feel that it should do more than continue informal support of the Council's

⁸⁸ Not printed.

efforts, any benefit from which should inure also to the advantage of British and other holders of Chilean bonds.

WASHINGTON, March 15, 1946.

825.51/3-1546

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

No. 5415

WASHINGTON, March 15, 1946.

The Secretary of State transmits for the information of the Embassy copies of a note dated October 25, 1945⁸⁹ from the British Embassy at Washington and of the Department's reply of this date,⁹⁰ concerning the service of Chilean foreign bonds. There are also enclosed copies of a letter addressed by Mr. James Grafton Rogers, President, Foreign Bondholders Protective Council, Inc., October 29, 1945, to the Chilean Minister of Finance⁹¹ and of a translation of the Minister's reply of December 7, 1945⁹² on the same subject.

The following information is supplemental to that in the enclosures:

Mr. Rogers orally informed the Department that the Manager of the Caja de Amortización had also talked with American bankers in New York and had been impressed by their strongly critical attitude toward Chilean bond service practices. This may in some part reflect Mr. Roger's efforts, which he regards as having been particularly effective in respect of the National City Bank, to foster a financial community atmosphere actively helpful to the Council's efforts to clear up and regularize the South American bond situation. Mr. Rogers urged Mr. Fernández after rectifying the amortization practices to work for amending the adjustment of 1935 to provide for a fixed rather than a variable annual interest payment. The variable payment results in a certain speculative interest and discussion as the time for the annual declaration approaches, which periodically revivifies discussion and public criticism of the Chilean defaults. The whole unilateral set-up went against the instincts of the financial community. As it is unilateral, Chile has no American voice to defend it. Mr. Rogers urged, and Mr. Fernández cordially agreed, that the Caja de Amortización should not take a remote stand-off position toward the financial community and its criticisms but should write the Council periodically and frequently, giving information about the Chilean situation which would enable the Council better to deal with the numerous inquiries it receives regarding Chilean bonds.

⁸⁹ Not printed.

⁹⁰ *Supra.*

⁹¹ Pablo Ramírez Rodríguez.

⁹² Neither printed.

Mr. Alfonso Fernández, Manager of the Chilean Caja de Amortización, visiting the Department said that in 1945 Chile had paid out of revenues accruing from 1944 about \$4,500,000, of which \$3,300,000 was for interest, \$1,000,000 for amortization, and \$200,000 for expenses, the Government had diverted \$600,000 and there remained on balance \$1,500,000—\$2,000,000. The announcement for 1946 covered only interest. He was proposing to the Government that there be paid for amortization in 1946 100% of the 1946 quota plus the \$1,500,000—\$2,000,000 left over from 1945—a total of \$4,500,000. He was also requesting that a very little be found in 1946 toward arrears of amortization. Department officers urged that a press statement be issued by the Caja as soon as the Chilean Government shall have taken a firm decision. Mr. Fernández agreed that this would be advisable. He said he had not talked with the British Council of Foreign Bondholders during his visit to London but hopes to revisit London later in the year.

825.51/4-2346: Airgram

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

SANTIAGO, April 23, 1946.

[Received May 2—9: 55 a. m.]

A-171. In reply to the Department's A-145 of April 11, 1946,⁹³ concerning resumption of full amortization service on Chile's external debt, the official Spanish text of the Finance Minister's decree and English translation thereof were forwarded as enclosures to the Embassy's report no. 133 of April 2, 1946, entitled "Resumption of Full Service on Chile's External Debt", file no. 851.⁹³

A free translation of the Finance Minister's press release which accompanied the decree as translated from *El Mercurio* of March 8, 1945, is as follows:

"The Government through the Minister of the Treasury has issued various decrees relative to the external debt. The principal one is designed to resume fully service on this debt in accordance with Law 5580 of January 31, 1935.

"As it is known, after the occurrence of the Chillán earthquake in January, 1939, there was approved Law No. 6334 of April 28, 1939, which created the Reconstruction and Aid Corporation, and the Fomento Corporation and, in part, authorized the temporary use of funds assigned to foreign debt service by Law 5580 for the reconstruction of the zone devastated by that catastrophe.

"During several years part of the funds that ought to have been used for amortization of the external debt were diverted to the Re-

⁹³ Not printed.

construction and Aid Corporation. Now the Government has decreed that these expenditures be cared for with other funds, being obliged to use all of the funds assigned by Law 5580 for service of the external debt.

"This favorable measure to foreign creditors adopted by the Government will contribute materially to the improvement to our credit abroad."

BOWERS

825.51/9-1046

Memorandum by Mr. Louis Lister of the Minerals Section, Division of International Resources, to the Chief of the Division (Lipkowitz)

[WASHINGTON,] September 10, 1946.

Mr. Stenger,⁹⁴ ED, has given me the following information regarding Chile's request for an Eximbank loan. The request is for a \$40,000,000 loan, half of which is to be allocated to the Fomento Corp. and the other half to the Chilean State Railways. The funds are allocated to the following groups of industries:

| | <i>Millions of Dollars</i> | |
|-------------------------------|--------------------------------|---------------|
| <i>Fomento Corp.</i> | | |
| Hydroelectric | 5.5 | |
| Petroleum Explorations | 5.0 | |
| Agricultural Machinery Plants | 3.2 | |
| Wood & Lumber Projects | 3.4 | |
| Transportation | 3.6 | |
| Copper Manufacturers | 0.6 | |
| Cement Manufactures | 0.5 | |
| Fish Industry | 0.5 | |
| Total | | 22.3 |
| <i>Chilean State Railways</i> | | |
| Rolling Stock | 5.00 | |
| Electrification | 16.25 | |
| Total | | 21.25 |
| <i>Grand Total</i> | | <u>43.55*</u> |

The request is currently before the NAC, which, according to Mr. Stenger, has not yet taken any action.

⁹⁴ Jerome J. Stenger, Special Assistant, Division of Investment and Economic Development.

*Loan requested is for \$40,000,000 [Footnote in the original.]

825.51/9-2746

*Memorandum by Mr. Alexander Schnee of the Division of North and West Coast Affairs*⁹⁵

[WASHINGTON,] September 27, 1946.

The action of the National Advisory Council in approving a loan of \$15,000,000 to Chile did not commit the Council or the Eximbank to the granting of funds for any specific project.

The \$15,000,000 figure was developed by the Fomento Corporation when it was requested by the Eximbank to divide the \$40,000,000 originally requested into (A) those projects in which the Eximbank has an interest continuing from past commitments and (B) new projects to be undertaken by Fomento. The \$15,000,000 covers loans for projects in which the Eximbank has an interest continuing from past financing.

When this figure was presented to the Eximbank, that Agency informally indicated that it would consider a loan of this amount to Chile, but the Bank did not accept the list of specific projects as a basis against which the \$15,000,000 credit could be drawn if it were approved by the NAC.

On Monday, September 30, the Chilean Fomento Corporation will present to the Eximbank a list of projects which that organization wishes to be financed out of the \$15,000,000 loan recently authorized. The Bank is of the opinion that the petroleum loan⁹⁶ will be included in the list presented by Fomento. All the projects presented by Fomento will of course be reviewed by the Bank and the Department will have an opportunity to express its views. I suggest that it would be useful if informal approaches to Mr. Clayton⁹⁷ and Mr. Ness,⁹⁸ or other members of Mr. Clayton's staff, were again made on this subject with a view to making sure that the Department will take a vigorous stand on this matter when it comes up at the Eximbank.

With respect to Chile's ability to service the debt, I understand that a sub-committee of the NAC, after a study of Chile's balance of payments, came to the conclusion that if very good conditions prevail for sometime in the future Chile should be able to service an additional foreign debt up to a total of \$40,000,000. The decision of the Eximbank to finance only \$15,000,000 of the requested loan was based upon the shortage of funds available to the Bank rather than the Bank's estimate of Chile's ability to assume the burden of a larger foreign debt.

⁹⁵ Addressed to NWC: Mr. Gerberich, Mr. Hall, and Mr. Wells; and to ARA and A-BR: Mr. Smith.

⁹⁶ For documentation on the interest of the United States in Chilean petroleum, see pp. 620 ff.

⁹⁷ William L. Clayton, Assistant Secretary of State for Economic Affairs.

⁹⁸ Norman T. Ness, Chief Economist, Export-Import Bank.

825.51/10-346

*Memorandum by Mr. Alexander Schnee of the Division of North and West Coast Affairs*⁹⁹

[WASHINGTON,] October 3, 1946.

Subject: Ability of Chile to Service Additional \$40,000,000 Foreign Debt—Report of NAC Staff Committee Working Group.

A Working Group of the NAC in Document No. 101 dated September 21, 1946, has found that Chile should be able to service an additional \$40,000,000 foreign debt if that country's economy undergoes a balanced development and if foreign markets for her major products are maintained. In the event of a major world depression, the prospects for Chilean loan repayment are deemed to be extremely unfavorable.

While recognizing that nitrate exports will after a few years fall to 40 per cent less than average pre-war shipments, the report nevertheless contains the conclusion that Chile will probably have a favorable balance of payments in the future, barring a world depression, and that this balance of payments will enable Chile to service a foreign debt increased by the \$40,000,000 loan presently under discussion. The annual service and amortization charges on the Chilean Public Debt, including the \$40,000,000 of contemplated credits, will amount to approximately \$12.5 million. This is 6 per cent of estimated Chilean exports during the mid-period of loan repayment and compares with a debt service export ratio of 5 per cent for Brazil.

I believe this report contains at least two major assumptions which can be challenged.

(1) The report estimates that until 1970 the world demand for copper will be sufficiently large to permit Chile to export annually most of its capacity production of 440,000 tons. Granting the report is correct in assuming that world demand will reach these proportions, the report does not demonstrate that this will be an effective demand, i.e., that prospective consumers will be able to undertake the reconstruction and economic expansion and development upon which the demand is predicated.

(2) Another item included in the report as support for the thesis that Chile will have a favorable balance of payments in the forthcoming years is based upon the assumption that the Government will be able to restrict imports to a level roughly comparable to that which prevailed in the 1927-1929 period and again in the 1936-1939 period. No allowance has been made for the possible need to replenish loan

⁹⁹ Addressed to NWC: Messrs. Brundage, Hall, and Wells; and to ARA and A-Br.

inventories and catch up on deferred maintenance, although the report notes the Chilean claim that they have a net backlog of imports totaling approximately \$180,000,000 caused by inability to import capital and consumers' goods during the war. Considering the inflationary condition prevailing in Chile today, it would appear necessary that our calculations take into account the possibility that the Chilean Government may find it necessary to liberalize imports in order to make available to the public in the next few years a larger amount of consumers' goods in order that the inflationary influence may be checked.

Prerequisites of the Loan—The attached report¹ suggests the following prerequisites for the loan:

(1) The reaching of an agreed settlement between the Chilean Government and the American bond holders.

(2) Assurances from the Chilean Government on the following points connected with commercial and exchange control policies and practices:

A. Approval of the general principles contained in proposals for expansion of world trade and employment.

B. A clear and definite series of rules governing exchange and import procedure.

C. Discontinuance of Fomento's practices tending toward import monopolies where the products involved are destined for resale to private enterprises in Chile.

825.51/10-1146

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*²

[WASHINGTON,] October 11, 1946.

I should like to bring to your attention the attached memorandum, "Ability of Chile to Service Additional \$40,000,000 Foreign Debt—Report of NAC Staff Committee Working Group",³ and to add the following comments and questions:

1. The approach to this problem seems to be premised on a belief that there exists some sort of implied obligation on us to make a loan to Chile and that we are seeking justification for such action.

2. President Rios' statement of a year ago to President Truman and Secretary Byrnes in the White House meeting that Chile neither desired nor would seek further governmental loans but did wish private capital is entirely ignored. This was practically the sole issue

¹ Not attached to file copy.

² Addressed to OFD; Mr. Ness and U-E: Mr. Clayton.

³ *Supra*.

raised by Rios; his expression of policy coincided with our own best interests and policy, and it seems to me that we should not lose sight of it. It would appear that the Chileans have become so used to turning to the Eximbank for foreign financing that no effort is made to seek private investments. The interests of the Chileans in making the opportunities more attractive for foreign private capital of course decreases with each new governmental credit. Therefore, how can we justify the proposed further Eximbank credit without a serious attempt having been made first to enlist private enterprise and capital? I understand that a large project is now under way for private American and Chilean wine interests to get together in a new large organization to enlarge and stabilize the production of Chilean wine for marketing in this country. If true, this shows that this sort of thing can be done.

3. The foregoing becomes all the more important when one views the purposes for which the proposed credits are to be issued, most of which are entirely suitable for private enterprises. In particular, as has already been discussed, we should under no circumstances extend a credit for petroleum exploration. Similarly, the wood project, copper manufacturing, cement, and fish would seem to be better for private enterprise. (Incidentally, on the wood project, I cannot help but feel some doubt as to the validity of the cruise of the Chilean timber lands which was apparently undertaken by the United States Forest Service mission because, so far as I know, there has been no scientific planting of the Chilean forests, and I know for a fact that some years ago good and bad timber was too mixed to constitute a practical operation.)

4. My concern on this whole matter is not the use of Eximbank funds for financing American exports for the various projects, but that the money would be advanced to Fomento rather than to private enterprises for such undertakings.

5. I note that point 1 of section 7 of Document No. 101 on "Prerequisites of Loan" that "the representative of the Securities and Exchange Commission recommends that a prerequisite to this proposed loan should be the reaching of an agreed settlement with the American bondholders." I agree entirely and believe that this should include satisfactory settlement regarding the \$24,000,000 which has been siphoned away for purposes other than debt amortization.

6. Certainly Chile's performance under UNRRA and Lend-Lease⁴ do not justify the opening of this new line of credit.

SPRUILLE BRADEN

⁴ For the status of the lend-lease account, see instruction 5654, August 16, 1946, to Santiago, p. 572.

825.51/10-1746

The President of the Foreign Bondholders Protective Council, Inc. (Rogers) to the President of the International Bank for Reconstruction and Development (Meyer)

NEW YORK, October 17, 1946.

DEAR MR. PRESIDENT: AS suggested in your recent letter responding to ours of June 3,⁵ on the general topic of the International Bank's policy as related to loans of nations applying for credit which have outstanding public foreign debt, we write in regard to one case which the press reports as being now before the Bank. This involves a loan to the Republic of Chile.

As we have stated elsewhere, it is not the Council's view that the Bank should in every instance deny credit to a country which has failed to pay fully or promptly a foreign debt. In most cases, perhaps, the failure to meet public debt indicates either economic weakness, or a nation's lack of those standards of obligation which are equally involved in an estimate of credit. But this may not be necessarily true. There are some cases, however, in which the history of a public obligation of a nation throws much light on its claim for international credit and in which an application for a loan offers an opportunity to clear up a situation for the benefit both of the country and its creditors. Chile seems to us such a case.

In 1931 Chile made a general default on all its outstanding foreign debt, the principal of which totalled about \$265 million on issues payable in American currency, nearly £30 million due in sterling and approximately 84 million due in Swiss francs. Chile's previous sterling debt record had been excellent and its credit high. The default was attributed in part to general economic conditions, world-wide in application, but in part also to special circumstances affecting the markets for nitrate and copper, on the basis of which Chile's national finance had largely rested.

The subsequent history is one of a series of events and transactions, nearly all unilateral offers by Chile to its bondholders, the terms of which and the extent of compliance or non-compliance with which has kept the financial centers of the United States and Europe in a state of recurring criticism and anxiety. Without reciting the earlier incidents (which will be found fully reviewed in this Council's Annual Reports), it is enough to mention the recent years. In 1935 Chile passed a law pledging the national receipts from nitrates and copper

⁵ Neither printed.

to the service of its external debt. If such an arrangement had been made in the form of an adjustment negotiated with the institutions representing the several chief creditor countries, if Chile's resources had been duly discussed and considered, and out of such consideration a contract had developed, the proposal might have developed into a permanent and workable debt settlement, which was recommended, explained and approved by spokesmen for her creditors. Such discussion and agreement has been for a hundred years the customary and almost universal procedure for adjustment of a defaulted foreign debt. As a unilateral action, the Chilean offer became and it remains today, subject to change, in the view of Chilean political leaders, whenever internal pressure for funds is acute. As a consequence, the foreign holders of bonds have seen their obligations altered from the status of a debt with a fixed return to a claim on what Chile felt she could afford as the years went by and, since 1939, the return as measured by annual interest has fallen almost steadily from about 2% paid in 1939 to about 1.2% paid in the year 1945. Chile diverted from the funds available for interest and amortization first a considerable sum on the plea of an earthquake disaster. Then she enacted and inserted prior taxes on copper production which seriously diminished the revenues she herself had pledged to debt service. All this action was unilateral and over the repeated protests of the institutions speaking for her bondholders. As the years have gone, the nation has bought up much of her foreign debt by purchases at prices depreciated by her own default and by the unpredictability of her future policy. Recently Chile enacted a statute forbidding hereafter one form of diverting revenues pledged to bondholders but in general conditions are not bettered.

The foregoing is a mere crude condensation of events which are too complicated for useful recital here and which will be found fully set forth in the Annual Reports of the American and British Councils.

The upshot of this history is that Chilean credit in recent years has been almost continuously a topic of adverse criticism in this country and Europe. Her application for an international credit, without any steps to remedy the present status of her earlier indebtedness, will probably increase the feeling among bondholders and in banking circles here and abroad that Chile is not a responsible and just debtor. The early history of the nation's indebtedness only accentuates what seem to us to be the unnecessary losses suffered by her American and European creditors and the equally unnecessary losses the Chilean nation has faced in public standing.

This history puts Chile in the position of an international borrower who has not met the sound and accepted standards of finance. The standards require of a nation at the threshold a willingness to pay her debt and to submit her problems to negotiation. When these elements are absent in a debt history, the Council feels it should speak and that the Bank should be especially concerned. If these elements are ignored in the Bank's policy, its own loans may soon be in difficulty, however prosperous the world, and there may well be precipitated new defaults on publicly offered securities.

An unsound administration of public debt injures both the creditor and the debtor, both the bondholders and the nation. It is our feeling that the International Bank can and should, in its own interest, as well of that of all concerned, including Chile, see to it that the practice built up in the last dozen years is replaced by a sounder regime for the Chilean public debt. The Bank is designed, not as merely a pool of money, but to serve international public interests. The economic position of Chile is today much improved. Her internal and external political problems are fewer. The prospects are rather bright if she administers her financial affairs in conformity with standards accepted in a commercial world. There is no reason why Chile should be classed as she is today with the less developed nations which have never established reputations for having either sound economics or the sense of financial responsibility. Chile has had a sound economy and has shown financial responsibility in the past and can maintain both in future.

Respectfully,

JAMES GRAFTON ROGERS

811.516 Export Import, Bank/10-1846: Telegram

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

RESTRICTED

WASHINGTON, October 18, 1946—7 p. m.

1364. For Martin ⁶ from Gaston.⁷ October 16 Board meeting approved \$5,000,000 favor Chilean State Railways and approved reduced commitment \$5,350,000 Fomento.

Interest both Chilean commitments 3½ percent 5-year term Railways 10-year term Fomento. Approved loan to Canadian Viscose Ltd for \$5,700,000 interest 4 percent. Decisions on Taca and Netherlands refunding still pending. [Gaston.]

BYRNES

⁶ William M. Martin, Chairman of the Board, Export-Import Bank.

⁷ Herbert E. Gaston, Vice Chairman of the Board, Export-Import Bank.

825.51/10-3046

*Memorandum of Conversation, by Mr. B. C. Brundage of the Division
of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] October 30, 1946.

Participants: Señor Mario Rodríguez, Minister Counselor and
Chargé d'Affaires, Chilean Embassy.

Señor Mario Illanes, Commercial Counselor, Chilean
Embassy.

Mr. Livesey—OFD

Mr. Brundage—NWC

Mr. Livesey handed to Señor Rodríguez a paper (copy of which is attached), which he wished to have understood as a record of what he had to say orally and not as a memorandum. Mr. Livesey mentioned that the National Advisory Council had requested the Department to pass on to the Chilean Government their interests in any specific assurances which the Chilean Government might give for restitution of funds diverted from amortization under Law 5580. Mr. Livesey added that he understood that the Chilean Government early this year had taken some action on reinstating the suspended debt payment from current receipts and, in addition, had paid in \$1,000,000 as earnest of its goodwill on the \$24,000,000 of past diversions. It was this \$24,000,000 which had been diverted in the past and not made up which was the nub of the problem in the mind of the National Advisory Council. In summing up, Mr. Livesey stated that the same question, namely Chile's intentions regarding that \$24,000,000, would undoubtedly come up before the International Bank with reference to the Chilean request for a loan. Mr. Livesey added that, before the International Bank, the British bondholders might be expected to enter some more specific proposals as they have all the time been talking in terms of Law 7160.⁸

Señor Rodríguez stated that he would be glad to pass on Mr. Livesey's remarks to his Government, and that he was sure that the reply would be forthcoming soon.

[Annex]

In considering the recent applications of the Chilean Fomento Corporation and the Chilean State Railways for loans from the Export-Import Bank, the National Advisory Council on International Monetary and Financial Problems was disturbed by the lack of specific assurance as to the program after 1946 for restitution of funds diverted

⁸ A marginal note reads: "Copper companies may have real need for relief this tax. MKW[ells]."

from amortization under Law 5580 and requested the Department of State to endeavor to obtain such assurance.

The Department of State will wish to report on this matter to the National Advisory Council in due course.

The National Advisory Council on International Monetary and Financial Problems was established by the Congress in the Bretton Woods Agreements Act (Public Law 171, 79th Cong.), which was approved by the President on July 31, 1945. The statute directs the Council to coordinate the policies and operations of the representatives of the United States on the International Monetary Fund and the International Bank for Reconstruction and Development, the Export-Import Bank of Washington and all other agencies of the Government "to the extent that they make or participate in the making of foreign loans or engage in foreign financial exchange or monetary transactions."

The members of the Council, according to law, are the Secretary of the Treasury, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the Export-Import Bank.

825.5045/11-946: Telegram

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

SECRET

WASHINGTON, November 9, 1946—5 p. m.

US URGENT NIACT

544. For your information and re your telephone conversation with Assistant Secretary Braden last evening, Dept. has already informally pointed out to Chilean Chargé the embarrassing even untenable position in which this Govt. would be placed in considering Chile's request for further Eximbank loans and credits on Naval vessels at very time when proposed arbitrary settlement strike (described by FonMin himself as Communist plot, which would have grave consequences Chilean economy unless challenged) was jeopardizing highly important US investment copper industry. It was made clear to Chargé Rodríguez that with all good will in world for Chile this Govt. might be bitterly criticized by press and Congress if it were alleged that at time when interests of thousands of Kennecott^o stock holders were endangered American Govt. had made additional loans to Chile.

In your discussion with Chilean authorities it should be reiterated that the Dept. (Deptel 524, Oct. 26¹⁰) is not passing judgment on

^o Kennecott Copper Corporation.

¹⁰ Not printed.

accuracy Company's estimate of effects acceptance labor demands but is seeking mutually satisfactory solution taking full cognizance legitimate rights this US enterprise.

Since drafting foregoing Stannard ¹¹ has telephoned to report conversation this morning with Turton ¹² who was instructed by Stannard to state that Company could not accept arbitration on all points but is prepared to arbitrate on single point of wage differential between raise accepted by three other unions and amount demanded by the fourth (Communist dominated) union. We trust this will lead to acceptance by Chilean Govt. as the "further concession" recently suggested by that Govt. (Deptel 524 ¹³). Should it not be so accepted we are confident you will be able to impress Chilean Govt. seriousness situation and importance taking no precipitate action, pending arrival Stannard and opportunity full discussion with him.

Stannard plans leave by air next Saturday, Nov. 16. He explains that because of highly important directors meetings including discussion critical Chilean situation scheduled take place 14th and 15th impossible for him depart for Chile sooner. He is coming to Dept. for discussion on Nov. 12.

Please report present status operation at mines. Have strikers returned? If so, at what wage level?

ACHESON

825.5045/11-1246 : Telegram

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

SECRET

SANTIAGO, November 12, 1946—6 p. m.

[Received 11 p. m.]

991. Mytel 985, November 9.¹⁴ Braden Copper offered November 9 arbitrate solely on wages.

Yesterday in 2-hour conference President ¹⁵ told Braden officials offer did not go far enough; that he could not break with Communists so soon and if offer not amplified would have to resort to insistence decree "or some other type of decree"; that if three Liberals in Cabinet would not sign decree, would be necessary replace them with Ministers who would. President said he would be personally grateful if company agreed to principle of full arbitration and offered appoint any type arbitral body company might choose with arbiters completely acceptable to company (any arbiters acceptable to company would

¹¹ E. T. Stannard, president of the Kennecott Copper Corporation.

¹² Franklin E. Turton, Santiago manager of the Kennecott Copper Corporation.

¹³ October 26, 1946, not printed.

¹⁴ Not printed.

¹⁵ Gabriel González Videla.

undoubtedly throw out as illegal all demands not based on labor code). This supposition supported by President's promise of complete fairness and statement that "there are some persons in Chile who still believe in due process of law and I am one of them".

President said company's refusal accept full arbitration would split Government wide open. Am informed Turton impressed and now favors arbitration on President's terms on grounds rejection would imply distrust of President personally.

President considers full arbitration politically essential. In view his assurances of a fair dealing, I feel arbitration probably advisable since refusal could undoubtedly result elimination our friends from Cabinet and push Government further into extremist camp. We here are persuaded of the President's sincerity and if the company can practically name the arbitrators there would be nothing to fear.

In view critical situation here believe Braden Copper must decide policy before arrival Stannard (Deptel 544, November 9). Braden officials tell Labor Ministry company could probably reply evening 13th and Government expected withhold action until then.

BOWERS

825.5045/11-1246

Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Wells) and Mr. Alexander Schnee of that Division

SECRET

[WASHINGTON,] November 12, 1946.

Participants: Mr. E. T. Stannard, President, Kennecott Copper Corporation
 Mr. Laylin, Washington lawyer for Kennecott
 Mr. Spruille Braden, Assistant Secretary of State
 Mr. Briggs, ARA
 Mr. Schnee and Mr. Wells of NWC

President of Kennecott feels that cumulative concessions to Chilean Government's endeavoring to extricate itself from difficult political positions at the expense of the copper companies have placed Braden Copper Company in a tenuous economic position necessitating a clear-cut answer as to whether that Company will continue to be subject to such pressures; and inquires what further assistance can be expected from the Department, particularly in the event of intervention or expropriation by Chilean Government. In latter event, the Department will be requested to persuade European consumers that due consideration must be given the legitimate American interests in the producing company.

The purpose of Stannard's visit was to review the strike situation up to the moment; and to inquire what further advice and assistance the Department could offer, particularly in the event of Chilean Government intervention or expropriation. The great concern of the Company has to do with broad principles and long-range prospects. In terms of dollars and cents, their best estimate is that settlement of all 14 points on union terms would just about equal the \$2-3,000,000 profit anticipated on this year's operations. However, of greater importance are the dangers inherent in the labor demands, many of which are outside the Chilean labor code, and some of which (for example, the demand that the Company provide clothes for employees) would lead to never-ending trouble. The whole history of the Company's relations with the Government in Chile has been one of continuous appeasement, one concession after another on taxes and special exchange rates, and of government pressure for political convenience on one issue after another. He feels strongly that the time has come to end appeasement and to face the issue squarely on its economic merits.

The present situation, as reported by their Santiago manager, is that President González Videla has given the Company until 12 noon, today, to accept arbitration on all points. The only option is that of deciding whether there shall be 1, 2, or 3 arbitrators—in any case, the settlement, Stannard is convinced, will be made substantially on labor's terms. The Company's position is that the demands outside the labor code, and already labeled as unconstitutional by the decision of the Comptroller General, should not be subject to arbitration. Such action places the Company in a discriminatory position vis-à-vis industry as a whole; and makes the company a victim of political expediency (this time to save the President from difficulties with his Communist supporters).

Mr. Turton (Santiago Manager) is of the opinion that the Company has no choice but to give in and hope for the best. However, Stannard is of the firm opinion that the Company should accept arbitration only on the wage demands, leaving the other demands, which the Company deems unconstitutional, for subsequent discussion, if necessary. He feels the Company is faced with a crisis, and he would like to know (1) what further advice the State Department can offer, and (2) what the Department proposes to do if the Chilean Government intervenes or expropriates. He asked specifically whether, in case of expropriation, this Government would make representations to Great Britain, France, and other importers of Chilean copper, pointing out that the copper is the legitimate property of the Company and not of the Chilean Government. The Company lawyers

already are considering the advisability of serving notice on importing companies.

Mr. Braden stated that in his opinion at this point this Government has done everything to assist that it properly can do; and that it is now up to the Company to make its decision on a business basis. Mr. Braden added that it would not be proper for him, as a government official, to advise the Company whether to accept or reject the Chilean proposal. Referring to the advice of several of his colleagues to accept the arbitration offer of President González, Mr. Stannard inquired whether, if the Company agreed to arbitrate on all points and if the arbitration award substantially met the demands of the Communist union, the Department would use its influence to prevent the Chilean Government from drawing on credits established by the Eximbank. Mr. Braden reminded Mr. Stannard that the agreement to arbitration by a foreign company carried with it an implicit agreement to abide by the arbitration award. Thus the Braden Copper Company would not be in a position to protest after the award was made, and consequently the Department of State could not make representations either in Santiago or in Washington based upon injury stated to have been received by the company.

During the discussion, Mr. Stannard expressed himself strongly against the policy which this Government has followed in extending large Eximbank loans to Chile, and in acquiescing in the Chilean Government's fiscal policy of milking the copper companies more and more for foreign exchange with which to service said loans. Mr. Braden assured Stannard that the Department is fully cognizant of the reciprocal responsibility of Chile toward United States interests and that our policy of cooperation with Chile in the future will take into account Chile's performance in this respect.

825.5045/11-1246

Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Wells)

SECRET

[WASHINGTON,] November 12, 1946.

Participants: Señor Mario Rodríguez, Chilean Chargé d'Affaires
Mr. Spruille Braden, Assistant Secretary of State
Mr. Briggs, ARA
Mr. Wells, NWC

SUMMARY

Mr. Braden reiterates this Government's grave concern over Chilean strike situation.

Mr. Braden took advantage of the Chargé's call on another matter to reiterate the Department's very serious concern with the El Teniente (Braden Copper Company) strike situation. He went over carefully the basic issues involved. He stressed the point that the Department is not attempting to judge the Company's evaluation of the effects of the proposed settlement, but does hope that the Chilean Government may find it possible to delay definitive action on all contested points until Mr. Stannard reaches Santiago and has had the opportunity of discussing the whole situation directly with the appropriate Chilean officials.

Mr. Braden impressed upon Señor Rodríguez the possible adverse effects on public opinion and Congress of precipitate action and subsequent settlement on terms that might prove tantamount to government intervention. In this connection, he mentioned that Kennecott's 90,000 stockholders are not without influence. Should the situation develop to the point of irrevocably damaging this U.S. private investment in Chile, the Department, the Eximbank, and the Government as a whole would be in a most embarrassing position for having simultaneously extended large loans to Chile.

We had taken great pains to demonstrate good will toward President Gonzalez Videla, this in spite of a feeling of uneasiness in certain quarters at the inclusion of Communists in the Chilean Cabinet. Admittedly, the strike is Communist-directed, and is aimed at an American enterprise. Mr. Braden recalled (confidentially) that ex-Foreign Minister Fernández had told Ambassador Bowers that the strike was a "Communist plot which, if unchallenged, would have grave consequences on Chilean economy"; and that President González himself had expressed regret to the Company's manager that the Company was the victim of a squeeze between the Communists and the Socialists.

Reviewing the chronology of the strike, Mr. Braden again emphasized that our immediate interest is limited to urging the Chilean Government not to take hasty, arbitrary action before the situation has been fully discussed with Mr. Stannard, and that an earnest effort be made to reach a mutually satisfactory agreement.

825.5045/11-1246 : Telegram

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

SECRET

WASHINGTON, November 13, 1946—7 p. m.

US URGENT NIACT

548. Kennecott's understanding of Chilean arbitration suggestion differs markedly from that contained in second paragraph urtel 991.

Stannard has checked this in additional telephone conversations Turton today.

Stannard is instructing Turton to deliver message Chilean Pres. informing latter that Stannard and two additional members of board arriving Nov 18 "determined to work out an agreement fair to workers, fair to company and in interest of Chile". (Chargé Rodríguez just called and conveyed urgent message from FonMin conciliatory in tone stating that Chilean Govt had not set deadline for acceptance of arbitration on all points proposal, urging that Stannard arrive soonest possible, and referring to determination Chilean Govt respect rights foreign enterprise.) When Stannard arrives, it is suggested that you and/or Dunn¹⁶ present him to the Pres and extend every assistance. Previously thereto, Dept hopes you will have found favorable opportunity convey substance views expressed Deptel 544, Nov 9.

For your own secret info, while as previously indicated decision regarding its attitude toward Chilean request for arbitration must be reached by Company alone, Dept finds it difficult in evaluating situation to ignore both comments volunteered you by Fernández urtel 947, Oct 23¹⁷ and remark reported to have been made by Pres to Turton in which former regretted that company should be caught between Communists and Socialists and fact that Chilean Govt is in effect asking an American company to place itself in grave jeopardy in order to assist the new Chilean administration in extricating itself from a difficult political situation in creation of which company played no part. While we have every desire to continue to collaborate with Chilean Govt and people they have reciprocal responsibility to provide fair and equitable treatment of American interests.

ACHESON

825.5045/11-1546

Memorandum of Conversation, by Mr. Alexander Schnee of the Division of North and West Coast Affairs

SECRET

[WASHINGTON,] November 15, 1946.

Participants: ARA—Mr. Briggs ILH—Miss Roberts
 A—Br—Mr. Smith ILH—Mr. Horowitz
 NWC—Mr. Schnee
 ED—Mr. Havlik
 ED—Mr. Stenger

The meeting was called at the suggestion of Mr. Smith in order to furnish ED and ILH with additional background on the Braden

¹⁶ William E. Dunn, Counselor of Embassy.

¹⁷ Not printed.

Copper Company strike in Chile and to bring them abreast of the most recent developments.

The principal concern of the Economic Divisions seems to be that in communicating to the Chilean Government the embarrassment in which the United States would be placed in considering Chilean requests for further loans at a time when an arbitrary settlement of the strike was proposed, the Department had taken a positive step which gave the appearance of prejudging the ultimate manner in which the strike would be resolved.

Mr. Havlik of ED expressed considerable concern that we have thrown a shadow of economic pressure over the Chilean Government in such a manner as to suggest intervention in a labor dispute which is a matter of internal concern in Chile. Mr. Havlik also was concerned over the fact that the Department had acted without sufficient discussions with Economic Divisions in the Department and the Eximbank.

The position of ILH, as expressed by Mr. Horowitz, was also one of concern over the action of the Department interpreted by Mr. Horowitz as threatening the Chilean Government with economic sanctions with regard to a labor matter he considers to be of purely domestic concern to the Chileans. Mr. Horowitz, as I understand his position, did not deem it appropriate for the Department to inject itself into the details of labor disputes, including such questions as the impact of a labor settlement on the financial position of an American company concerned. Mr. Horowitz also expressed the fact that we could not determine whether injury had been received by an American company unless we had determined the impact of a labor settlement on that company. Broadly speaking, his thesis is—

(1) That the Department had no grounds to interject itself into this matter unless discrimination could be proven.

(2) The factors involved in this case such as the operator being caught between the socialist and the communist, and the possibility of the arbitration panel being rigged in favor of one side or the other, conform to the general pattern of settlement of labor strikes in Chile in recent years. Therefore, there could be claim to neither discrimination nor inequity of treatment as compared with other foreign and domestic companies operating in Chile.

Mr. Briggs, when referring to the position set forth by Mr. Havlik, stated that he did not consider the refusal to grant a loan by the United States as a form of economic pressure. Mr. Smith raised the point with reference to the position stated by Mr. Horowitz that equality of treatment is not necessarily our criterion, and that what we claim for American interests abroad is fair treatment. In order to clarify the position of ARA and A-Br, the Department's telegram No. 554 [544]

of November 9 was read and reread. Mr. Briggs also mentioned the fact that Mr. Clayton had been kept informed of all pertinent developments. Mr. Havlik replied that he knew Mr. Clayton was informed, but that this did not mean that Mr. Clayton would write the necessary letter to the Eximbank asking for a postponement of action on the \$10,000,000 loan now before the Eximbank.

It is my opinion that the Economic Officers departed entertaining the same doubts as to the efficacy and propriety of our action which they shared prior to this meeting.

825.5045/11-1846

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

CONFIDENTIAL

SANTIAGO, November 18, 1946.

DEAR SPRUILLE: Stannard and his party arrive this evening and I notice in the press that they will be met by the Minister of Labor. In my conversation with the President I was left in no doubt as to his concern and determination to do everything within the range of his possibilities to get some sort of agreement. He left me in no doubt whatever of his earnest desire to continue the very excellent relations between Chile and the United States and his repugnance to the idea of accepting anything not positively necessary, such as the oil and wheat, from Argentina. He went over the conditions, with which I have informed you, that brought about the inclusion of Communists in the Ministry and, in this manner, more or less forced the mine issue upon him. He made it clear that he has no doubt that these Communists will not linger long in the Government.¹⁸ But having had their support in a bitter presidential campaign he felt under obligations to offer them seats; and they having accepted, he does not wish to force them out immediately after taking office since this would make too easy the charge that they had been tricked into his support.

He had hoped and worked for a National Government to include Conservatives as well as Liberals and I personally think it was very shortsighted of the Conservatives in not accepting his invitation. But he does have three Liberals in the Ministry and these tend to strengthen him in his hopes for a moderate but progressive regime. If he is forced, through the refusal of the copper company to cooperate through some semblance of a concession on some points, he would be forced to ask for a decree of insistence and the Liberals would not sign and I understand that the Radical Minister of Finance would

¹⁸ A marginal comment in the handwriting of Mr. Braden reads: "Then why not off-load now?"

not. This would create an immediate crisis and the Liberals, the moderating influence in the Government which is important to us, would go out.¹⁹ Should they go out, it would be very difficult to get them or members of their party back and this would throw the President into the hands of the extremist crowd. I cannot conceive of anything more disconcerting.

Should this occur and as a result should we decide to refuse all credits to Chile for her industrialization the situation internally would become rather grave.²⁰ Our enemies, the old Nazi outfit, the pro-Argentineans and the Communists would revive the old cry of "Dollar Diplomacy" and "Yankee Imperialism" and I am afraid that very many who have been our friends throughout would go over to our enemies on the theory that we had turned on Chile.

Another phase which enters into the picture is this: Chile has gone too far, interest here is too great, in the plans for industrialization to end it now²¹ and yet should all credits be denied by us the necessity for credits would remain. This is not lost on Argentina. I find nothing objectionable in the negotiations for the purchase of the oil and wheat which we cannot possibly furnish. These products Chile positively must have and Argentina is the one place where they can be had. But it appears that when here for the President's induction into office, the Argentine delegation, with economic experts, brought up the matter of possible credits for the industrial needs of Chile.²² The President mentioned it to me but no one is more antagonistic to the Perón regime than González and I have perfect faith in the sincerity of his assertion that there is nothing he wants less. He said with all possible emphasis that he wants American credits and does not want to feel any obligation to the Argentineans. I know this was not intended by him as a threat. He was talking very much off the record. But should it be necessary to abandon the plans for industrialization or to take credits from Argentina, public opinion here would make it impossible for any Government to abandon the projects. And should this situation develop I am afraid that it would throw Chile, against her will, into the Argentine orbit; and this would mean headaches for us possibly for 6 years.

The proposition of González for a board of arbitration, not actually chosen by the Company but absolutely satisfactory to the Company²³ which would have the power of veto on any board not satisfactory, seems to me about the best that he could make. If the conferences

¹⁹ At this point a marginal note by Mr. Braden reads: "I don't believe this sequence would happen at all."

²⁰ Marginal note by Mr. Braden: "After \$60,000,000 of credits!"

²¹ Marginal note by Mr. Braden: "We don't want to end it, but to do it soundly."

²² Marginal note by Mr. Braden: "God help Chile".

²³ Mr. Braden's marginal comment here reads: "Which has never been clear".

between the President and his men and Stannard and his directors are conducted in a friendly spirit, I hope the storm will pass. González told me that the demands of the syndicate numbered about sixty; that he cut these down to fifteen; that among the fifteen were some that the Comptroller has already declared unconstitutional and that by virtue of that fact the board would inevitably refuse these. He implied without saying that he did not want to cut out too many of the demands, having eliminated about forty-five, and he left in the illegal ones to make the list seem reasonably long with the knowledge that the illegal demands would be doomed from the start.

During the course of his conversation, González said that he is annoyed by the necessity of always denying that he has a communist Government. He said he is "ashamed of having Communists in at all," but that he had told the Communists himself that the point of view of his Government will be that of a capitalist state. "I have a liberal Government in a capitalist State" he said to me. Convinced as I am of his sincerity, I am hopeful that we can help him out of his present predicament, and that the conferences will make it possible.

I am giving you these thoughts personally as background which impresses us here.

I shall keep you posted on the progress of the negotiations. I rather think the Company acted wisely in sending its head since, in a sense, it is complimentary to the Government and seems to be appreciated here in governmental quarters.

Warmest regards.

Sincerely,

CLAUDE G. BOWERS

825.5045/11-1546

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*²⁴

SECRET

[WASHINGTON,] November 22, 1946.

The attached memorandum of November 15²⁵ on the Braden Copper Company strike is interesting, but the ILH and ED impressions are without any merit whatsoever. We have not concerned ourselves with the details of the labor agreement but have limited our consideration of the matter to the broad principles of the relations between our two countries and the protection of American interests. If this company is to get a thorough shellacking simply because of the Communist

²⁴ Addressed to ARA: Mr. Briggs, Mr. Trueblood; A-Br.: Mr. Smith; and to NWC.

²⁵ *Ante*, p. 610.

maneuvering, it could have highly deleterious effects on public opinion in this country which would be reflected in our relations.

As for Mr. Horowitz' points:

(1) While we have not made the issue of discrimination, actually discrimination does exist on this particular matter because, insofar as I know, no Chilean copper mine, and for that matter not even the Chile and Andes Companies, has been subjected to the same treatment.

Incidentally while on the subject of discrimination, there has been very blatant discrimination against the American companies on the score of both exchange and taxes, not to mention other special regulations.

(2) To excuse the present situation on the score that the actions being taken against the company "conform to the general pattern", is no excuse whatsoever. If this excuse were valid, then it is high time that the pattern be changed.

Finally, if we do not protect the legitimate interests of U.S. nationals in the face of such Communist attacks, then God help defense of the hemisphere, solidarity, Good Neighborliness and all of the policies and principles for which we stand.

SPRUILLE BRADEN

825.51/11-2746

*Memorandum of Conversation, by Mr. Phil R. Atterberry of the
Division of Investment and Economic Development*

[WASHINGTON,] November 27, 1946.

This is a summary of conversations yesterday afternoon and this morning had with Mr. Schnee (NWC) at his request.

Chilean Loan Application to International Bank. In reply to his question, I informed Mr. Schnee it was my understanding that the Chilean request for a \$40 million International Bank credit has, in preliminary considerations, been reduced to \$30 million because the Bank's lending capacity during the next 12 months is limited by the fund's available to it. Consequently, the amount of credit requested by each applicant is expected to be somewhat reduced.

Chile's over-all public debt to U.S. I suggested that Mr. Corliss²⁶ (FN) should be consulted. As for Eximbank commitments as of September 30, 1946, total commitments aggregated \$66 million; that another commitment of \$10.350 million had been approved by the Bank's Board of Directors last month. Of this sum, \$5 million was for Railways and \$5.350 million for the Fomento Corporation as follows: power development \$800,000; agricultural machinery \$3.2 mil-

²⁶ James C. Corliss, Assistant Chief of the Division of Financial Affairs.

lion; equipment for copper wire plant \$800,000; equipment for cement plant \$550,000. I also observed that according to an NAC document of September, 1946, Chile had no obligations outstanding to the Maritime Commission, War Assets Administration or Reconstruction Finance Corporation. Mr. Schnee said that he understood Chile now owes the Maritime Commission about \$2 million.

Chilean Steel Mill Capacity. Mr. Schnee said he had information that when completed, the steel mill would have a capacity of 300,000 tons. The original loan application, he thought, called for a capacity justified at 180,000 tons. He questioned these capacity figures and observed that the larger figure would permit Chile to export steel. This eventuality, he said, probably would bring about unfavorable reactions in the U.S. I remarked that I had not participated in this steel mill case and thus, did not know the details of the application. I told him that Mr. Stenger had referred to a final capacity figure of 160,000 to 200,000 tons. This he felt was an incorrect figure.

825.5045/11-2846: Telegram

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

SECRET

SANTIAGO, November 28, 1946—10 p. m.

[Received November 29—2: 50 a. m.]

1041. Mytel 1040, November 27, 8 p. m.²⁷ At yesterday's meeting between Justice Minister Correa and Braden officials it was thought area disagreement narrowed. Last night Stannard met again at Government request with Correa and Foreign Minister Juliet. Juliet attempted obtain Stannard's agreement to full arbitration, but without success. Today Braden officials were asked by President to Moneda and he also asked for full arbitration which Stannard again refused after trying explain reasons why compliance not possible. Stannard says President told him two courses open: either agree to arbitration or Government would have to occupy mine. President asked for yes or no answer on arbitration and Stannard replied that if forced to give yes or no answer the answer was "No".

This afternoon President urgently asked me to see him. I went to Moneda with Dunn. González said Braden mines must resume work and if no agreement could be reached Government would have to operate mines for time being "as you have done in the United States". President said negotiations now narrowed down to one small legal point. I told him that we are much preoccupied by the fact that the Communist policy in South America is to attack the

²⁷ Not printed.

United States and all men in South America favorable to United States; and that we fear that the success of the Communist-inspired strike at Sewell would encourage a general attack in Chile on American interests generally.

He said he would name as arbitrator the Chief Justice of Appeals who would instantly strike out all the illegal points and asked for faith in him.

Tonight Stannard and party requested conference with me and I went over the ground with them. They again said they simply could not delegate their responsibility to their stockholders on crucial principle to any outsider and pointed out that the only Chilean official they had been able to make progress with was Correa. They complained that various Chilean officials who have talked with them have not had full powers and in most cases no powers. I then suggested I see President again and suggest to him that he delegate Correa to handle negotiations. Stannard said he would sleep on this and let me know in the morning. He said this might be acceptable provided Government eliminated beforehand point on which they could not negotiate, namely, non-observance of existing Chilean labor code provisions (desired by Communists) which would destroy all discipline and company's power to operate. President complained bitterly of what he termed fulfillment of previous threat to cut off credits and assistance to Chile in the midst of negotiations which he said was reflected in telegram received yesterday from their Embassy in Washington stating that sale of five merchant vessels and two tankers to Chile had been turned down and that Export Import Bank would make no further credits to Chile until further notice. He asked me to inquire whether this was true and if so the specific reasons for such action, saying that this was tantamount to treating Chile like Central American country. I shall appreciate telegraphic reply on this point. I replied to his question that the Embassy had received no confirmation.

BOWERS

825.5045/11-2846: Telegram

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

SECRET

WASHINGTON, November 29, 1946—7 p. m.

US URGENT

570. Urtel 1041. Please elucidate what Pres meant informing you negotiations narrow to "one small legal point".

Furthermore we find it difficult understand Chilean Govt's apparent view that it is reasonable to put pressure on American company

to force it to arbitrate points understood to be outside scope Chilean labor law and which only arise (according to admission of Chileans themselves) because of political pressure exerted by Communists. As matters stood yesterday company seems on firm grounds, but if it accepts arbitration these so-called extra-legal points it must then of course abide by results whatever they may be, and informal assurance that Govt arbitrator will "instantly strike out all the illegal points" understandably does not appeal to company as near so adequate as their deletion before arbitration. This is however of course a matter for business judgment of company.

Beyond foregoing, involving what we can do extend protection legitimate rights this important American company, we are greatly concerned at attitude attributed by Urtel to Pres misinterpreting our present position as "threat" as we assume you have already endeavored to make clear we have merely tried to point out in the most friendly and cordial manner the difficult and embarrassing position our Govt would inevitably face if it were alleged that at time when important American interests were endangered US Govt had made additional loans to Chile.

Cable follows re status tankers and commercial vessels.²⁸

ACHESON

825.51/12-246

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*²⁹

CONFIDENTIAL

[WASHINGTON,] December 2, 1946.

I refer to my memorandum to you of October 11³⁰ regarding the Chilean Fomento application for Export-Import Bank credits.

With regard to the application for credits from the International Bank, I have two observations:

1. I notice that the application for the latter credits includes the forest industries project which was turned down when the application was made to the Export-Import Bank. I do not know what considerations the United States representative on the International Bank will be instructed to take into account, but it would look very odd if, after having been turned down by Eximbank, Fomento could have the same project approved simply by going across the street to the International Bank, which is also substantially supported by U.S. taxpayers. (These comments refer to such specific projects as this;

²⁸ Telegram 571, November 30, 11 a. m., p. 575.

²⁹ Addressed to OFD: Mr. Ness, and UE: Mr. Clayton.

³⁰ *Ante*, p. 598.

not to the general question of foreign countries looking to the International rather than to the Eximbank for future development credits.)

2. My earlier concern about the ability of Chile to service further heavy dollar obligations is naturally greatly increased at the prospect of those obligations being augmented by another \$30,000,000 to \$40,000,000. I see very little in the proposed new projects which will add to Chile's capacity to service dollar indebtedness. NAC experts to the contrary, I foresee either difficulty in servicing obligations to the Eximbank (now committed for more than \$75,000,000), not to mention doing something on past indebtedness, or much more restrictive import controls in Chile.

SPRUILLE BRADEN

825.51/12-1046

Memorandum by Mr. Alexander Schnee of the Division of North and West Coast Affairs ³¹

SECRET

[WASHINGTON,] December 10, 1946.

In a conversation with a key Export-Import Bank officer at lunch today it was gratifying to learn that there is substantial support in the Eximbank for the positions advocated by ARA with respect to various economic policy questions.

(1) *Future Loans to Chile*

The previous decision of the NAC notwithstanding, the Eximbank is of the opinion that Chile has absorbed all of the dollar credits that country is capable of financing.

(2) *Policy Statement of the Foreign Investment Policy Sub-Committee of the ECEFP (Executive Committee on Economic Foreign Policy)*

The activities of this Committee have been terminated, at least temporarily, because of the fact that the Eximbank—and the Department representatives too, I am informed—considered the efforts of this Sub-Committee excessively academic, unrealistic and lacking a proper conception of the need for protecting basic American interests.

(3) *Nationalization*

The Eximbank follows the policy of combatting nationalization wherever it believes that the United States efforts in this direction have a good chance of being successful. Thus, while the Eximbank exerts very little, if any, effort in this direction, in considering the problems in Eastern Europe, in other areas of the world, and particularly in

³¹ Addressed to NWC: Mr. Wells; ARA: Messrs. Trueblood and Briggs; and A-Br: Messrs. Smith and Braden.

China, the Bank has repeatedly and consistently withheld loans on the ground that the specific project under consideration is more properly a subject of private enterprise.

The Bank is of the opinion that written policy statements in this regard will prove to be unduly restrictive and will deprive the United States Government of freedom of action to meet problems under circumstances which are not presently foreseeable.

**THE CONCERN OF THE UNITED STATES WITH CHILEAN PETROLEUM
AND MINERALS PROBLEMS**

825.6363/2-1646

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

CONFIDENTIAL
No. 13516

SANTIAGO, February 16, 1946.

[Received February 25.]

The Ambassador has the honor to enclose a self-explanatory memorandum ²² in which the substance of a conversation with a Fomento Corporation ²³ official concerning the financing of Chile's oil industry is reported. A copy of this memorandum has also been transmitted to the American Embassy at Lima, Peru.

The Department's comments on the position taken by the Embassy in this conversation would be appreciated for guidance in further discussions which undoubtedly will be sought by Chilean officials in the near future.

From the tenor of the discussion recorded in the enclosed memorandum, it is apparent that it will be extremely difficult to clear the atmosphere for private financing, or for private participation in the financing and development of Chile's petroleum industry.

W. E. D[UNN]

825.6363/2-2846 : Telegram

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

RESTRICTED

SANTIAGO, February 28, 1946.

[Received 9:19 p. m.]

253. Today's press announces Govt has taken final action on decree (not yet published in *Diario Oficial*) conferring on Fomento Corp. all rights and responsibilities in connection with exploitation of oil recently discovered at Springhill, Tierra del Fuego. Newspaper text of decree states (summary) that in view of the fact that Fomento has

²² Not printed, but see *infra*.

²³ Corporación de Fomento de la Producción, Chilean Government instrumentality.

been responsible thus far for preliminary work and is best fitted to plan and execute further development of oil resources it is decreed that Fomento shall (1) "take charge of the exploitation of the oilfields in said region"; (2) "plan and build storage, transportation, refining, distribution and other installations necessary for commercial exploitation of the oil gas and its derivatives" subject to presidential approval. Decree adds that any profits shall go to Govt pending passage of law determining Fomento's share in earnings.

Gajardo head of Fomento is quoted in local news broadcast today as having told UP that Fomento has asked Eximbank for 3 to 4 million dollar credit line to finance further exploration and will soon apply for additional line of 13 millions for refineries to be located near principal consuming centers.

BOWERS

825.6374/3-446

The Chilean Ambassador (Mora) to the Secretary of State

No. 434/79

The Ambassador of Chile presents his compliments to His Excellency The Secretary of State and has the honor to bring to his notice that the Government of Chile is most appreciative of the assurances contained in the note of the Department of State of October 22, 1945.³⁴

As the Secretary of State is aware, the basic objective of the Government of Chile is that the fertilizer plants belonging to the United States Government should not be turned over to third parties under such conditions which might give rise to problems capable of seriously affecting the future of nitrate exportations from Chile, especially in the event that the terms of the transfer should be such as to permit discriminatory and detrimental competition for the nitrate produced in Chile.

The Government of Chile is again most concerned with this matter, after a perusal of the following documents:

a) Report of the Surplus Property Board to the Congress, dated November 12, 1945, which as stated in the above referred to communication of the Department of State comes within one of the requirements of law whereby, without objection by the Congress, the synthetic ammonia plants built during the war for military purposes may be sold; while under the provisions of the Surplus Property Act,³⁵ they may be leased to third parties at any time for periods up to five years.

b) Supplement III of December 5, 1945, on the progress of the disposal of the synthetic ammonia plants, where a report is made that

³⁴ Not printed.

³⁵ Approved October 3, 1944; 58 Stat. 765.

the Buckeye Ordnance Works, South Point, Ohio, was leased for ten months, until June 30, 1946, to the Atmospherical Nitrogen Company, a subsidiary of the Allied Chemical & Dye Corporation.

c) Regulation No. 10 of September 7, 1945 and Special Order No. 19,³⁶ of the same date, of the Surplus Property Board, in which regulations are promulgated governing the procedure to be followed in the disposal of the synthetic fertilizer plants.

d) The issue of the "Oil, Paint and Drug Reporter" of February 18, 1946, according to which an agreement has been reached for the lease of the Jayhawk plant to a private firm for a period of ten years, with the option of renewal for five years, at the end of this period.

The concern of the Government of Chile, upon being apprised of the preceding, derives from the rapid manner of the procedure, and the broad principles adopted by the Surplus Property Board to fix the sale or rental price of the plants in Regulation No. 10, Par. 8310.6.

This Regulation, which it is understood is now in effect, provides that the sale or lease price of the plants to third parties shall be determined "by taking into consideration all the proposals received and the use of the property most desirable in the light of the applicable objectives of the Act", adding "it need not necessarily be the same as the fair value of the property determined in accordance with Special Order No. 19 of the Surplus Property Board".

This Regulation appears to make it possible for the plants to be sold or leased to private parties on conditions which may create serious problems capable of affecting the future of exportations of nitrate from Chile and, besides, the terms of the transfer may be such as to bring about discriminatory and detrimental competition for Chilean produced nitrate.

It also appears that Regulation No. 10, referred to above, is not in keeping with the statement of the Department of State regarding the price to be applicable to the transfer of the plants, set forth in the note of October 22, 1945,³⁷ where it was stated that the Government of Chile could be assured that the policies formulated for the disposal of the plants would conform to the objectives specified in the law, and that a price would be fixed to yield as nearly as possible "the fair value of the surplus property".

Thus, the Government of Chile could not refrain from voicing its concern when confronted with the fact that the lease of the synthetic ammonia plants, belonging to the Government of the United States, was taking place, to private firms and for periods of time which imply permanency, as would be the case referred to of the Jayhawk Plant.

³⁶ 10 *Federal Register* 11579 and 11582; the regulation and the order were effective September 11, 1945.

³⁷ Not printed.

In view of the traditional friendship which has existed between the United States and Chile, and considering the policy of economic and commercial collaboration sponsored by the United States at every Inter-American and World Conference, and the assurances given by the State Department to the Minister of Foreign Affairs of Chile in a letter dated March 5, 1945,³⁸ and confirmed in the note of the Department of State of October 22, 1945, the Government of Chile feels that it has a perfect right to insist upon the following:

1) That the transfer of the nitrogen plants to third parties shall be made strictly in conformity with the conditions established by the Surplus Property Board in Special Order No. 19 of September 7, 1945, which provides the manner of fixing "a fair sales price".

2) That Paragraph 8310.6 of Regulation No. 10 of the Surplus Property Board, regarding transfer prices, shall not be applied because it does not take into account the fixation of "a fair value" of the property for its sale.

3) That it may be given the opportunity to become acquainted with the terms of transfer of these plants before any definite decision is made, in order that the Government of Chile may be enabled to express its point of view as to the effect which these transfers might have on the trade in Chilean nitrate.

[MORA]

WASHINGTON, March 4, 1946.

825.6363/3-1446

The Vice President of the Standard Oil Company of New Jersey (Suman) to the Assistant Secretary of State for American Republic Affairs (Braden)

NEW YORK, March 14, 1946.

DEAR MR. BRADEN: AS I mentioned in the pleasant conversation which I had with you last week, Standard Oil Company Chile, S.A.C. (one of our wholly-owned subsidiaries) has been marketing petroleum products in Chile for many years. During all this period Standard of Chile has sought to enlarge the base of its activities in Chile to include the search for petroleum in that country and, if such search proved successful, to follow it up with the construction of local refining facilities. However, Chilean law has made it impossible for Standard of Chile even to start upon such a program.

Recently Corporación de Fomento de la Producción (Chilean government company) has discovered petroleum at Springhill, Tierra del Fuego. The Corporación is, quite rightly, very proud of this achievement; the first petroleum discovery in Chile. Nevertheless I

³⁸ *Foreign Relations, 1945, vol. ix, p. 795.*

feel it only fair to suggest that this discovery might have been made much sooner had a system of free enterprise been permitted in the business.

Standard of Chile has congratulated the Nation and the Corporación upon this accomplishment and has renewed its previous expressions of desire to participate in the exploration for and development of petroleum resources and of refining within Chile upon any sound commercial basis. Copies of recent letters on this subject sent by Standard of Chile to Pedro E. Alfonso, recently retired Minister of Economics and Commerce, to Carlos Arriagada, present Minister of Economics and Commerce, and to Oscar Gajardo, Executive Vice President of the Corporación, are enclosed for your information.³⁹ To date we have no advice that any reply to these letters has been received.

Information coming to us through the press and other channels indicates that the Corporación plans to approach our Export-Import Bank for a substantial loan to enable it to develop its Tierra del Fuego discovery and otherwise to develop petroleum production and refining in Chile. As you will have noted from the foregoing, private capital is available to do this job, provided satisfactory commercial terms can be negotiated.

I appreciate, of course, that, despite the availability of private capital, whether public funds should be loaned for such purposes by the Bank is for decision by it.⁴⁰ In reaching a decision the Bank naturally would have to consider all factors, including, but certainly not limited to, the effect of such a loan upon the American petroleum companies. However, I do want to express the personal view that such a loan would not only be of irreparable harm to the American petroleum companies but also might well have an adverse effect upon all the Department has been and is doing by the promotion of agreements such as the Chapultepec Declarations,⁴¹ the proposals for an International Trade Organization and other similar measures; all designed to promote the free flow of international trade and investment unhampered by extremes of nationalism.

Thanking you for your interest in this and our many other Latin-American problems, I am

Sincerely,

JOHN R. SUMAN

³⁹ None printed.

⁴⁰ Marginal notations read: "I am 100% opposed to such use of Bank funds"; "So am I. W[right?]."

⁴¹ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945* (Washington, 1945).

825.6363/3-2646

Memorandum of Conversation, by Mr. B. C. Brundage of the Division of North and West Coast Affairs

SECRET

[WASHINGTON,] March 26, 1946.

Participants: A-Br—Mr. Braden
 Mr. Wright
 NWC Mr. Flack
 Mr. Wells
 Mr. Brundage
 ED Mr. Stenger
 Mr. Scanlan
 FN Mr. Corliss
 PED Mr. Pigott
 Mr. Townsend

The meeting was called to establish clearly what the Department's attitude should be in regard to the present Chilean request for an Ex-imbank credit of \$5,000,000 for further petroleum exploitation in the Magallanes.

Mr. Stenger called attention to the fact that it was a United States outfit, the Livermore Corporation, doing the drilling. He added that as far as the purely commercial aspects of Chilean petroleum went, it would undoubtedly produce foreign exchange which could be used to service and retire any dollar credit.

Mr. Braden stated that this was all very true but that this Government stood for private enterprise, and that it was therefore fundamental—in order to follow a consistent policy—that we not encourage State trading abroad through public financing. In other words, he wouldn't give the Chileans "a plugged nickel" on their oil. He added that when President Rios was here in Washington he made the statement to President Truman—in Mr. Braden's presence—that, with the credit finally advanced on the steel mill, Chile wanted no more public loans from the United States and preferred to induce the investment of private foreign capital. Mr. Braden later told President Rios that, before Chile could expect any further favorable consideration from the United States on such types of aid, Chile must first put its financial house in order and repair its credit standing.⁴²

Mr. Stenger then made the point that if private United States companies, such as Standard, entered the Chilean field, then this Government might expect eventually just such untoward developments as have taken place in Mexico and Bolivia—political friction, expropriation and diminished production. Mr. Wright replied that, in the

⁴² For documentation on Chilean indebtedness, see pp. 591 ff.

Mexican case, the State petroleum monopoly, Pemex, has been losing money at the rate of about \$20,000,000 per year (according to a recent statement by Ambassador Messersmith), which was a signpost pointing to the dangers of our helping to promote similar State monopolies.

Mr. Townsend brought out that, while the Eximbank had \$5,500,000 invested in the exploitation of Bolivian petroleum by an agency of that nation, this particular credit had been used to bail Bolivia out of a bad situation during the early period of the war emergency and to insure the flow of strategic raw materials needed in that emergency. The Chileans could not cite this as an instance, therefore, where the United States Government had cut across its well-established policy lines.

The issue of hemispheric oil reserves was raised by Mr. Scanlan, who stated that it was his understanding that the Department of the Interior had recently drawn to the attention of the public the scantiness of our own reserves. Mr. Wright replied that he did not believe this issue was pertinent to the present discussion.

In regard to the Corporación de Fomento, which had discovered the well at Springhill in Tierra del Fuego, Mr. Townsend asked if United States had financed any of this. Mr. Stenger replied that \$500,000 of United States money credited to the Fomento Corporation had been used for that specific purpose. Mr. Stenger added that if we completely shut the door in the face of the Chileans' desire to finance their oil industry with United States public money, they might start waving the Act of Mexico City⁴³ in our faces. Mr. Braden countered by quoting Article no. 8 of the Economic Charter of the Americas.⁴⁴

"To promote the system of private enterprise in production which has characterized the economic development of the American Republics, to take appropriate steps to secure the encouragement of private enterprise and to remove as far as possible obstacles which retard or discourage economic growth and development."

Mr. Stenger mentioned the probable political repercussions which such a rigorous stand might be expected to have, stating that, in his opinion, these might be considerable. Mr. Braden replied that unfavorable results were bound to result in either case, and that therefore he would take the decision which most clearly conformed to this Government's principles.

Mr. Flack, in the light of his experience with petroleum production in Venezuela, concurred wholeheartedly with all of Mr. Braden's statements.

⁴³The Act of Chapultepec was Resolution VIII of the Mexico City Conference; for text, see *Final Act of the Inter-American Conference on Problems of War and Peace*, p. 40.

⁴⁴Article 8 of the Economic Charter of the Americas was paragraph 8 of Resolution LI of the Mexico City Conference; for text, see *ibid.*, p. 98.

It was finally decided at the meeting, therefore, that the Department's attitude on this Chilean request for Eximbank financing of its oil industry should be a decided "no".

825.6374/4-2246

The Acting Secretary of State to the Chilean Ambassador (Mora)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Chile and has the honor to refer again to the Embassy's note No. 434/79 of March 4, 1946 and to the unnumbered note of April 22, 1946⁴⁵ expressing concern with respect to the disposition by this Government of its synthetic ammonia plants.

In particular, the Embassy indicates that paragraph 8310.6 of Regulation No. 10 of the Surplus Property Board should not be applied on the ground that it does not take into account fair value as a standard for the disposal of surplus plants. It must be pointed out, however, that Regulation No. 10 of the Surplus Property Board does not require the War Assets Administration, which now has charge of the disposition of these surplus plants, to dispose of surplus property at less than fair value nor does it establish a general standard for the disposition of such property. In the opinion of the War Assets Administration the regulation is merely permissive, and not mandatory.

The Embassy urges on the other hand that transfer of plants be made strictly in conformity with the conditions established by the Surplus Property Board in its Special Order No. 19 of September 7, 1945 which provides for the fixing of a fair value.

In this connection the Embassy's note of April 22, 1946 makes renewed reference to the disposition of the Ozark plant and implies that this plant has not been offered for sale in accordance with Special Order No. 19 inasmuch as it has been offered for sale at \$13,793,500 which is less than one-half of its construction cost.

This Government is of the opinion that this amount is in accord with Special Order No. 19 requiring disposition at fair value. According to the information in the possession of the Department of State, the actual cost of land and buildings, machinery and equipment was \$27,219,509. This amount does not agree with the amount quoted in the Embassy's note of April 22, 1946 taken from "Report on Chemical Plants and Facilities" submitted to Congress on November 12, 1945. The actual cost of land and buildings according to a War Department inventory has been slightly adjusted from records

⁴⁵ Latter not printed; this note was concerned with the Ozark synthetic ammonia plant and the obligation of the United States to consult Chile in the disposal of such plants (825.6374/2246).

of the plant operator; the cost of machinery and equipment is unadjusted.

The present normal reproduction value and the present depreciated value of the plant were made by appraisal of J. Gordon Turnbull, Inc., of Kansas City, Missouri on January 18, 1946. The present normal reproduction value was appraised at \$18,993,579 and the depreciated value was set at \$15,908,112.

At this point it is pertinent to emphasize that the fair value of \$13,793,500, according to War Assets Administration analysis, was based strictly on requirements of Special Order No. 19 of the Surplus Property Board. This figure was derived by deducting from the present normal reproduction value items such as the costs of purely military installations (guard houses, et cetera) plus costs of installations not normal or necessary to commercial operation, amounting in all to \$2,523,845. From this net replacement figure of \$16,469,734 an aggregate depreciation, at rates equivalent to those used by the appraiser, of \$2,676,234 is then deducted representing usage for two and one-half years. The fair value figure of \$13,793,500 includes engineering fees estimated at \$312,000.

This note has thus set forth in considerable detail the process of arriving at fair value in order to illustrate the operation of Special Order No. 19, which the Embassy of Chile approves, and which results in this case in a fair value of less than one-half the war-inflated cost. It is believed that the procedures described above are not only in strict accord with Special Order No. 19 but are also in accord with normal commercial procedures.

Since the matter of lease as well as sale of surplus plants is of importance to the Embassy, it should be pointed out that leases must be made based on fair value but with due regard in each particular case to pertinent factors such as production costs, freight differentials and probable output. The lease provisions for the Ozark plant are rather complicated but, in brief, they run for a construction period plus five years with option to renew for two additional five-year periods, with a sliding scale of rent based on a percentage of sales, and certain minimum annual rents.

The Secretary of State has designated Mr. Willard L. Thorp, Deputy to the Assistant Secretary of State for Economic Affairs, to consult with any officer or officers of the Chilean Embassy with respect to the values determined for the disposal of surplus plants in relation to the letter from the Secretary of State to the Chilean Minister of Foreign Affairs at Mexico City on March 5, 1945.⁴⁶ He now has available all of the details with respect to the lease offers of both the Jayhawk and Ozark plants. Details of at least one other offer are

⁴⁶ Not printed.

expected in the very near future. The War Assets Administration has been informed of the views of the Chilean Government and of the Mexico City understanding of March 5, 1945.

Reference is also made to the objections set forth in the Embassy's note of March 4, 1946 to long-term leases of the surplus plants. It must be made clear that the statutory restriction on the disposal of plants to leases of not over five years duration was intended to prevent sale or long-term lease of these plants until the Congress had an opportunity to consider the plans of the Surplus Property Administrator. These plans were incorporated in the Administrator's report to the Congress of November 12, 1945. Since the Congress voiced no objection to the recommendations, they may be considered as established policy. The matter of short-term leases may also form the subject of discussion should the Embassy of Chile so desire.

WASHINGTON, May 21, 1946.

825.6374/5-2746

Memorandum by Mr. B. C. Brundage of the Division of North and West Coast Affairs ⁴⁷

[WASHINGTON,] May 27, 1946.

In a conversation with Mr. Burns,⁴⁸ CP, the following information was obtained:

1. At a Fertilizer Committee meeting of the CFB on the 22nd of this month, Señor Illanes,⁴⁹ representing Chile, threw a bombshell into the works by announcing that, instead of the contemplated 600,000 tons of nitrates to be shipped to the U.S. for the coming fertilizer year, Chile would promise the United States only 150,000 tons through December 1946 unless the United States is prepared to raise the OPA price ceiling;

2. There would seem to be some justice in Chile's desire to have the OPA price ceiling lifted in as much as they are selling their nitrates landed in Egypt at approximately \$100 per ton. OPA ceiling price is \$30 and has remained stable since 1942 although our farm prices have risen, as well as other types of prices;

3. A sizeable world deficit of nitrogen fertilizer (amounting to about 30%) has been predicted by the Fertilizer Committee. If the Army plan of bringing our surplus plants back into production is put into practice, this deficit will amount to about 15%. The Chileans know of this expected deficit. This gives them an appreciable bargaining position;

4. Should Chile press so hard as to raise the OPA ceiling too high, this may bring U.S. synthetics heavily back into competition for the

⁴⁷ Addressed to NWC, ARA, A-Br.

⁴⁸ Norman Burns, Consultant, Division of Commercial Policy.

⁴⁹ Mario Illanes, Chilean Commercial Counselor.

United States market, where they can undersell Chilean natural nitrate by 30%. Chile has probably studied this possibility carefully.

Fertilizer Committee meetings are going on practically all the time on this new issue, and it is expected that the matter will soon come to a head. A Departmental meeting on this level will probably take place this week for the purpose of discussing it as it may affect our particular problems.

825.51/5-2946

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

CONFIDENTIAL

SANTIAGO, May 29, 1946.

[Received June 5.]

DEAR SPRUILLE: I was so shocked by the A.P. story published under flaring headlines on the first page of *El Mercurio* which seldom misses an opportunity, through a subordinate who was pro-Nazi throughout the war, to create prejudice against the United States, creating the impression that we are bringing pressure on the Chilean Government to compel it to abandon its oil projects or to take in the Standard Oil, that I telegraphed the Department immediately. I know of the proposition of the Standard Oil and personally think it fair and that it should be acceptable here. In fact, when first submitted, Oscar Schnake, Minister at that time, was in complete sympathy with it. But that is a matter for Chile to decide and not for us to dictate, especially under pressure of Standard Oil, which justly or unjustly as you well know is a red rag to the average South American. I have since learned from the A.P. representative here that the A.P. report was doctored to make it even more unpalatable to the Chileans. Even so, it appears that some one in the Export-Import Bank or elsewhere leaked about the Standard Oil proposition and this is most unfortunate.

I have just read a report of the Petroleum Attaché⁵⁰ of my Embassy, located in Lima, in which I find the following:

Regarding the Standard Oil Company (New Jersey) proposal to develop Chilean oil reported in confidential airgram 28 from Santiago of January 24, 1946,⁵¹ Leonard McCollum, Director in charge of Jersey's foreign operations, told the Petroleum Attaché earlier this month that his company saw no objection to Corporación de Fomento developing Chilean oil with Chilean capital but that he would object and the whole management of Standard would look with disfavor on an American Government loan to help Chile develop its oil resources

⁵⁰ Olaf F. Sundt.

⁵¹ Not printed.

in competition with American private enterprise which has gone on record as willing to do so."

This apparently is a statement given to the Attaché by some stupid representative of the Standard Oil who does not realize that the days of Dollar Diplomacy are over, making way for the Good Neighbor Policy. The fact that Standard Oil has "no objection to Corporación de Fomento developing Chilean oil with Chilean capital" is most generous, but when its agent in Lima adds that it "would object and the whole management of Standard would look with disfavor on an American Government loan to help Chile develop its oil resources in competition with American private enterprise which has gone on record as willing to do so" smacks of the "good old days" which I am afraid are definitely gone. Of course, if Chile and Chilean capital can develop these, their own resources, it is their right under the Good Neighbor Policy.

I am not at all satisfied with the idea that the Petroleum Attaché of my Embassy dealing with vital matters within the jurisdiction of this Embassy should reach his own independent conclusions remote from the scene and send them, not to this Embassy which is responsible for our relations with this country, but directly on his own sole responsibility to the Department, merely sending us a copy. In my despatch No. 13,976 of May 16, 1946⁵² we set forth our views as to this policy and I am more than ever of the opinion that the views set forth in the last paragraph of that despatch are sound and that such a policy should be adopted. The oil matter is one of great political importance and interest here and reports should go from here where we are better able to view it from every angle which certainly is impossible from Lima.

In view of the law here prohibiting the Government from joining with foreign capital in the development of the oil field, if such there is, I reiterate that it would be wise in our opinion to make a loan for further exploration. Should the field prove to have reserves in excess of Chile's reasonable needs, I am convinced that Chile will be compelled to seek capital from some private company like the Standard Oil or a foreign bank and that the prohibitive law will be repealed to make this possible. But it would make it most difficult if the impression were created here that we are insisting that Chile take in Standard Oil as a condition for getting any help in the work of exploration. At the present juncture the less said publicly about Standard Oil the better.

Warmest regards.

Sincerely,

CLAUDE G. BOWERS

⁵² Not printed.

825.51/6-746: Telegram

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

CONFIDENTIAL

WASHINGTON, June 13, 1946—2 p. m.

307. Urtel 535 Jun 7.⁵⁴ For Embs confidential info Fomento petroleum loan still under consideration Eximbank but present opinion of Dept is that final consideration of loan will be based on following factors: (1) Overall position of Chile's indebtedness and future ability to pay requires that any additional loans be given special scrutiny, (2) Loans for petroleum exploration are essentially of a speculative nature. Hence such projects are much less likely to provide desirable feature of self liquidation, (3) This Govt not convinced that all possible sources of private capital have been adequately explored.

If you consider advisable you may communicate informally import of above to appropriate authorities.

ACHESON

825.51/6-1446: Telegram

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

SECRET

SANTIAGO, June 14, 1946—5 p. m.

[Received 10:00 p. m.]

559. I consider inadvisable communicate import of Deptel 307, June 13 to appropriate Chilean authorities. I fully sympathize with first factor referred to but regarding second factor, I feel that proposed small loan for proving field where petroleum has already actually been found, is only mildly speculative. Regarding third factor, utilization of foreign private capital impossible at this stage in view of existing Chilean legislation and public opinion.

My detailed views on petroleum loan are given in secret letter to Mr. Acheson⁵⁴ concerning policy and information statement forwarded today's pouch. I again urgently recommend granting of loan and wish to be on record as warning Department of far-reaching adverse political consequences if further funds in some amount to continue exploration are now denied.

BOWERS

⁵⁴ Not printed.

825.51/5-2946

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

SECRET

WASHINGTON, June 24, 1946.

DEAR CLAUDE: The attitude of Chilean public opinion, misled by the AP story referred to in your letter of May 29, seems most unfortunate. We believe that the Chileans should be told straight from the shoulder that in the discussion of this matter no agency of the United States Government has been or will be influenced by Standard or any other private petroleum interest. Roberto Vergara of Fomento has been told this by the Department. The Chilean government which over a period of years has irrefutable evidence of our good-will and sympathetic friendliness, should not permit to pass without comment public statements which are untrue, without a single factual basis and which, if unrefuted, may jeopardize the excellent relations existing between Chile and the United States.

Efforts of the Chileans to persuade us to grant this loan because of unfavorable publicity arising out of the Standard Oil Company story impress me as pretty close to blackmail. Should we yield to this type of pressure, a precedent which would plague us everywhere might be established.

Consideration among the interested agencies of the Chilean request revolves about the following factors:

1. *Preference for Private Investment:* It is the policy of the United States to look to private investment insofar as possible to provide such outflow of capital as is in the interests of the United States and other countries, and not to engage in government lending when private funds are available on reasonable terms. The burden is on Fomento to demonstrate that they have exhausted sources of private capital and have been unable to reach an agreement on reasonable terms.

2. *Ability to Repay:* Additional loans will not be granted before Chile's overall debt position has been reviewed and a determination made with respect to her ability to meet increased debt services.

3. *The International Bank:* The International Bank is regarded by the United States as the principal governmental agency to make foreign loans for development.

4. *Priority of Competing Chilean Demands:* As Chile's ability to service additional credits, and Exim Bank available funds are both limited, it is necessary that Chile establish a priority for competing demands, i.e., Petroleum, Railroads, Agriculture.

5. *The National Character of the Petroleum Industry:* Our petroleum policy must be designed to serve our interests not only in numerous other American Republics but also in Europe, the Near East and the Far East. The critical importance of petroleum to our military security, combined with increasing Soviet activity in producing regions in both the Western Hemisphere and the Near East compel us to exert

every practicable influence towards maintaining stability in all producing countries.

Since 1942 this Government has repeatedly refused to grant a loan to Mexico for petroleum exploration and development. Pemex, the operating agency of the Mexican Government in the petroleum industry has been a failure, operating on a deficit basis since it came into existence. It is not unlikely that within 18 months the Mexican Government will be forced to permit foreign capital to reenter the production field on the basis that sub-soil rights remain the property of the Mexican government. Should we grant the Chilean request the Mexicans would respond immediately and may be dissuaded from permitting the reintroduction of private capital.

In Colombia and Peru revision of Petroleum laws on a basis similar to the Venezuelan legislation is nearing completion. The Venezuelan situation itself is far from stable even now.⁵⁵ I am particularly reluctant at this time to approve a line of action for Chile incurring the risk of upsetting developments in Colombia and Peru which have thus far been favorable, and thereby perhaps endangering the stability of the vital Venezuelan industry. The War and Navy Departments consider the possibility of nationalization of Venezuelan resources a critically serious problem.

I believe it important that the Chileans understand that this Government is not endeavoring to use this request for a petroleum loan as a means of applying pressure to secure in Chile economic policies in conformity with our own philosophy of permitting the utmost freedom for private capital. It is the policy of this Government not to refuse to extend credits to countries merely on the ground that they are conducting state enterprises or on the ground that the enterprises to be assisted are in greater or lesser degree controlled by the foreign government. Consideration of the Chilean request will center about the other factors discussed in the five numbered paragraphs of this letter, including our particular interests in the world petroleum situation.

In our relations with Chile in recent years Chile has had ample proof—financial, economic and otherwise—of the genuineness of our friendship. I hope you will agree that it is up to Chile, as well as to the United States, to recognize the sincerity of that friendship.

The Exim Bank has not as yet ruled on the Chilean request. We will inform you when a decision has been made.

Sincerely yours,

SPRUILLE BRADEN

825.51/7-1146

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

SECRET

SANTIAGO, July 11, 1946.

DEAR SPRUILLE: I have your letter of June 24th setting forth in detail our policy in reference to the petroleum matter. It is in ac-

⁵⁵ For documentation on this situation, see pp. 1330 ff.

cordance with my understanding of our policy. But there is one sentence in your letter which indicates that you are under an entirely erroneous impression as regards the Chilean Government. You say that "efforts of the Chileans to persuade us to grant this loan because of the unfavorable publicity arising out of the Standard Oil story impress me as pretty close to blackmail". I have [not] seen nor heard anything indicating any such thought on the part of the Chilean Government. The bad effect of the publicity regarding Standard Oil is not with the Government but the uninformed man on the street who might easily be impressed by the enemies of the United States, Nazis, Fascists, pro-Argentineans and Franco Falangists making use of the story. There was at the time some gossip about the possibility that Perón might take advantage of the situation to offer a loan but this was not heard by me in any official quarter. It was gossip I am sure the Department should have. I am sure the A.P. story as worded was unfortunate for domestic consumption here.

The Rightists are still balloting with Cruz Coke⁵⁶ in the lead but with the possibilities so numerous that it is futile to report in detail. When the nomination is made I shall write you in full such observations as may occur to me.

Warm regards.

Sincerely,

CLAUDE G. BOWERS

825.6374/7-1246

The Chilean Ambassador (Mora) to the Secretary of State

MEMORANDUM

The Ambassador of Chile has duly informed his Government of the meeting held at the Department of State on July 2nd 1946, for the purpose of discussing compliance with the Agreement set forth in the letter dated March 5th, 1945,⁵⁷ concerning the sale or lease of the synthetic nitrate plants owned by the United States Government and sent by the then Secretary of State, Mr. Edward Stettinius to the Minister of Foreign Affairs of Chile, señor Joaquin Fernández, during the Chapultepec Conference.

Following the developments at the meeting of July 2nd, 1946, Mr. Mora advised his Government that, on that occasion, Mr. Willard Thorp⁵⁸ declared himself not to be in accord with the opinion held by the Chilean Government on the matter, recorded by the Chilean Ambassador in verbal notes to the Department of State and viva voce at this meeting.

⁵⁶ Eduardo Cruz Coke, Senator.

⁵⁷ *Foreign Relations*, 1945, vol. IX, p. 795.

⁵⁸ Deputy to the Assistant Secretary of State for Economic Affairs.

In this connection, the Government of Chile considers that the letter from Secretary of State Stettinius to Minister Fernández, written at the time of the Chapultepec Conference, clearly establishes that the negotiations for the sale or lease of synthetic nitrate plants owned by the Government of the United States will not be carried out without previously consulting the Government of Chile on the terms of sale or lease, in order to determine whether or not the terms of sale or lease would constitute an aid or subsidy to the purchaser, which would open the way to unfair competition with the Chilean nitrate industry.

The Chilean Government is confident that the opinion advanced by Mr. Thorp contrariwise to that of the Chilean Ambassador, does not reflect the definite feeling of the Government of the United States regarding this delicate problem.

A fundamental basis for believing that ultimately the Government of the United States will come to the same conclusion as that of the Government of Chile regarding the scope of the Letter-Agreement referred to, is precisely the declaration made by the Assistant Secretary of State, Mr. William Clayton, on April 20, 1945, before the Ways and Means Committee of the House of Representatives, in connection with the discussions regarding the extension of the Reciprocal Trade Agreement. At that time, Mr. Clayton, who at Mexico City negotiated directly with Minister Fernández the Agreement set forth in the letter of March 5, 1945, stated to the Ways and Means Committee the following:

“Point No. 2 was that if the Government did not operate the plants but decided to sell them to private interests who would operate them for commercial purposes, and if the terms of such sale or lease should be of a character which would grant to the purchaser or lessee a subsidy in the operation of the plants, that before doing so we would sit down and discuss that matter with the Chilean Government”.

It is evident that the Agreement reached in Mexico City must have been made on the basis that the consultation and studies to be conducted between the Governments of Chile and of the United States, regarding the terms of sale or lease of synthetic nitrate plants, would take place before the Government of the United States would enter into negotiations for these transactions, for, otherwise, the Agreement would be ineffective and consequently purposeless. In fact, were the referred to consultations and studies of the terms of sale or rent of the plants, to be carried out after the corresponding negotiations are closed by the Government of the United States, this Government would then have no means of legally annulling the negotiations and would not be in a position to compensate for the damage caused by

these negotiations to Chilean economy, even though the Chilean Government would afterwards advise that its interests had been affected.

The Chilean Ambassador has received precise and definite instructions from his Government to request from the Secretary of State a clear and frank statement on this question, which is considered fundamental before carrying on the discussions with the meeting presided by Mr. Willard Thorp.

The Chilean Government is confident that the Secretary of State will find it proper to take into consideration the points set forth in this memorandum in order to find a solution for the matter in the spirit of equity which has always existed in the relations between Chile and the United States, and with the high concept of loyal fulfillment of previous agreements which has constituted the soundest basis of good friendship and reciprocal trust prevailing in the commercial operations between the United States and Chile.

The Chilean Government, furthermore, has instructed the Chilean Ambassador to bring to the notice of the Secretary of State that, although it has noted the rapidity with which the negotiations concerning the sale or lease of synthetic nitrate plants owned by the United States Government have been conducted, it will refrain from continuing discussions as to the terms of these negotiations, until there is a definite statement by the Secretary of State on the points raised in this memorandum.

WASHINGTON, July 12, 1946.

825.6374/7-1246

The Acting Secretary of State to the Chilean Ambassador (Mora)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Chile and has the honor to acknowledge receipt of his memorandum dated July 12, 1946 presenting the interpretation given by the Government of Chile to the letter written by the then Secretary of State of the United States to the Minister of Foreign Affairs of Chile at Mexico City on March 5, 1945.⁵⁹

At a meeting between the Ambassador of Chile and Assistant Secretary of State William L. Clayton on July 26, 1946, Mr. Clayton set forth the official views of this Government. Representatives of the War Assets Administration were present at the meeting.

This Government concurs in the view of the Chilean Government that the letter of March 5, 1945 does in fact commit the United States Government to consult with the Chilean Government before taking final action on the disposal of its synthetic nitrate plants to private

⁵⁹ *Foreign Relations*, 1945, vol. ix, p. 795.

interests. The disposal of four plants without prior consultation is sincerely regretted.

As the Ambassador of Chile was informed on July 26, 1946, this Government is prepared to consult with Chilean Government prior to the disposal of all of the remaining plants, but the period for consultation on the Lake Charles plant could not be extended beyond two to three weeks from that date. At that meeting, the Ambassador of Chile was given the proposed terms of lease of the Lake Charles plant.

This Government is prepared to make available to the Government of Chile all pertinent information with respect to the four plants already disposed of, and the Lake Charles plant as well. In this connection, it should be noted that members of the Chilean Embassy received the terms of lease or sale and the details of cost appraisal of three plants on July 3, 1946 and were invited to be present at the opening of bids for two others. The documents were classified as confidential.

It is pertinent to refer to this Government's views, expressed by Mr. Clayton, concerning the nature of the consultation required in advance of disposal of plants. The consultation to be had with the Chilean Government is with a view to preventing unfair competition with the Chilean nitrate industry which might arise if the terms of sale or lease should in fact constitute a subsidy. Should it be the considered judgment of this Government that terms in a given instance do not constitute a subsidy, this Government would not be precluded by the letter from disposing of the plant in question, once consultation had been held.

In conclusion the Acting Secretary of State desires to assure the Chilean Ambassador that this Government will continue to approach the problem of nitrate plant disposal in a spirit of sympathetic interest and sincere cooperation.

WASHINGTON, August 9, 1946.

825.51/8-1546

*The Assistant Secretary of State for American Republic Affairs
(Braden) to the Assistant Secretary of State for Economic Affairs
(Clayton)*

CONFIDENTIAL

[WASHINGTON,] August 15, 1946.

On the basis of an inquiry addressed to the Department by the National Advisory Council, the Office of Financial and Development Policy has reopened the question of an Exim Bank loan to Chile for petroleum exploration and development.

In our previous discussion of this I believe we both were in agreement that the Department should strongly oppose such a loan.⁶⁰

The two most important considerations which influenced my thinking on the matter then, as now, are: (1) the inadvisability of using public funds for purposes as tenuous as petroleum exploration and development, and (2) the repercussions of such a loan in Mexico, Venezuela, Peru and Colombia where our interests are not only political and economic but also involve national security. There is, furthermore, to be considered the implications of our petroleum policy in other areas of the world.

S. B[RADEN]

825.51/8-1646

Memorandum of Conversation, by the Acting Deputy Director of the Office of American Republic Affairs (Trueblood) and by Mr. Alexander Schnee of the Division of North and West Coast Affairs

SECRET

[WASHINGTON,] August 16, 1946.

Participants: ARA—Mr. Trueblood ED—Mr. Scanlan
 NWC—Mr. Schnee ED—Mr. Stenger
 OFD—Mr. Ness
 FN —Mr. Corliss
 ED —Mr. Sumner

Mr. Ness, as you will recall, was formerly with the Treasury Department and later went over to the Eximbank, hence is familiar with bank matters and policy. In April of this year, he visited Chile and has a keen interest in Chilean affairs as well as first-hand knowledge gained from his recent visit.

The OFD participants in the meeting were most interested in discussing the considerations other than purely economic on which the political divisions based their objections to the subject loan. Mr. Schnee and I put forth ARA's position, and then the OFD representatives took the part of the Devil's advocate (as they described it) in attempting to bring out inconsistencies or difficulties in the ARA position which, as stated in the meeting, may be summarized as follows:

- (1) Reservations as to the ability of Chile to assume additional foreign obligations;
- (2) Strong doubt as to the propriety of using public funds for purposes as tenuous as petroleum exploration;
- (3) The impact which the granting of such a loan would have on

⁶⁰ In a memorandum of August 23, 1946, Assistant Secretary Clayton expressed agreement with the conclusion in this memorandum (825.51/8-1546).

our petroleum interests in Mexico, Venez., Peru, Col. and other petroleum areas.

The facts as set forth were similar to those included in Mr. Braden's letter to Ambassador Bowers on the subject; and, as we are all familiar with them, they need not be repeated here.

The discussion of the main points raised by officers of OFD was as follows:

(1) *Petroleum Development as a Solution to Chile's Critical Exchange Position.* So far as the officials who had studied the matter could ascertain, petroleum offered almost the only prospect of being an economic lifeline to Chile in the near future. If oil could be developed on a commercial scale in Chile, it would be possible for Chile to save an amount estimated at some ten million dollars a year in foreign exchange. Mr. Ness, while admitting that it was not yet established that oil was present in Chile in commercially exploitable quantities, seemed to attach great significance to this factor. He was very frank to admit that unless this comes to pass, Chile's economic future is dim, to say the least. There was thus a general tendency on the part of those present to regard the petroleum credit as of paramount importance in determining Chile's economic future and welfare. This seemed to weigh strongly with those of OFD in their views on the Eximbank credit to Chile since they felt this offered the only avenue for bolstering up Chile's economy and making it possible for that country to restore its credit and bring its balance of payments into equilibrium.

In reply we stated that it had not been demonstrated that the refusal of a public United States loan would mean the end of petroleum exploration in Chile. To the contrary, the Chileans have assured us that they would go ahead with the program, with or without our assistance. Furthermore, until the precise extent of Chile's petroleum resources is determined, their potential bearing on the Chilean exchange position cannot be determined.

(2) *Strategic Importance of the Chilean Petroleum Industry.* The argument was advanced that these reserves are strategically important due to (a) their physical location and (b) the dwindling supplies of domestic petroleum. The strategic importance of these reserves appears to be a matter on which only the Army and Navy could give a definitive answer. In setting forth ARA's viewpoints, the importance of maintaining stability in the strategically important Venezuelan reserves was stressed.

(3) *Alternate Sources of Financing which Might Be Made Available to the Chilean Government.* The economic officers stressed the fact that the Chilean petroleum industry had been nationalized for a considerable length of time and they are inclined to take seriously the view that it is politically inexpedient for the Chilean Government to attempt to reverse this policy. They therefore foresee the possibility that Chile will resort to financing by other governments, as, for ex-

ample, Argentina or Switzerland. ARA representatives took the view that the Chileans were perhaps more fully aware than are we of the implications of an Argentine petroleum loan. With respect to financing from any other nation, or, for that matter, from private capital sources in the United States or elsewhere, the United States would have no basis for opposing such a transaction. There is a difference between a loan from private sources for the nationalized petroleum industry and an official loan from the United States Government. The economic officers appear to be concerned with the fact that the opposition to this loan, because of the nationalized character of the industry, represents a departure from the general policy, which is not to withhold loans on this ground.

(4) *The question of consistency* was raised in view of the fact that we had already granted five hundred thousand dollars for exploration of Chilean petroleum resources and much larger sums to Bolivia for petroleum exploration and development.

(5) The question was raised whether, if we refuse this loan, consistency would not *prevent us from granting any loans to Foreign governments for oil exploration*. Mr. Schnee took the position that, while refusal of this loan would tend to dissuade us from making loans to foreign governments for exploration in a completely nationalized petroleum industry, such action would not necessarily prevent us from making a loan for the development of national oil fields when the government was not exercising a monopoly but merely operating its fields in competition with private interests. A request for a loan of this type would have to be considered on its own merits.

825.6374/8-2046

The Acting Secretary of State to the Chilean Ambassador (Mora)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Chile and has the honor to refer to the Chilean Embassy's memorandum of August 20, 1946⁶¹ relating again to the disposal by this Government of its synthetic ammonia plants and, in particular, to the negotiations for the transfer of the Lake Charles plant.

There will be discussed below the principal points raised in the memorandum of the Chilean Embassy with respect to the terms of lease of the Lake Charles plant and also the general observations made therein regarding the terms of disposal of those ammonia plants which have already been transferred.

At the outset, however, it is desired to inform the Chilean Government that a change has been made in the award of the Lake Charles lease from the Hercules Powder Company to the Mathieson Alkali Works, Incorporated. The Department of State has been informed by the War Assets Administration that this is a simple change in the

⁶¹ Not printed.

identity of the lessee only, and that the rental terms are identical with those which had been offered to the Hercules Powder Company. In view of this fact, the Department of State does not consider the change in award to be a factor affecting the consultations with regard to the disposal of the Lake Charles plant which have been held with the Chilean Government.

The Chilean Government maintains that the fair value established for the Lake Charles plant is too low for a plant in the condition of, and having the productive capacity of Lake Charles, and that the rentals proposed are inadequate. It refers to a price of \$8,000,000 having been used as a basis for the proposed lease of the plant, this price having been called *fair value*. It is pointed out in the memorandum that this figure represents only 59 per cent of the original cost of the project.

It is true that a preliminary fair value of \$8,000,000 to \$9,000,000, based on an appraisal made several months ago, was originally applied by the War Assets Administration to the plant under discussion. However, as of September 1, 1946, and without including the cost of any new facilities that may be added, a fair value of \$9,534,700 for the Lake Charles plant was established by War Assets Administration Appraisal Division. As stated in the Department's note of May 21, 1946, a computation of fair value starts with present normal reproduction cost as the base, allowances being made for depreciation and other factors mentioned below. Employing the value of \$9,534,700, it will be observed that this amounts to over 70 per cent of the original cost of the project. The fact that fair value is nonetheless appreciably less than original cost is not surprising and is to be expected in the case of plants built by this Government during the war under conditions of excessive wartime costs, and in view of the scientific and economic obsolescence of such plants. Giving full weight to these facts, this Government is convinced that a fair value for the Lake Charles plant of 70 per cent of cost is reasonable.

The Chilean Government assumes that the option price of the plant in question will be \$5,600,000. This assumption is not in accord with the facts. The option price will be whichever of the following methods of calculation yields the higher return to this Government:

(A) Fair value (\$9,534,700), plus the cost of any additional facilities paid for by the Government, plus interest on the aggregate sum of 4 per cent per annum, less rentals plus interest at 4 per cent per annum;

(B) Fair value (\$9,534,700), plus the cost of any additional facilities paid for by the Government, less depreciation at the rate or rates permitted by the Bureau of Internal Revenue on similar facilities in computing federal income taxes;

Provided, that the minimum residual value at time of exercise of the option shall be 25 per cent.

The United States Government does not concur in the position taken by the Chilean Government that the price should not differ appreciably from what it would cost a private concern to build at the present time a plant similar to that of Lake Charles. There is no obligation on the part of the War Assets Administration to place a valuation on the surplus plants in that manner. If such a formula were adopted to establish fair value for this Government's surplus property of all kinds, or merely for its surplus industrial properties, the conclusion is inescapable that for all practical purposes there would be no disposal of surplus property.

The criterion referred to in the preceding paragraph, which the Government of Chile now suggests should be used for determination of fair value, appears to be at variance with the position taken heretofore with regard to this matter. The Chilean Government will recall that in its note of March 4, 1946 the following statement was made:

“. . . the Government of Chile feels that it has a perfect right to insist upon the following:

“1) That the transfer of the nitrogen plants to third parties shall be made strictly in conformity with the conditions established by the Surplus Property Board in Special Order No. 19 of September 7, 1945, which provides the manner of fixing ‘a fair sales price’.”

Special Order No. 19 (as revised January 16, 1946) in substance reads as follows: “. . . the disposal agency shall obtain a written estimate of the fair value of the property. The fair value shall be considered to be the maximum price which a well-informed buyer, acting intelligently and voluntarily, would be warranted in paying if he were acquiring the property for long-term investment or for continued use with the intention of devoting it to a profit-making purpose which represents the most productive type of use for which the property is suitable . . . Neither the original cost to the Government nor the characteristics or readiness to buy of any particular prospective purchaser shall be taken into account.”

The United States Government gave assurances to the Chilean Embassy that Regulation No. 10, to which objection was raised, was merely permissive and not mandatory, and that the War Assets Administration intended to adhere strictly to Special Order No. 19 for the fixation of fair value of the surplus ammonia plants.

The Acting Secretary of State is confident that the surplus ammonia plants already disposed of have been transferred in accordance with Special Order No. 19 and that fair value has been obtained. He is likewise confident that the transfer of the Lake Charles plant, which is the main subject of the Chilean Embassy's memorandum, is now being carried out in accordance with Special Order No. 19 and that fair value is being received. In the case of the Lake Charles plant,

the terms finally granted are, in the opinion of this Government, the maximum that could be obtained. All of the surplus ammonia plants, including Lake Charles, were widely advertised for a period of many months. Prospective buyers or lessees had full opportunity to submit bids. It may not be denied, as the Chilean Embassy's memorandum contends, that the minimum rental offered by du Pont was higher than that offered by the other bidders, but this Government is of the opinion that the actual rental, as distinguished from the minimum rental, which would have been received under the du Pont formula would have been less than that which is expected under the terms of the lease that is being concluded.

The Chilean Government states in its memorandum referred to previously that, in its judgment, the price of the Lake Charles plant should not be fixed below \$12,000,000. In this connection, it is significant that the Anglo-Chilean Nitrate Corporation of New York City was invited by telegram of July 1, 1946 to submit a bid on the plant to the War Assets Administration, but no bid was submitted. The Department of State has been informed that if the Anglo-Chilean Nitrate Corporation or any other company had submitted a bid to purchase, it would have received careful consideration by the War Assets Administration. The Government of Chile may be assured that if such a bid had been submitted by the Anglo-Chilean Nitrate Corporation, that organization might have been able to purchase the plant at a figure considerably less than the \$12,000,000 which the Chilean Government now suggests as fair value.

This Government does not believe that the reduced rentals during the first three years of operation of the Lake Charles plant will concurrently have any adverse effect upon the Chilean nitrate industry. All available information supports the conclusion that there will be a market at excellent prices for all the fertilizer which is likely to be produced during this period. Moreover, reduced rentals for the first three years are justifiable in consideration of the fact that it will require some time to construct the necessary facilities for the production of synthetic nitrogenous fertilizer and before production of a new company in the fertilizer industry may be expected to reach a normal level of efficiency. It is reasonably certain that insistence upon rentals at a higher figure for this period would have dissuaded prospective purchasers or lessees from submitting bids and would have required the ultimate disposal of the plant upon terms less favorable to the Government than those now being secured.

The figures set forth in the Chilean Embassy's memorandum of the quantity of American nitrates which may be exported from the surplus ammonia plants are considered inordinately high. Only two plants, Dixie and Lake Charles, are located where export shipment would be economically feasible. After the present fertilizer shortage has been

satisfied, Dixie is expected to produce mainly industrial nitrogenous products and methanol. Lake Charles will probably continue to meet a part of the domestic fertilizer needs.

This Government made a commitment at Mexico City which, in substance, required consultation with the Chilean Government if the terms of transfer of the plants were such as to constitute a subsidy or other unfair competition. Subsequently, assurances were conveyed to the Chilean Embassy that the War Assets Administration would exercise every precaution with a view to obtaining maximum prices for these plants in accordance with the definition of fair value set forth in Special Order No. 19, and that particular care would be taken to see that the disposal of the plants is carried out in conformity with the understanding reached at Mexico City. Finally, the Chilean Government was recently assured that this Government was prepared to consult regarding the terms of transfer of the Lake Charles plant prior to disposal, and is willing to consult hereafter with respect to the plants not yet disposed of.

In recent consultations between the Chilean Ambassador and the then Assistant Secretary of State, it was agreed that consideration would be limited to questions regarding subsidization or unfair competition. The representatives of the Chilean Government have had an opportunity to examine fully the terms of disposal of the Lake Charles plant and of the four others already transferred. The Government of the United States, for the reasons already stated herein, is of the opinion that the terms of disposal of the Lake Charles plant do not constitute a subsidy or provide unfair competition to the Chilean nitrate industry. Furthermore, it is convinced that the transaction has been consummated in harmony with the understanding reached at Mexico City. In the circumstances, the Acting Secretary of State does not feel that sufficient grounds exist for requesting the further postponement of the disposal of the Lake Charles plant and, consequently, the War Assets Administration has been so informed.

WASHINGTON, September 10, 1946.

825.51/10-146

Memorandum by Mr. Alexander Schnee of the Division of North and West Coast Affairs ⁶²

[WASHINGTON,] October 1, 1946.

Mr. Vergara of the Chilean Fomento Corporation called to provide me with a list of the proposed expenditures of the \$15,000,000 credit authorized for Chile by the NAC.

⁶² Addressed to NWC.: Mr. Brundage, Mr. Hall, and Mr. Wells, and to A-Br.: Mr. Smith.

The proposed division of the use of the \$15,000,000 credit is as follows:

| | |
|---------------------------------------|------------|
| 1. Chilean State Railways—\$5,000,000 | |
| 2. Fomento Corporation—\$11,100,000 | |
| hydroelectric projects | \$ 900,000 |
| transportation | 1,540,000 |
| agricultural machinery | 3,200,000 |
| copper wire plant | 800,000 |
| cement plant | 550,000 |
| petroleum | 2,500,000 |
| construction | 1,610,000 |

You will note the inclusion of \$2,500,000 for the petroleum industry in the above list. Roberto Vergara strongly advocates the granting of this loan in order that this question might be resolved without the friction which might be engendered by an unfavorable press. He expressed a willingness to reduce this request by a million dollars if it would permit the State Department and other interested agencies to look favorably upon the request. I informed Mr. Vergara that, in view of the long period of cooperation between Chile and the United States on the subject of the development of the Chilean economy and in view of the large credits extended by the Eximbank, I did not believe the Chilean Government would permit its people to be misled by false reports such as characterized Chilean press notice on this subject during the months of May and June.

Mr. Vergara is of the opinion that Mr. Gaston,⁶³ one of the Eximbank directors, is favorably disposed towards granting Chile a petroleum loan with the understanding that no more will be granted by the Eximbank and that future requests by Chile for assistance in the exploration of petroleum resources will be addressed to the International Bank. Mr. Vergara believes that Mr. Martin,⁶⁴ while objecting to the loan in principle, would be willing to favor the loan on the same basis that Mr. Gaston would.

It is suggested that the United States should not give way before this threat of public pressure and that the Department should vote against the granting of a petroleum loan when the subject is raised at the Eximbank. An itemized list of the proposed expenditures is attached.⁶⁵

⁶³ Herbert E. Gaston, Vice Chairman of the Board, Export-Import Bank.

⁶⁴ William McChesney Martin, President and Chairman of the Board, Export-Import Bank.

⁶⁵ Not printed. The following notations appear at the end of this memorandum: "By all means. CCH[all]" and "Agree M. K. W[ells]."

FW 825.6374/11-1846

*Memorandum of Conversation, by Mr. Alexander Schnee of the
Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] December 2, 1946.

Participants: CP—Mr. Turkel
Mr. Gray
Mr. Irvine
IR—Mr. Pauley
A-Br—Mr. Smith
NWC—Mr. Schnee

It was the unanimous opinion of all the officers at the meeting that the Department's reply to the Chilean Note of November 18⁶⁶ should be in the form of a brief reaffirmation of the position taken by the Department in its Note of September 10 (denying that the plants were disposed of on terms which constitute a subsidy).

All present agreed that the United States had lived up to the spirit of its commitments under the terms of the Mexico City letter, although we were lax in not having undertaken discussions with the Chileans before the disposal of any of the plants. It was further agreed that a decision to terminate these negotiations with a brief reaffirmation of our position would be in accordance with the understanding of our commitments as outlined to the Chilean Ambassador by the Undersecretary for Economic Affairs at an early meeting on this subject.

A brief reply is suggested in order that the Chileans may be dissuaded from continuing the discussions which have thus far afforded them an excellent opportunity of gleaning information which would not otherwise be available about some of their post-war competitors.

Mr. Pauley of IR is drafting a reply.⁶⁷

⁶⁶ Not printed.

⁶⁷ A note, based on the recommendation in this memorandum, was addressed to the Chilean Chargé on January 2, 1947 (825.6374/11-1846).

COLOMBIA

POSITION OF THE UNITED STATES WITH RESPECT TO THE SUPPLY OF ARMS TO COLOMBIA ¹

821.248/1-846

*Memorandum of Conversation, by Mr. Bainbridge C. Davis of the
Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] January 8, 1946.

Participants: Señor Don Carlos Sanz de Santamaria, Ambassador of
Colombia
Joseph Flack—NWC
Bainbridge C. Davis—NWC

Ambassador Santamaria called to take leave before accompanying General Arnold ² to Bogotá later this week. He will spend only a day or so in Colombia before returning to Washington. Dr. Santamaria indicated to Mr. Davis and subsequently to Mr. Flack that he felt that during the few months that he has been in Washington, he has failed to attain any of the important objectives sought by his government. Specifically he referred to his inability to obtain tires, demilitarized PBY-5A planes, C-47 transport planes ³ or our (present) support for Colombia for the Economic and Social Council.⁴

With respect to C-47's, Ambassador Santamaria was reminded that the Colombian Government had decided not to purchase the C-47's available from surplus in view of General Walsh's ⁵ suggestion that similar planes in better condition eventually could be secured in implementation of staff conversations. With reference to the PBY's, Mr. Davis referred to the strenuous efforts which Ambassador Wiley had made to assist Colombia in securing PBY's and told Ambassador Santamaria that he would check further with the Navy Department to see whether there was any possibility of obtaining such planes at this time. (See subsequent memorandum of telephone conversation

¹ For documentation on defense problems of 1945 in Colombia, see *Foreign Relations*, 1945, vol. ix, pp. 846 ff.

² Gen. Henry H. Arnold, Commanding General, Army Air Forces.

³ Naval patrol bombers and transport planes.

⁴ For documentation on membership in ECOSOC, see *Foreign Relations*, 1945, vol. i, pp. 1510 ff.

⁵ Maj. Gen. Robert L. Walsh, United States Army Air Forces.

of January 8^e between Mr. Davis and Captain Saunders of the Navy Department, which indicates that Navy does not intend to declare surplus, within the near future, any PBY's fit for service.*)

Ambassador Santamaria realized that the Department had agreed to go as far toward supporting Colombia on the Economic and Social Council as its prior commitments would permit.

821.248/1-1046

*Memorandum of Conversations, by Mr. Bainbridge C. Davis of the
Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] January 8-9-10, 1946.

Participants: Captain Saunders, Aide to Mr. Sullivan, Assistant Secretary of Navy for Air
Bainbridge C. Davis—NWC
and subsequently
Vice Admiral Ramsey, Assistant Chief of Naval Operations
Bainbridge C. Davis—NWC

During Ambassador Santamaria's farewell call upon me today before his departure for a brief visit to Colombia, he referred to his failure to secure two demilitarized PBY-5A amphibian planes for the Colombian Air Force. I informed Ambassador Santamaria that I would make a further check to see whether any such planes would be secured at this time and accordingly called Captain Saunders (Navy extension 4590). I referred to the fact that Ambassador Wiley had talked to Secretary Forrestal⁷ about this during his period of consultation in Washington in November and subsequently both Ambassador Wiley and I had discussed the matter with Captain Saunders. He recalled the matter, and after discussing the situation with Admiral Spears (Director of Pan-American Affairs and United States Naval Missions) and Admiral Greer (who is about to succeed Admiral Spears), informed me as follows:

A few PBY's have been declared surplus and will trickle in from various parts of the world but are in such bad condition that the Navy Department will declare to the Surplus Property Administration that these planes are "uneconomical of repair". Captain Saunders would recommend that the Colombians not be encouraged in any way to obtain these planes because, while it might be possible for American

* Not printed.

*—although subsequent conversations with Adm. Ramsey recorded at end of that memo indicates possible reconsideration. [Footnote in the original.]

⁷ James Forrestal, Secretary of the Navy.

crews with considerable experience to fly them safely after reconditioning, Colombian crews would almost certainly have unfortunate experiences with them. He added that, while at one time it appeared that there would be a considerable number of surplus PBY's, the Navy's plan to use this type of plane for pilot training has changed the picture and it is not intended in the near future to declare surplus any PBY's in useable condition. (While Captain Saunders was not able to predict how long this condition would continue, he indicated, in response to my question, that it would almost certainly be true for at least the next six months.)

I informed Captain Saunders of a recent exchange of telegrams between the Department and the Embassy at Bogotá (Bogotá's 1490 of December 18, 1496 of December 19, and Department's 1136 of December 27⁸), which indicated the availability of PBY's in Canadian surplus. Captain Saunders suggested that the Colombians be advised to obtain them from Canada; and when I referred to the great stress which War and Navy had been placing upon the need for "standardization" of the military forces of this hemisphere, he replied that as these planes were of the same type and made by the same manufacturer, although in Canadian factories, he saw no objection to suggesting this source to the Colombians.

On January 9, before I had an opportunity to inform Ambassador Santamaria of the result of my conversation with Captain Saunders, the Captain phoned me again to state that developments were taking place at high levels which might result in the release of two PBY's to Colombia. He explained that Ambassador Wiley had written to the Honorable William Bullitt⁹ regarding the importance of making good our promises to secure two PBY's for the Colombian Government. Mr. Bullitt had taken up the matter with very high officials of the Navy Department and Vice Admiral Ramsey, Assistant Chief of Naval Operations, was exploring means of obtaining these two planes.

Later on January 9, Vice Admiral Ramsey telephoned me to say that he understood that Colombia was in great need of two demilitarized PBY's and that it would be possible to make available these two planes. However, he understood that there were a considerable number of requests from other countries for PBY's (such as fifteen for Brazil and twelve for Chile) and that it would not be possible to accede to these other requests. Therefore he wished to know whether the State Department approved of the release of the two PBY's to Colombia on

⁸ None printed.

⁹ Former Ambassador to the Soviet Union and to France.

this basis. I replied that while we were anxious to assist Colombia in obtaining the two planes which had been promised and then denied through a series of unfortunate misunderstandings, I was not in a position to make a decision with regard to the other countries involved. I told Admiral Ramsey that I would like to consult Mr. Briggs¹⁰ or Mr. Braden¹¹ and then inform him by telephone of our decision. He agreed to this procedure.

January 10, 1946

After consultation with Mr. Briggs, Mr. Flack, Mr. Wells¹² and Mr. Dreier,¹³ I telephoned Admiral Ramsey to inform him that in view of the circumstances surrounding the Peruvian request for three PBY's,¹⁴ it was the feeling of this Department that it would be politically inadvisable to supply two of these planes for Colombia without being ready to supply the three which the Peruvian Government had previously sought. Admiral Ramsey stated that it was his impression that Brazil and Chile wanted fairly substantial numbers, but I replied that our Aviation Division, our Division of Brazilian Affairs, and the Chilean desk officer had no knowledge of any such requests. And I suggested that these figures might refer to the proposed allocation resulting from staff conversations. I asked if I was correct in understanding that the proposal to release planes for Colombia was entirely separate from the staff conversation procedure (although it might, of course, make unnecessary the granting of additional PBY's under that procedure) and Admiral Ramsey confirmed this. The Admiral stated that with regard to Peru, it was his impression that the cooperation received by, and effectiveness of our Naval Aviation Mission to Peru was not all that had been hoped for and that we are now considering the withdrawal of this mission. Under these circumstances, the Admiral did not believe that there would be a favorable disposition toward the release of PBY's to Peru. I stated that I was not familiar enough with Peruvian matters to comment on this subject, but that it was felt here that it would not be wise to release PBY's to Colombia and not to Peru because of the similarity of the two cases and that if these five could be made available, we felt that we would not be in a similar position with respect to requests which might be received from any other country in this hemisphere. In other words, we were limiting our request to five. Admiral Ramsey indicated that the reason for Navy's present efforts to meet the Colombian

¹⁰ Ellis O. Briggs, Director of the Office of American Republic Affairs.

¹¹ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

¹² Milton K. Wells, Assistant Chief of the Division of North and West Coast Affairs.

¹³ John C. Dreier, Chief of the Division of American Republics Analysis and Liaison.

¹⁴ For documentation on the allocation of planes to Peru, see pp. 1206 ff.

demand was the direct result of a letter which Ambassador Wiley had written to Mr. Bullitt and the letter which Mr. Bullitt had thereupon written to Secretary Forrestal.

Admiral Ramsey promised to keep the two planes available for Colombia, pending an investigation as to the possibility of making available others for Peru, although he was not optimistic on this point.

I mentioned to Admiral Ramsey that this morning the Departmental Advisory Committee on Surplus Aircraft Disposal had reported the availability in Seattle, Washington, of ten PBY-5A's in surplus; that three of these had been allocated to a United States veteran for domestic use; and that the remaining seven were still presumably available. I suggested that if these were not in unuseable condition, this might solve our problem for Colombia and Peru. The Admiral called me back in a few minutes to say that he had checked on the Seattle planes and that they were in such bad condition that they should not be made available to any foreign government.

When Admiral Ramsey called me this second time, he stated that he had found himself confronted with the additional difficulty that the Bureau of Aeronautics would have to spend a considerable sum of money reconditioning planes to replace those made available to Colombia, etc., and that he hoped that the Judge Advocate General's office would find a legal way in which funds from the sale could revert to the Bureau of Aeronautics rather than to the Treasury Department, inasmuch as the Bureau was already suffering from restriction of funds. He mentioned this only as an additional problem and stated that he would continue his efforts to be helpful in the matter.

821.248/1-1146 : Telegram

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

SECRET

WASHINGTON, January 11, 1946.

24. In conversation January 8, Assistant Secretary Braden agreed with General Arnold to approve interim allocation of military aircraft to Colombia as follows: 2 PBY's or OA-10's, 8 B-25's, 25 P-47's, 3 C-47's, 2 C-45's, 5 AT-11's, 2 AT-6's, 15 PT's.¹⁵

Approval of this interim allocation is subject to your concurrence and to views of Colombian Govt should it not wish to receive full number approved by you. (For example Colombia has not to our knowledge requested bombers and we certainly are not seeking to

¹⁵ The B-25's and P-47's were bomber planes; the remainder were transport planes.

promote demand for military aircraft. Bombers were included by War Dept for Colombia apparently because requested by Venezuela, Peru, and Chile.) Approximately the same number of tactical planes (P-47's and B-25's) have been allocated to Colombia, Peru and Chile, with a smaller allocation to Venezuela.

It was further understood that any "implied commitment" on the delivery of planes to other American republics resulting from staff conversations will be discharged when planes in interim allocation are made available. No further allocations of military planes to other American republics will be made until State and War Depts review and agree on basic policies of program of military collaboration.

No decision as to exact price for planes has as yet been made, but combat planes will probably be made available at low figure, and prices will be same to all countries. Dept has recommended that General Arnold not discuss question of price with officials of other governments on his forthcoming trip.

Please telegraph Dept whether you approve allocations mentioned above. Although you will no doubt wish to consult U.S. military air officers, your decision should, of course, take political and economic factors into account.

The foregoing information is not to be disclosed to Colombian officials. For your information questions of procedure on disposal of planes are still to be worked out. Dept will inform Colombian Ambassador here as soon as ground and air force equipment can be made available, and you will be informed.

ACHESON

821.248/1-1546 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, January 15, 1946—1 p. m.

[Received 2:23 p. m.]

44. General Arnold has telegraphed General Eisenhower¹⁶ in substance as follows:

When he told Chief of Staff Solano of the assistance he proposed to send to Colombian Air Force, General Solano said that 2 months ago, well after the Staff conversations, the Colombian Govt had handed me a memo (which I took to Washington) inquiring what assistance we planned to give to the matériel and training problems of the Colombian Air Forces, and that they had received no reply. General Arnold expressed the view that our relations with Colombia were being jeopardized and asked that implementation of the Staff conversations be

¹⁶ Gen. Dwight D. Eisenhower, Chief of Staff.

undertaken immediately and that action on matériel and training program for Colombia be initiated without delay.

As the Dept may recall from my conversations while in Washington and from my previous telegrams and reports on the subject I feel this question should have immediate and favorable consideration. It is very important.

WILEY

821.248/1-1846 : Telegram

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

RESTRICTED

WASHINGTON, January 18, 1946—8 p. m.

48. General Walsh, who returned to Washington today, reports General Arnold arranged with Colombian officials and with your concurrence to send three C-47's to Bogotá immediately accompanied by maintenance crews and instructors who would train Colombians in flying and maintaining these planes. Ambassador Santamaria confirms General Arnold promised Minister of War to send these planes immediately, but uninformed other details.

Dept informing War Dept planes may proceed without delay. War Dept informs nine officers, six enlisted men will come with planes.

Please cable full report all understandings reached during General Arnold's visit.

ACHESON

821.248/1-2046 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, January 20, 1946—8 a. m.

[Received 11:32 a. m.]

68. Your No. 45, January 17, 8 p. m.¹⁷ I did not disclose anything about planes to anyone. General Arnold on seeing General Piedrahita, head of Colombian Air Force, showed him a list of planes which could be made available. After consideration General Piedrahita requested and was promised 42. Two PBY's and three C-47's, General Arnold explained, would be immediately available, others would come as soon as possible and, finally, in respect of one type substitution might be necessary. General Arnold did not mention price.

From his conversation with me I gathered the definite impression that General Arnold feels very strongly that the US must meet the reasonable requirements of Latin American Republics for military

¹⁷ Not printed.

and naval aircraft and technical assistance. Otherwise they will in future turn to other countries. Moreover, General Arnold disapproves strongly of attempting formally to commit Latin American countries exclusively to purchase aviation equipment from US. He feels that the only tactful and feasible way of achieving this desirable end is, as stated above, to meet their reasonable requirements as rapidly as possible. . . .

As for disclosures made by General Arnold to Colombian Govt, he informed me that he had been authorized by the President and Assistant Secretary Braden to convey to Colombian Govt. types of 42 airplanes being allocated but method and time of delivery would be determined by Ambassador. He added that he had made it clear that he would under no circumstances have consented to come to South America empty-handed.

General Arnold's visit to Bogotá was in every way a brilliant success. At all times he sought every means possible to contribute to prestige of Embassy.

WILEY

821.248/1-2146: Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, January 21, 1946—11 a. m.

[Received 2:21 p. m.]

72. Deptel 48, January 18, 8 p. m. and Embtel 68, January 20, 8 a. m. Agreement reached by General Arnold covers following planes for delivery prior to 30 April: 3 B-25's, 8 P-47's, 2 C-45's (or AT-7's), 5 AT-11's, 2 AT-6's, 15 PT's, 2 OA's; and for immediate delivery 3 C-47's and 2 PBV's.¹⁹

General Arnold stressed importance that Latin America and US "speak the same language" in respect of equipment, operations and maintenance and made generous offers with regard to admitting Colombian officers to American Air Force schools. General Piedrahita will submit list of 60 young officers in March and some 18 other officers of higher rank to proceed for this purpose to US.

I approve heartily. . . .

WILEY

¹⁹ A marginal note reads: "This is not in accord with 'Adjusted Requirements' table, so I assume that this represents Col. Govt's modification? B. C. D[avis]"

821.248/1-2246

Memorandum by Mr. Bainbridge C. Davis of the Division of North and West Coast Affairs to the Director of the Office of American Republic Affairs (Briggs)

SECRET

[WASHINGTON,] January 23, 1946.

The attached undated letter from Admiral Ramsey²⁰ arrived yesterday. While I assume that we may consider this as a commitment by the Navy Department to deliver the five flyable PBY-5A's and five non-flyable PBY-5A's for spare parts, you will note that we will be putting ourselves in the position of requesting the Navy Department to take this action. RL feels that this would be undesirable.

In view of Bogotá's telegrams 68 of January 20 and 72 of January 21, indicating that General Arnold has interpreted his conversation with Mr. Braden as authorization to inform the Colombian Government of the "types of 42 airplanes being allocated" and has indicated that "two PBY's . . . would be immediately available", I am not sure that the Navy Department's proposal to make the Colombians pay a good stiff price (with which I am in agreement) for the two demilitarized PBY's will meet with any appreciation on the part of Ambassador Santamaria. Perhaps if the Colombians were to be promptly informed of the approximate prices which must be paid for the "implied commitment" planes, they would be less enthusiastic in their demands for these also.²¹

If, in view of the foregoing, you still consider it wise for me to inform Ambassador Santamaria of the availability of the PBY's covered by Admiral Ramsey's letter, I suggest that I also make it clear to the Ambassador that these are the planes which were secured through the efforts of the State Department and Navy Department rather than those which are being passed out by General Arnold.

821.248/2-1546 : Telegram

The Secretary of State to the Ambassador in Colombia (Wiley)

SECRET

WASHINGTON, February 18, 1946—6 p. m.

U.S. URGENT

109. Urtel 135, Feb. 15.²² Situation regarding interim allocation military aircraft to Colombia is as follows:

²⁰ Not printed.

²¹ In a memorandum from John C. Dreier, Chief of the Division of American Republics Analysis and Liaison, to Mr. Davis, February 1, 1946, the cost of the Navy planes equipped for patrol work was given as \$131,000 (821.248/1-2246).

²² Not printed.

1. Braden and Gen. Arnold agreed on allocation of 62 planes listed Deptel 24, Jan. 11, subject to (a) your concurrence and (b) wishes of Colombian Govt.

2. Gen. Arnold while in Bogotá agreed with Colombian authorities that 40 planes listed urtel 72, Jan. 21 would be delivered by April 30. War Dept clearly understands that, if you approve, remaining 22 aircraft would still be offered to Colombia in interim allocation although delivery might be after April 30.

3. Dept wishes shortly to inform Colombians here of total number of aircraft available for their purchase if they so desire. Expected that actual transfer and delivery all planes would extend over several months, depending upon number Colombians decide to buy and their capacity to receive them.

4. You have approved 40 planes listed urtel 72, Jan. 21. (Note: total is 40 not 42 because PBY's and OA's are alternative designations for same planes.)

5. Dept desires your approval or disapproval of total of 62 aircraft originally agreed for interim allocation (Deptel 24, Jan. 11) before Dept informs Colombians how many planes are available for their purchase as under point 3 above.

For your info. War Dept anxious offer entire list of 62 planes now. Any further allocations, beyond interim program now under discussion, will be made only after further consideration of entire military program by War, Navy and State Depts.

Please cable your approval list of 62 planes urgently or indicate modifications you consider essential.

BYRNES

821.248/2-1946 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, February 19, 1946—6 p. m.

[Received 11:03 p. m.]

142. Reference Department's telegram 109, February 18. I approve list of 62 airplanes for offer to Colombians now. However, the 40 aircraft listed my telegram 72, January 21 represent maximum Colombians can handle for a considerable number of months to come and probably all they would wish to request at this time. Should it appear desirable I have no objection to non-significant substitutions of types being decided at technical levels. Due to Presidential elections May 6 and inauguration August 7, I suggest that initial flight delivery increments of airplanes arrive here by mid-April to obtain maximum credit by avoiding period of national preoccupation with elections. I further suggest that delivery additional increments be synchronized with inauguration in order to obtain prestige with new administration. I also suggest showmanship in delivery of these aircraft by delivering

each increment within several days after notifying Colombians thus avoiding prolonged anticipation, by coordinating with this Embassy for publicity and arrival ceremonies, and by having various increments land initially and remain overnight at different important cities such as Barranquilla, Medellin and Cali. PBYS should land initially at airfield Cartegena, principal Colombian naval base. All increments should subsequently visit Bogotá for several days before final allocation to various airbases. If practicable all arrivals should be scheduled for about 3 p. m. or 10 a. m. to facilitate attendance. I further suggest that US aircrews remain until novelty of new aircraft has worn off and Colombian personnel adequately indoctrinated, thus reducing chance of unfortunate crashes diminishing effectiveness of aircraft deliveries.

President Lleras has again taken occasion personally to urge upon me Colombia's most urgent need for promptest delivery of the 2 PBY's stating that Government was threatened by being cut off from remote but important areas of Colombia.

WILEY

821.34/4-1246: Telegram

The Secretary of State to the Ambassador in Colombia (Wiley)

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p. m.

222. Approval has been given by Dept to sale from surplus of following small Naval vessels to Colombia. You may notify appropriate representatives that Navy Dept and FLC will negotiate in Washington details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversations.

- 2 AOG—Oiler, gasoline tender
- 3 AKA—Cargo ship, attack
- 2 LST—Landing ship, tank
- 5 LCI (G)—Landing craft, infantry, (gunboat)
- 2 ATA—Auxiliary tug
- 1 PG—Gunboat

For your conf info Navy plans similar program of Naval equipment.

BYRNES

821.24/9-446

Memorandum by the Acting Chief of the Division of Special Inter-American Affairs (Dreier) to the Director of the Office of American Republic Affairs (Briggs)

[WASHINGTON,] September 4, 1946.

The Colombian Ambassador has for several months been seeking the Department's approval for the purchase of 5,000,000 rounds of 7 mm cartridges from the Olin Industries, Inc., or from the Winchester Repeating Company. The ammunition is to be used to supply old Mauser rifles with which the Colombian Army is equipped. In view of the fact that the ammunition is sub-standard in the United States and therefore not used by the Army, it is unobtainable for disposition by FLC. The allocation to Colombia under the interim program includes only standard U.S. Army ammunition and standard U.S. Army rifles. The Colombian Ambassador has made it clear that if the request for sub-standard ammunition is refused by the State Department, Colombia will go elsewhere to obtain the ammunition. A Belgium firm has already expressed an interest in the sale and Mexico and Chile are other possible sources of supply.

If the pending arms bill ²³ is approved by Congress and implemented, it will probably be possible for Colombia to exchange her sub-standard Mauser rifles for standard U.S. equipment. However, the present regulations issued pursuant to the Surplus Property Act ²⁴ require that disposition of surplus property be made only in return for a fair value. It is therefore doubtful that authority exists for the disposition of goods to other governments on a strictly exchange basis.

In the circumstances, I suggest that we inform Ambassador Santamaria that the standardization of arms in the Western Hemisphere is an objective of the pending arms bill and explain that upon its passage by Congress it will probably be possible to discuss with Colombia the replacement of sub-standard arms and ammunition with standard types. We may suggest to the Ambassador that in view of the above it would perhaps be to the advantage of Colombia to restrict her purchase of sub-standard ammunition to a minimum. After every effort has been made to have the Ambassador reduce the amount of ammunition desired, I feel we might approve the purchase of any amount up to 5,000,000 rounds.

JOHN C. DREIER

²³ To be entitled "Inter-American Military Cooperation Act"; see House Document No. 548, 79th Cong., 2d. Sess.

²⁴ Approved October 3, 1944; 58 Stat. 765.

821.00/11-846: Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, November 8, 1946—7 p. m.

[Received 11:55 p. m.]

767. Following sent Panama: Labor political situation in Colombia passing through very crucial period. Street disturbances are occurring in several cities including Bogotá and Cali. National police not equipped to cope with situation. They have placed order for anti-riot weapons in US October 29. Supplies cannot arrive in time to cope with general strike scheduled November 15. Suggest you confer with CGCDC with view of obtaining loan to Colombian Government of any or all of following supplies on order: 1500 gas masks, 200 long range and 100 short range gas riot guns, 4000 tear gas grenades, 2000 cartridges for long range gas riot guns, 1000 for short range, 300 jackets fitted for carrying grenades and gas cartridges. Foregoing to be replaced upon receipt of shipment from US. Reasonable substitutes authorized. Military Attaché concurs in above.²⁶

WILEY

821.243/11-1346

Memorandum by the Acting Chief of the Division of Special Inter-American Affairs (Dreier) to the Director of the Office of American Republic Affairs (Briggs)

SECRET

[WASHINGTON,] November 13, 1946.

Colonel Ordway²⁷ came over to see you this morning and, finding you busy, dropped in to tell me that he wished to report he had orders from the Chief of Staff not to send the tear gas bombs, etc., to Colombia unless he had a written request from the State Department. Your letter in which you said the State Department endorsed the request of Ambassador Wiley did not meet this requirement.

Colonel Ordway said that General Crittenberger²⁸ was under orders to hold the material ready. A telegram to CDC ordering the shipment to Bogotá is already drafted and ready to go as soon as a written request is received from the State Department.

I told Colonel Ordway that we appreciated his coming over on this matter, and that I would send you a memorandum conveying his mes-

²⁶ In telegram 562, November 11, 1946, 2 p. m. to Bogotá, the Department endorsed this recommendation and indicated that grenades and masks would be sent from Panama (821.00/11-846).

²⁷ Col. G. Ordway, General Staff Corps, United States Army.

²⁸ Lt. Gen. Willis D. Crittenberger, Commanding General, Caribbean Defense Command.

sage. I suggested that he sit on this matter until he had further word from the Department, either making the request or calling it off.

In view of the somewhat more favorable turn of events in Colombia, I believe we should inform Ambassador Wiley and the War Department that we consider this shipment inadvisable. To turn over property of the US Army to another government for the purpose of controlling internal labor conflicts is certainly a dangerous and undesirable move under any circumstances.

J. C. D[REIER]

INTEREST OF THE UNITED STATES IN THE ELIMINATION OF NAZI
INFLUENCE IN COLOMBIA²⁹

740.00112A EW/3-2846

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

No. 1550

Bogotá, March 28, 1946.

[Received April 12.]

SIR: I have the honor to refer to the Department's circular secret telegram of February 11, 1946,³⁰ in which was outlined the four (4) alternatives with regard to the continuation or abolishment of the Proclaimed List in the Western Hemisphere.

It is the opinion of the Embassy that the continuation of a part of the actual Proclaimed List in Colombia will serve a useful purpose up to the time that the replacement program for the fifteen spearhead firms (Rembtel no. 1049, August 7, 1945³¹) is successfully carried out. That date, from the information available at the Embassy, appears to be within three to six months. In the meantime, the Embassy is analysing its information with regard to those names still on the Proclaimed List with the view of recommending a substantial reduction in the List on May 8, 1946.

After the completion of the replacement program, it is thought that the continuation of the Proclaimed List will become more of a burden than a help to our relations, inasmuch as the List is a very effective block to many business enterprises in Colombia, and the United States must bear the bulk of the responsibility for the economic sanctions and their effects on the Colombian economy.³²

Respectfully yours,

For the Ambassador:

R. M. CONNELL

Commercial Attaché

²⁹ For documentation on efforts in 1945 to control Axis financial transactions, see *Foreign Relations, 1945*, vol. ix, pp. 860 ff.

³⁰ *Ante*, p. 76.

³¹ Not printed.

³² In telegram 253, May 6, 1946, 5 p. m., to Bogotá, the Department indicated that the List could not be maintained for Colombia after its withdrawal elsewhere (740.00112A/4-2546).

740.00112A EW/4-446: Airgram

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extracts]

SECRET

BOGOTÁ, April 4, 1946.

[Received April 15—8:55 a. m.]

A-126. Reference is made to the Department's secret circular airgram of March 4, 1946,³⁴ in which the Embassy was requested to secure certain information regarding the progress being made toward the elimination and expropriation of spearhead firms in this country. In this connection reference is also made to the Embassy's despatch no. 1423 of February 20, 1946,³⁴ transmitting Law 39 of December 14, 1945, concerning the expropriation of German assets in order to provide for the payment of indemnifications and reparations caused by the war with Germany, and to this Embassy's despatch no. 1490 of March 6, 1946,³⁴ transmitting Resolution no. 37 of February 28, 1946.

It will be remembered that, under Law no. 39, the nation has the complete potential ownership of these firms, and, under Resolution no. 37, the fiduciary administration of these firms is terminated. However, the Embassy has been informed by Dr. Bernal Cadena, head of the Stabilization Fund, that the nation has not, in fact, taken over the ownership of these firms and that, under Article II of Resolution no. 37, the Stabilization Fund is continuing the fiduciary control of the subject firms.

With regard to the second and third parts of the Department's telegram under reference,³⁵ it will be noted from the above that the process of liquidation of the subject firms is beginning to proceed more rapidly. Dr. Castañeda has assured the Embassy that most of the firms will either be liquidated, sold, or completely expropriated within the month of April.

The effectiveness of the local controls has been strengthened considerably by the above mentioned Law 39 and Resolution 37, and further measures have been taken, upon which the Embassy will keep the Department informed.

With regard to the fifth item in the Department's telegram, it is the opinion of this Embassy that the prestige of the Proclaimed List remains high. This is shown by the fact that individuals on the List are continually coming to the Embassy seeking deletion, and many Colombian firms check with the Embassy before hiring any individual who was or is on the Proclaimed List. It may be further stated that

³⁴ Not printed.

³⁵ i.e., the circular airgram of March 4, 1946.

the Colombian Ministry of Foreign Affairs frequently asks for the Embassy's recommendation of an individual prior to the granting of Colombian citizenship.

The Embassy will keep the Department informed of any change in the status of any of the remaining 13 firms, and of any further developments in the action taken by the Colombian Government to hasten their liquidation.

WILEY

862.20210/5-1046 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, May 10, 1946—1 p. m.

[Received 3:23 p. m.]

328. ReDepcirtel April 30,³⁶ dissolution German institutions, schools and other means propaganda appears complete in entire country. No German schools, cultural institutions or other propaganda agencies are functioning in Republic today. Only one German school operated as such in Bogotá until US entry in war. That school collapsed beginning of war. Same thing happened with Colegio Alemán Transoceán and Nazi Party in Medellín and other districts. No renewed German activity of any kind noted in Colombia to date.

WILEY

821.796/8-2446 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, August 24, 1946—2 p. m.

[Received 5:30 p. m.]

606. I had interview with President Ospina Pérez yesterday. I told him word had reached me that Minister of War³⁷ had issued instructions temporarily to relicense three ex-Scadta pilots as co-pilots for employment by Colombian airlines. I expressed fear this was intended as first step to reactivate large group of German pilots and mechanics still in Colombia. I explained our concern over the defense of the Panama Canal and the western Caribbean, and added I could visualize with apprehension headlines in American press to the effect that one of first acts of new conservative administration had been to relicense notorious ex-Scadta pilots, mechanics and airfield managers.

The President is very sensitive to criticism and as I handed him list of ex-Scadta pilots he said this was the first he had heard of the matter and he would at once consult the Minister of War.

³⁶ Not printed.

³⁷ Luis Tamayo.

On August 27 I will also send the President a list of ex-Scadta mechanics and airport managers. The situation is somewhat complicated because several of the pilots have taken Colombian citizenship and have married Colombians. I shall also discuss the matter with Foreign Minister³⁸ and other officials and keep Dept informed.³⁹ I believe it important to keep if possible Colombian aviation free of these more than dubious elements particularly since both Taca and Avianca are seeking permission to enter Balboa.⁴⁰

WILEY

821.796/8-2746 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, August 27, 1946—3 p. m.

[Received 7:40 p. m.]

613. Re Embtel 606, August 24. It now appears that four ex-Scadta pilots have already been relicensed as copilots. I made very strong representations to Foreign Minister yesterday. He expressed entire agreement with my point of view and stated that President had already spoken to him and that the President had stated he was going to confer at once with Minister of War. Shall report further developments.

WILEY

740.00112A EW/11-2146 : Airgram

The Ambassador in Colombia (Wiley) to the Secretary of State

SECRET

BOGOTÁ, November 21, 1946.

[Received December 4—8:45 a. m.]

A-418. Reference is made to the Department's secret circular of March 4, 1946⁴¹ in which the Embassy was requested to report on the progress being made toward the elimination and expropriation of the spearhead firms in this country. The Department's attention is called to the Embassy's despatch 1423, February 20, 1946⁴¹ which transmitted the text of Law 39 of December 14, 1945 providing for the expropriation of German assets, and to secret airgram A-126 of

³⁸ Francisco Umaña Bernal.

³⁹ In telegram 471, August 27, 1946, 5 p. m., to Bogotá, the Department expressed full approval of this action.

⁴⁰ For documentation on air routes, see pp. 666 ff.

⁴¹ Not printed.

April 4, 1946 ^{41a} which transmitted the information available to the Embassy on that date concerning the status of these spearhead firms.

It may be pointed out that the liquidation of these enemy firms which, according to the information available to the Embassy on April 3, 1946, would be terminated within a month or two, has been proceeding very slowly and in some cases has apparently been completely blocked. This may be due in part to the withdrawal of the U. S. Proclaimed List which allowed some of these concerns to increase the volume of their business immediately, thus improving the sales value of the firm. By not liquidating the spearhead firms in a hurry the Stabilization Fund now stands to realize substantially more for some of them. On the other hand, the legal representatives of the German interests have been heartened by the withdrawal of the List and are presenting additional legal obstructions.

As to the general replacement and liquidation program in Colombia as a whole, the Stabilization Fund pointed out that there were a total of 1,600 cases to be settled. These included individual Germans, Italians, and Japanese, and their properties. Of these, 980 have been liquidated to date; 60 more are in the process of liquidation, and the remaining cases are complicated by legal difficulties. In this respect, reference is made to the Embassy's confidential despatches Nos. 1865 and 1891 of August 25 and September 9 ⁴² respectively which transmitted the English text and Spanish translations of two published liquidations, Nos. 1 and 51 of the Ministry of Finance and Public Credit applying the sum of 8,770,795.70 pesos to the estimated debt of 12,500,000 pesos due the Colombian Government as reparations. There has been published a third list, Liquidation No. 109, which contains the names of additional firms and individuals who have been assessed 100 per cent under Law 39.

The Stabilization Fund has informed the Embassy that the amounts assessable from each of these firms and individuals is at present being computed and will be available within a month. The Embassy will keep the Department informed of any new developments concerning the spearhead firms listed in this airgram and any further expropriations by the Colombian Government.

WILEY

^{41a} Not printed.

⁴² Neither printed.

**DISCUSSIONS BETWEEN COLOMBIA AND THE UNITED STATES
CONCERNING AN AIR TRANSPORT AGREEMENT AND OPERATING
PROBLEMS**

821.7962/2-1146

*Memorandum by Mr. Leo G. Cyr of the Aviation Division to the
Acting Assistant Chief of the Division of American Republics
Analysis and Liaison (Halle)*

[Extracts]

SECRET

[WASHINGTON,] February 26, 1946.

Reference your chit of February 14,⁴³ requesting whether AV can supply the answers to the questions raised by Mr. Briggs⁴⁴ in his attached note. Mr. Briggs' questions are answered in order, as follows:

5. AV is not in a position to state what military rights may be desired in airfields in Colombia.⁴⁵

By virtue of an exchange of notes signed in 1929⁴⁶ by the Governments of the United States and Colombia, American commercial aircraft enjoy the right "to fly along the Atlantic and Pacific coasts of Colombia and over the territory immediately adjacent thereto; to land on land or water, fuel, make repairs, and ship and discharge passengers, mail, and cargo in the Atlantic and Pacific ports of Colombia where there are authorities charged with carrying out the pertinent regulations, subject to regulations and provisions equivalent to those established for commercial aircraft of Colombian registry in the enclosures to this note."

The United States government has proposed a new bilateral agreement to Colombia, but it appears that the Colombians want to exercise reciprocal rights under the 1929 agreement first. Two applications for certificates of public convenience and necessity have been filed with CAB by Colombian carriers, under the 1929 agreement.

821.796/3-1146 : Airgram

The Ambassador in Colombia (Wiley) to the Secretary of State

RESTRICTED

BOGOTÁ, March 11, 1946.

[Received March 21—9:59 a. m.]

A-85. Reference is made to the Department's airgram A-37 of February 1,⁴⁷ expressing the willingness of the Civil Aeronautics Ad-

⁴³ Not printed.

⁴⁴ Ellis O. Briggs, Director of the Office of American Republic Affairs.

⁴⁵ A marginal note reads: "Sec War's letter of 2/19/46 indicated no military rights at Soledad desired by J. C. S. L. J. H[alle]."

⁴⁶ *Foreign Relations*, 1929, vol. II, pp. 882-884.

⁴⁷ Not printed.

ministration to send a mission of three civil aviation experts to Colombia to make a preliminary survey of requirements in the field of civil aviation.

This question has been discussed with the Minister of War ⁴⁸ who took it up personally with the President.⁴⁹ The Minister subsequently informed the Embassy that the Colombian government would be most pleased to have such a mission come to Colombia at the present time, as it is realized that many serious problems now confront the country in the development of civil aviation.

One of the principle problems, at this moment, is the construction of adequate airports and the regulation of airports to prevent private owners of fields from obstructing the development of air traffic. Also, the project is still pending for construction of a modern, new, international airport at Bogotá capable of handling large airplanes. The Minister of War expressed particular interest that one of the three members of the mission be an expert on airport selection and construction. The Embassy fully concurs in this idea and considers it important for one of the mission to be an authority on this subject.

After the above conversations with the Minister of War, the Embassy is confirming the proposal of an American mission in writing and it is expected that a prompt reply will be received from the government extending the invitation. Unless informed to the contrary, the Department may assume that the official invitation has been duly received by the Embassy.

It would be appreciated if the Department would inform the Embassy when the mission is expected to arrive.⁵⁰ In view of the urgency of many of Colombia's problems, it would be advisable for it to come as soon as possible.

WILEY

821.7962/2-1146 : Airgram

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

SECRET

WASHINGTON, March 25, 1946.

A-93. Reference is made to your letter of January 25, 1946 ⁵¹ to Mr. Stokely Morgan of the Department with which was enclosed a memorandum concerning possible nationalization of the airfields in Colombia, including that at Barranquilla, in which the United States

⁴⁸ Luis Tamayo.

⁴⁹ Alberto Lleras Camargo.

⁵⁰ In airgram A-107, April 15, 1946, to Bogotá, the Department indicated that the Civil Aeronautics Administration would be able to send a mission after July 1, 1946 (821.796/3-1146).

⁵¹ Not printed.

Government has made substantial investments under the Airport Development Program.

The following facts regarding the Soledad Airport at Barranquilla are set forth for your background information. The field is the only one in Colombia built under the Airport Development Program, and the investment of the United States Government in the field is listed at approximately \$650,000. Ownership of the field is vested in Avianca,⁵² in which airline Pan American World Airways owns a majority of the stock. The Civil Aeronautics Board has stated informally that full commercial rights will be desired in Soledad Airport and possibly in other Colombian airfields. For your confidential information the Joint Chiefs of Staff have recommended the inclusion of Soledad Airport in a system of hemisphere air bases which would be established by multilateral agreement and at which the United States (along with other American republics) would have transit rights in peacetime and full military rights in emergency. Plans for this air base system anticipate conclusion of the mutual assistance treaty contemplated by the Act of Chapultepec,⁵³ and the establishment of a permanent inter-American military agency, so that no immediate action to realize this plan is possible.

In connection with the investment of United States funds under the Airport Development Program, your attention is called to the Department's circular airgram of January 17, 2:30 p. m.,⁵⁴ wherein it was stated that the Department was now in a position to declassify the Airport Development Program contracts or portions thereof at any time, should such action appear to be in the national interest.

In view of the sizeable investment of United States Government funds in Soledad Airport and of the desired civil and military rights indicated above, the Department would wish to inform the Colombian Government in confidence of that portion of the Airport Development Program pertaining to Soledad Airport if and when it appears that action by the Colombian Government to nationalize the airports in Colombia is imminent. None of the foregoing information should however be conveyed to the Colombian Government except upon specific authorization from the Department.

Please keep the Department informed of any further developments toward nationalization of the airports in Colombia, and of your recommendations with respect to informing the Government.

ACHESON

⁵² Aerovias Nacionales de Colombia, S.A., formerly Scadta.

⁵³ Department of State, Treaties and Other International Acts Series (TIAS) No. 1543.

⁵⁴ Not printed.

711.2127/5-2546 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, May 25, 1946—noon.

US URGENT

[Received 5:08 p. m.]

371. I have sent Dept despatch enclosing copy of note dated May 10⁵⁵ received from Minister Foreign Affairs,⁵⁶ whereby Minister invokes Colombian American air agreement 1929 and emphasizes that while Colombia has permitted US companies operate Colombia on basis this agreement corresponding permits for operations in US of Colombian TACA and Avianca companies have so far not been granted. Note states Colombian Govt expects US will grant reciprocal privileges under agreement to TACA and Avianca and adds significantly that "the maintenance and development of commercial aviation between Colombia and US depends in opinion of my Govt on harmonious interpretation of the Olaya-Kellogg agreement which obligates the two countries equally and under entire reciprocity in the application of these provisions."

Ministry has not answered two Embassy notes of last Oct and Nov⁵⁷ forwarding proposed text of new Colombian American air agreement and I am attempting ascertain before my departure position of Colombian Govt in relation continuing negotiations for new agreement.

However, I believe Colombian Govt is unsympathetic with CAB difficulties and delays in processing pending Colombian applications as in Colombia commercial treaty rights take precedence over subsequent laws and it is undoubtedly felt here that US laws after 1929 should not be allowed to prejudice concession of reciprocal rights to Colombia as long as present treaty is in effect.

Unless Dept can promptly provide me with assurances of favorable action on Colombian applications I have reason to believe there may be some reprisals here.

WILEY

821.7962/5-1646 : Telegram

The Acting Secretary of State to the Ambassador in Colombia (Wiley)

SECRET

WASHINGTON, June 28, 1946—7 p. m.

364. President Lleras apparently under misapprehension in indicating belief US Govt participation in Soledad Airport (urtel 346, May 16⁵⁸) should "revert" to Col Govt. This participation repre-

⁵⁵ Not printed.⁵⁶ Fernando Londoño y Londoño.⁵⁷ Neither printed.⁵⁸ Not printed; in this telegram Ambassador Wiley indicated that this participation was an obstacle to the Colombian desire to municipalize this airport (821.7962/5-1646).

sents secret emergency arrangement under Airport Development Program between US Govt and Pan American Airways without involvement Col Govt. Case not parallel to that in Brazil where inter-governmental agreements were made covering construction and operation of airports which were always recognized as being and continuing to be property of Braz Govt. These agreements of course provided for postwar return of property to Braz administration.

If you believe it would be useful to do so, inform Pres Lleras in secrecy along above lines, adding, if he inquires, that US contribution to Soledad approximately \$650,000.

Keep Dept advised.

ACHESON

711.2127/9-646

The Acting Secretary of State to the Ambassador in Colombia
(Wiley)

[Extract]

RESTRICTED
No. 915

WASHINGTON, September 6, 1946.

SIR: Reference is made to recent communications exchanged between the Department and the Embassy on the subject of a proposed new bilateral air transport agreement between the United States and Colombia (which would supersede the 1929 agreement), and to the Department's instruction no. 769 of May 31, 1946⁶⁰ which transmitted copies of the so-called Latin American decision of the Civil Aeronautics Board and stated that this Government was desirous of initiating discussions in the near future with a view to implementing the Board's decision with respect to these air services.

There are forwarded herewith three copies of a draft bilateral air transport agreement with Colombia.⁶⁰ Subject to your discretion as to appropriate timing in the light of the Embassy's telegram no. 586 of August 19, 1946,⁶⁰ you are requested to transmit one or two of the attached copies to the Colombian Government with a view to initiating discussions and concluding a revised agreement. The attached draft is based on the standard form of agreement for air routes formulated at the Chicago Aviation Conference in 1944,⁶¹ except that Article 6 provides that "substantial ownership and effective control" of an airline of a contracting party is to be vested in nationals of that party, rather than the nationals of either party to the agreement. The description of routes in the annex was drafted

⁶⁰ Not printed.

⁶¹ TIAS No. 1591. For documentation on the Conference, see *Foreign Relations*, 1944, vol. II, pp. 355 ff.

by the Civil Aeronautics Board and is intended to reflect that agency's Latin American decision referred to above, although it is possible that the Colombian authorities may desire a more definitive description of such routes.

The United States Government has concluded bilateral air transport agreements along the lines of the attached draft with a number of countries, such as Spain, Portugal, Ireland, Sweden, Norway, Denmark, Iceland, Switzerland, Czechoslovakia and Turkey. While the aforementioned bilateral agreements, together with the draft agreement attached, follow closely the Chicago standard clauses, the United States has also concluded bilateral agreements with other countries which incorporate provisions and principles in addition to the matters covered by the Chicago form. The first agreement of this latter type was that concluded with the United Kingdom at Bermuda on February 11, 1946,⁶² which was followed by agreements with France and Belgium.⁶³ These latter two agreements embody the additional Bermuda provisions, but are in a more compact form in that the important principles of the Bermuda Final Act are made a part of the agreements and their annexes. This Government also has concluded agreements with Egypt, Greece and Lebanon following the standard Chicago form, but with some of the Bermuda provisions added in the Annex.

The Embassy is authorized to bring the above information to the attention of the Colombian authorities, adding that while most of the additional provisions in the United States agreements with the United Kingdom, France and Belgium were designed to take care of special situations, the United States Government nevertheless would be pleased to consider the inclusion of pertinent parts of these provisions if desired by Colombia. . . .

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

711.2127/10-1846 : Airgram

The Secretary of State to the Ambassador in Colombia (Wiley)

RESTRICTED

WASHINGTON, October 18, 1946.

A-337. CAB has requested redescription of routes in Section A Annex of proposed bilateral air transport agreement to read as follows:

"1. The United States to Bogotá and thence to points in Ecuador and beyond.

⁶² TIAS No. 1507.

⁶³ TIAS Nos. 1679 and 1515.

2. The United States to Barranquilla and beyond Colombia (*a*) to the Panama Canal Zone and beyond and (*b*) to points in Venezuela and beyond.

3. The Panama Canal Zone to Barranquilla and beyond Colombia to points in Venezuela and beyond.

4. The United States (including the Panama Canal Zone) to Cali and thence to points in Ecuador and beyond Ecuador (*a*) from Quito, Ecuador to Ipiales and (*b*) to points in Peru and beyond.

5. The United States (including the Panama Canal Zone) to Barranquilla, Bogotá or Cali and thence to points in Brazil and beyond."

For Embassy's background information, Braniff would be designated for route 1, Panam for routes 2 and 3, and Panagra for route 4. Route 5 would cover new route across interior Brazil via Manaus provided for in recently concluded US-Brazilian agreement which route has not yet been awarded by CAB to any US carrier.

While these descriptions may be regarded as somewhat general in nature, they are intended to reflect the actual routes and route points described in the CAB's Latin American decision, plus route 5 above.

CAB drafted above route redescrptions before receiving Embassy's despatch 1925 September 27,⁶⁴ which Dept has called to CAB's attention with a request for further comments. While it is possible that the Colombians may desire more specific route descriptions than outlined above, Embassy is requested to proceed at early suitable opportunity, with discussions for bilateral agreement on foregoing basis, and necessity or desirability of further describing U.S. routes will be considered when Colombian route proposals have been officially submitted.

BYRNES

[The negotiations continued for many months without producing an agreement. The Colombian Government maintained that the United States, by denying Colombian Airways certain route and terminal facilities, had failed to fulfill the 1929 agreement. (711.2127/5-2147)]

INTEREST OF THE UNITED STATES IN COLOMBIAN COMMUNICATIONS PROBLEMS

811.20200(D)/6-2646 : Telegram

The Chargé in Colombia (Mokma) to the Secretary of State

US URGENT

BOGOTÁ, June 26, 1946—noon.

[Received 2:46 p. m.]

433. For OIC. Archbishopric Colombia approached Embassy formally today requesting aid United States broadcast stations relaying special address of Pope to Colombian Catholics July 16 at 11:30

⁶⁴ Not printed.

a. m. Since Vatican broadcast inaudible, Colombia Archbishopric requests Pope's speech be picked up New York and rebroadcast to Colombia over Emisora de Los Estados Unidos. Ambassador Wiley now Washington will probably support doing everything possible to secure this service because unusual local importance. Please advise if arrangements can be made giving frequencies plans.⁶⁵

МОКМА

811.72 TCC/8-2646 : Airgram

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

CONFIDENTIAL

WASHINGTON, August 26, 1946.

A-270. For confidential information Telecommunications Attachés following statement is transmitted stating general policy on diplomatic or financial assistance to United States communications companies abroad. Comments of the Telecommunications Attachés and others are solicited. It is for use in connection with the quarterly policy statements and was approved by the Telecommunications Coordinating Committee, June 26, 1946:

“General policy on diplomatic or financial assistance to United States companies seeking to develop or conduct communication operations with or in foreign countries.

(1) In meritorious cases where the FCC has authorized the establishment of a circuit or has indicated that it believes the establishment of a circuit to be desirable, the United States Government should assist diplomatically United States communications companies to establish or maintain communications circuits with foreign countries on a non-exclusive basis.

(2) The policy of the United States should be to favor the development and conduct within foreign countries of communication services controlled by their own nationals. The United States should not adopt a general policy of aiding United States companies to develop or participate in internal communication operations within foreign countries. However:

(a) In meritorious cases the United States Government should assist, through loans to governments, the procurement of United States communications equipment by foreign countries. One of the results would be promotion of standardization and improvement in communication service within the foreign country and between the United States and the foreign country involved.

⁶⁵ In telegram 367, July 1, 1946, to Bogotá, the Department indicated that it was impossible to give the aid requested for budgetary reasons (811.20200(D)/6-2646).

(b) Where foreign countries desire the technical assistance of outside companies for the establishment and administration of their internal communication systems, the United States in individual meritorious cases may properly assist United States companies diplomatically and financially—if adequate funds are not available from other sources on reasonable terms—provided that in making arrangements between the United States company and foreign enterprises, nothing shall be done by the United States company to discourage equal opportunity to all competing companies on a nonexclusive basis either to supply equipment or to bid for the provision of services.”

ACHESON

INTEREST OF THE UNITED STATES IN THE DEVELOPMENT OF COLOMBIA'S NATURAL RESOURCES, ESPECIALLY PETROLEUM

811.516 Export Import Bank/4-146

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extract]

RESTRICTED
No. 1560

Bogotá, April 1, 1946.
[Received April 15.]

SIR: I have the honor to report details of a conference held Friday morning between Mr. Gaston, Vice Chairman, and Mr. Ness, Chief Economist, of the Export Import Bank, and Dr. Durana Camacho, head of the Instituto de Fomento Industrial, at which the undersigned was also in attendance.

Mr. Gaston asked Dr. Durana to explain the functions of the Instituto, which he did by referring to the basic laws under which the Instituto was formed and which authorize it to engage in the development of a number of specified industries, as well as other unspecified industries where private initiative has not been effective. Dr. Durana described the difference between the Instituto and the Caja de Crédito Agrario, Industrial y Minero, saying that the former was interested exclusively in industrial development and processing, whereas, the latter was a lending agency as well as an importer and distributor of farm equipment and supplies.

Dr. Durana said that the main difficulty in the Instituto is an inadequacy of capital as it is at present operating with only 10,000,000 pesos, most of which is already invested. He proposed the possibility of opening a general credit for the Instituto which might be utilized for various of its pending projects, subject to prior submission to and approval of the Export Import Bank. Mr. Gaston said in reply that the present policy of the Bank is not to extend general credits of this kind and that it is now thought more practical to consider and extend special credits for individual projects. Both Mr. Gaston and Mr. Ness

expressed the willingness of the Bank to consider earnestly any projects which might be presented to it by the Instituto.

Respectfully yours,

For the Ambassador
R. M. CONNELL
Commercial Attaché

821.51/6-446

Memorandum by Mr. Albert H. Gerberich of the Division of North and West Coast Affairs to the Assistant Secretary of State for American Republic Affairs (Braden)

SECRET

[WASHINGTON,] June 4, 1946.

ED is not favorable to extending additional credits to Colombia for four reasons:

1. There is considerable objection to doing so in certain quarters because of the defaulted municipal and departmental bonds.
2. The Eximbank finances are now at their lowest ebb. Including outstanding loans, commitments, and possible commitments, the Eximbank's available funds on May 15 were down to \$32,000,000. It has pending requests for credits totaling \$223,000,000, almost all from Latin America, and cannot consider these for lack of funds. Brazil alone is after loans totaling \$400,000,000.
3. Colombia has gold holdings totaling \$127,000,000 and foreign exchange amounting to about \$50,000,000. She could use some of this gold and foreign exchange instead of asking for loans from us. Colombia has, in addition, \$47,000,000 in gold in the United States and a \$48,000,000 dollar-balance in this country.
4. Colombia has not yet signed up with the World Bank. If she would do so, she could obtain assistance there.

While ED is not averse to helping Colombia to a reasonable extent and considers Colombia a pretty good credit risk, it feels, in view of the above, that no big credits should be given and no commitments made at this time.

There is attached a statement of Loans and Commitments⁶⁶ of the Export-Import Bank, showing the situation as of May 15, 1946.

821.6363/8-3046 : Airgram

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extracts]

BOGOTÁ, August 30, 1946.

[Received September 9—9:50 a. m.]

A-319. After the return of President Ospina from the United States, in an effort to determine the real difficulties handicapping the

⁶⁶ Not printed.

Colombian petroleum industry by reason of existing legislation, he asked Dr. Eduardo Zuleta Angel, one of Colombia's most prominent attorneys, and member of the President's official party in the United States, to study the situation in cooperation with the oil companies, and to give him a memorandum on the subject. Dr. Zuleta Angel has been conferring with oil company representatives for the past few weeks. He told them that he wished to avoid a highly controversial report and for that reason has been closely consulting the representatives and has revised his original report on several occasions. His memorandum, as presented to the President 3 days ago is summarized as follows:

After the application of existing Colombian oil legislation over the past 15 years there are only 30 exploration contracts now in force, although 455 applications have been filed, and there is only 1 producing field, plus 16 additional productive wells, in the entire country.

Impediments to the developments of the petroleum industry are:

a) The delay with which applications are considered in the Ministry of Mines and in the courts.

b) The bureaucratic tendency to complicate and delay the handling of all details in connection with matters pending between oil companies and the government.

c) The unexplainable tendency to subject present applications to the conditions of hypothetical legislation distinct from that now in effect.

d) The lack of definite and complete jurisprudence covering the proof of title to the subsoil.

e) The lack of confidence, the situation of instability, and even of anxiety caused by the habit of the government to present to Congress, year after year, since 1942, long, complicated, and even contradictory projects of law designed to change substantially existing legislation. There are many features of these projects that are completely impractical for the development of the industry and would place Colombia in a noncompetitive situation in world markets.

The existing legislation (laws 37 of 1931 and 160 of 1936) is generally satisfactory and with a few modifications would be not only acceptable but good.

The following modifications are indicated:

1. That after a concession has been solicited there should only be one suit to determine ownership of the subsoil, before the concession is granted, and

2. If drilling is commenced on a property where subsoil rights are believed to belong to the nation, the latter may only once and within a determined period sue to determine subsoil ownership.

... The oil companies appear to agree in general terms with Zuleta's conclusions, but do not think they go far enough. Some com-

panies, particularly Shell and Gulf, definitely oppose the whole idea of Zuleta Angel's preparing this memorandum in the form described as they consider it dangerous for an outsider to be in a position of acting as spokesman before the government for the industry. The oil companies definitely have not authorized Zuleta Angel to speak for them, but it is feared that the government might consider him as representing industry views. They are apprehensive that in discussions between him and the government he might not adequately answer objections or arguments brought up by government representatives.

Dr. Zuleta told me after completing his memorandum that he was in favor of any and all kinds of stimulation and encouragement to the industry as long as the companies did not use Colombia to set up reserves. He stated that he was, therefore, definitely against the removal or increase of the drilling obligation period. He felt that the period established by existing laws was adequate and that this was the only protection the State had against "hogging" of concessions by any company. Dr. Zuleta also felt that if the companies should insist on an increase or elimination of the drilling obligation period, it would not be considered justifiable by the government and would bring forth counter-proposals which would result in a cumbersome law unsatisfactory to all concerned.

Nevertheless, since this conversation with Dr. Zuleta, oil company representatives have continued to discuss the question with him, emphasizing that Venezuela and Peru have no fixed drilling obligation period but operate on the basis of a sliding scale concession fee which eventually makes it prohibitive for companies indefinitely to hold concessions without drilling. According to industry representatives, Dr. Zuleta appears to have become partly convinced.

Another point about which some of the local company managers are not at all happy is the Zuleta proposal to bring an impartial mission to Colombia to determine possible royalty and tax increases. They feel that it would be impossible for any experts, no matter how competent, to determine justly and accurately the amount of taxes and royalties the industry should pay at this stage of its development in Colombia. They do not object to the idea of eventual increases, but believe they should have a breathing spell in which to develop some profits before new rates are fixed.

When I was last in New York, all of the American companies with whom I talked, except Sinclair, favored the idea that the firm of Curtice and Hoover should come down here to conduct an industry survey. I recently heard, however, that Curtice and Hoover have applied for oil concessions of their own in Costa Rica. If this should be true, it might affect their classification as impartial experts. I will be grate-

ful for any suggestions the Department may have as to suitable experts, in case the government decides to follow the Zuleta recommendation.

A complete translation of the Zuleta memorandum⁶⁷ is being forwarded under later report. In the meantime, I would greatly appreciate your comments and guidance on this situation as soon as possible.

WILEY

821.6363/9-1346: Telegram

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

CONFIDENTIAL

WASHINGTON, September 13, 1946—8 p. m.

500. Petroleum Adviser, Petroleum Division, and other interested Dept officials have reviewed with special interest your comprehensive airgram of Sep 9.⁶⁸

Dept generally in agreement with Dr. Eduardo Zuleta Angel's exposition of delays in implementation of Colombian oil legislation during past 15 years and of impediments to development of petroleum industry outlined on pages 1 and 2 of your A-319.

Dept is further of opinion that present Colombian legislation (Laws 37 of 1931 and 160 of 1936) could with some specific modifications be made satisfactory and acceptable to both industry and the country.

Dept believes modifications to existing legislation such as those suggested in Dr. Zuleta's memorandum necessary to satisfactory conduct of oil industry in Colombia, and that these might be supplemented by other provisions previously encountered in projects of law submitted to Colombian Congress since 1942 which were considered satisfactory by the companies, for example, (a) provisions that concessions may include navigable lands and rivers or territorial waters as well as dry land; (b) extension of possible duration of public carrier pipeline contracts serving Llanos to 50 years; and (c) suspension of obligations imposed on concessionaire for duration of lawsuits promoted by third parties. Dept recognizes other provisions may also be added to above.

With respect to increase of royalties and taxes, outlined on page 3 of A-319, Dept is of opinion that extreme care should be used to adjust such changes in royalties and taxes to specific requirements of Colombia's economy, so that no risk will be run of placing Colombia in non-competitive world position.

⁶⁷ Not printed.

⁶⁸ Presumably A-319, August 30, which was received in the Department September 9, *supra*.

Dept is generally in agreement with Dr. Zuleta's view that Colombia should not be used by companies to set up reserves without appropriate development schedule beneficial to country.

Dept has verified fact that Curtice and Hoover have not applied for oil concessions on their own in Costa Rica.

CLAYTON

821.5045/11-646

The Ambassador in Colombia (Wiley) to the Secretary of State

[Extracts]

CONFIDENTIAL
No. 2014

BOGOTÁ, November 6, 1946.
[Received November 21.]

SIR: I have the honor to report that the current strike of the petroleum workers in Colombia is of such importance that the stability of the government is at issue. . . .

The factor which has most aggravated the seriousness of the oil strike and which has served to give it special political significance, is the social unrest resulting chiefly from the rising cost of living. There have been many evidences of this unrest, such as the work stoppage in Cali in September and working class demonstrations in Bogotá and other cities. The most recent manifestation of this condition is the statements made to an officer of the Embassy on October 30 by Juan C. Lara, Secretary General of the Liberal faction of the CTC (Confederation of Colombian Workers). The memorandum of conversation is enclosed.⁷¹

The importance of the petroleum syndicate strike from the point of view of the United States is not inconsiderable from several points of view. We do not permit, if we can avoid it, American companies or individuals or American citizens employed by these companies to engage directly or indirectly in the domestic politics of foreign countries. We now have the reverse of the coin where an important American company is apt to become the victim of a domestic political situation and its fate decided on a basis of the domestic political exigencies of the moment. Another manner of regarding the situation has been suggested to me by . . . [a commentator who] describes the strike as a conflict in Colombia between the United States and the U.S.S.R. There is undoubtedly some substance to this allegation. The Communist Party line in Colombia is directed primarily and directly against the United States and all its works. Curiously

⁷¹ Not printed.

enough, the Party line, which itself represents a foreign ideology, is able effectively and paradoxically to arouse the xenophobic instincts of the Colombians against the foreign companies, chiefly Tropical Oil. The situation thus created by strikes and propaganda is such that it could have at least some bearing on hemispheric defense. In this vital system of defense, petroleum plays a basic role; not only may the Communists impede the current activities of the Tropical Oil Company and the other foreign companies interested in Colombia, it may also prevent a successful re-negotiation of the Tropical Oil concession which expires in 1951. Moreover, these Communist tactics may have a more important negative effect. The present development of the petroleum industry in Colombia is very modest. The daily production averages only 65,000 barrels a day. Dr. James Tong of Socony⁷² is convinced that if the foreign companies could have a workable petroleum law in Colombia and reasonable security from political and labor sabotage, the production could be lifted to 250,000 barrels a day. Mr. McCollum of the Standard Oil Company of New Jersey, goes even further. He declares that he could guarantee that production would reach 500,000 barrels a day. By aborting further petroleum development of Colombia, the Communists could prevent the building up of a very valuable military asset. By creating an atmosphere of great insecurity for foreign investments in general, the Communist Party can greatly impair the growth of a valuable and promising economic relationship between the United States and Colombia. Finally, Colombia with its admirable political tradition of democratic government and prestige in hemispheric councils may easily deteriorate as an asset and element of stability in Inter-American affairs.

Respectfully yours,

JOHN C. WILEY

821.5045/11-1346 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

BOGOTÁ, November 13, 1946—10 p. m.

[Received November 14—2: 35 p. m.]

781. Tropical oil strike settled tonight with additional cost to company of about 1,200,000 pesos yearly. Company agrees on salary increases of 18% on salaries up to 120 pesos monthly; 13% on 121 to 200; 8% on 201 to 300; 3% on all salaries over 300 pesos. Foregoing increases 2% below original syndicate demands. Building of hospital eliminated but company agrees on maximum payment 500 pesos monthly for medical services in each camp. Tropical strike being

⁷² Socony Vacuum Oil Company.

called off by radio tonight. President Ospina was attending Council of Ministers when he received word of settlement and when I saw him shortly thereafter he was greatly relieved. He expressed to me his deep appreciation for all assistance and close cooperation. Later he thanked Weidey for making settlement of strike possible at a very critical moment.

I have just received document from confidential source dated November 4 signed by Pineda, President of Federation of Petroleum Workers of Colombia, calling for energetic movement on part of all labor for nationalization of petroleum industry. I am not confident that situation will long remain tranquil. I feel continued agitation will be order of day. While no evidence at hand, it seems notorious that syndicate had small funds at beginning of strike and that it now has adequate finances which clearly indicates outside aid and inspiration.

WILEY

COSTA RICA

FINANCIAL AND MILITARY ASSISTANCE BY THE UNITED STATES TO COSTA RICA¹

818.51/2-446: Telegram

The Secretary of State to the Ambassador in Costa Rica (Johnson)

WASHINGTON, February 4, 1946.

51. Following is text of Eximbank announcement to press for release Feb 5:

Board Directors Eximbank have approved an agreement with Costa Rica² subject to approval of National Congress Costa Rica to revise amortization schedule on two loans totaling \$7,000,000 Wayne C. Taylor President of Bank announced today. The loans were originally authorized by Eximbank in 1940 and 1942³ to assist Costa Rica in construction of Inter-American Highway and tributaries and for emergency financing in Republic as a part of general plan of hemispheric defense.

By terms of new agreement repayment of principal scheduled to begin in 1946 is reduced during years 1946 through 1950, after which time Bank has agreed to review amortization rates for succeeding years in light of conditions then existing.

"The purpose of the new agreement Mr. Taylor said is to adjust loan maturity schedule as originally drawn to postwar conditions in Costa Rica. The new schedule of repayments will not only assist Costa Rica but also gives Eximbank greater assurance that repayments can and will be met in accordance with terms now established. This step has been under discussion with Costa Rica for some months" Mr. Taylor said.

¹ For previous documentation on military and naval cooperation between the United States and Costa Rica and efforts to improve the financial condition of Costa Rica, see *Foreign Relations*, 1945, vol. ix, pp. 883-885 and 885-895.

² Agreement between the Export-Import Bank and the Republic of Costa Rica signed on January 31, 1946, whereby the Export-Import Bank agreed to accept partial payments on the notes and bonds and to waive certain other requirements with respect to the credits of \$2,000,000 and \$5,000,000; a copy of the agreement was transmitted to Costa Rica in instruction 340, February 1 (818.51/2-146). The credit of \$2,000,000 was established by an agreement between the Republic and Eximbank of July 9, 1942, and a supplementary and amendatory agreement of September 28, 1944; the credit of \$5,000,000 was established by an agreement between the Republic, the National Bank, and Eximbank of August 21, 1941, as amended November 13, 1942, and April 7, 1943.

³ For press release of September 25, 1940, on this subject, see *Foreign Relations*, 1940, vol. v, p. 736; for documentation on the loan agreement of July 9, 1942, see *ibid.*, 1942, vol. vi, pp. 239-252.

Original agreements provided for retiring \$2,000,000 in full in period from 1946 to 1952 and \$5,000,000 in period from 1946 to 1958. The loans were secured by Costa Rica's pledge of tobacco and gasoline taxes. Annual payments of principal under original terms would have varied between \$377,000 and \$819,000 with an average between 1946 and 1950 of \$520,000 per year. Rate of interest is 4%. In 1946 interest and principal due would have equaled about 7% of Costa Rica's normal total revenues.

The new agreement provides that in the 5-year period from 1946 to 1950 Costa Rica shall make payments for interest and principal combined of not less than \$350,000 per year plus any amounts by which gasoline tax receipts shall exceed this sum. For 5-year period Bank has agreed to release its claim upon tobacco tax in order to assist Costa Rica in strengthening her financial economy. The original agreement provisions will again come into operation in 1951 except as they may be modified by mutual agreement at that time.⁴

BYRNES

810.20 Defense/7-1246

The Chargé in Costa Rica (Gibson) to the Secretary of State

CONFIDENTIAL

SAN JOSÉ, July 12, 1946.

No. 2126

[Received July 18.]

Subject: United States Army Radio Range Station at Parrita and Use of Costa Rican Airports by United States Army Aircraft

[Here follows reference to an exchange of notes between the Embassy and the Costa Rican Foreign Ministry, June 7 and July 12, 1943 (not printed), constituting an agreement on United States military installation and operation of a radio range and weather station at Parrita Point.]

On the basis of these notes, as well as Embassy Note 45 of December 15, 1941 and the reply of the Secretary of State for Foreign Affairs, Note 82-B of January 6, 1942 (which were enclosed with Embassy despatch No. 1956 of May 17, 1946⁵), it would not appear

⁴ In airgram 169, April 23, 1946, Ambassador Johnson informed the Department that Costa Rica had officially accepted the agreement of January 31, and that it had been published in *La Gaceta* of April 23, 1946, as Legislative Decree No. 503 (818.51/4-2346).

In telegram 475, June 4, 1946, to San José, Ambassador Johnson was informed that the Export-Import Bank had considered an application of the Electric Company of Costa Rica for a line of credit amounting to about \$250,000 for assistance in financing the cost of equipment and material for a new hydro-electric plant; that after a review of the facts presented by the company, and also the financial condition of Costa Rica at that time, had denied the application (818.51/6-446).

⁵ Notes and despatch not printed; this exchange of notes of December 15, 1941, and January 6, 1942, constituted an agreement for military cooperation between the United States and Costa Rica.

to be strictly necessary to take up the question of the continuing operation of the Radio Range Station at Parrita unless the United States or Costa Rica should declare it to be unnecessary to the defense of the continent. However, as the War Department desires to continue the operation of this Radio Range indefinitely, it would seem appropriate to seek new authority for indefinite peacetime operation, provided the Department perceives no objection thereto. The Embassy is of the opinion that the Costa Rican Government would, if requested, promptly and willingly grant such authority.

With reference to landings by United States military aircraft on Costa Rican airports, authority for which was requested by General Crittenberger in his letter of April 5, 1946 to Ambassador Johnson (Enclosure No. 1 to despatch 1956),⁶ this authority was granted for indefinite peacetime operations by the Costa Rican government voluntarily (and without the solicitation of the Embassy) in its Foreign Office Note 1008-B of April 10, 1946, which was transmitted in English translation to the Department as Enclosure No. 4 to despatch No. 1857 of April 24, 1946.⁷ The original Spanish text of this note is enclosed herewith. The pertinent paragraph of this note (which was principally concerned with Civil Aviation) reads as follows:

“Concerning the flights of military planes of the United States Army, though this particular has not been requested, on a previous occasion this Ministry (Ministry of Public Security) decided that the landings would continue in accordance with those made during the war, that is, absolutely free, without the necessity of observing any requirements.”

In view of the above statement of the Costa Rican government, it would seem unnecessary to request authority, either at the present time or after the official end of the war, for United States Army aircraft to land in Costa Rica.

Respectfully yours,

RALEIGH A. GIBSON

810.20 Defense/7-1246

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

[Extracts]

CONFIDENTIAL
No. 575

WASHINGTON, August 21, 1946.

The Acting Secretary of State refers to the Embassy's despatch no. 2126 of July 12, 1946, concerning the problem of the United States Army in connection with navigation aids and meteorological facilities

⁶ Not printed.

⁷ Neither printed.

at Parrita Point, Costa Rica. As indicated in the Department's instruction no. 522 of July 9,⁸ this matter was taken up with the War Department.

The War Department's reply states, in substance, that a military requirement exists for the continued operation of the radio range and weather station at Parrita Point, and that such operation is necessary to insure the safe flight of a considerable number of United States military aircraft using the route in question.

In any case, it is the view of the Department that any arrangement made to meet the War Department's desire for the continued operation of the radio range at Parrita Point should take the form of a new agreement. Such an agreement should not be for an indefinite period but should apply to a period of from three to five years, with the understanding, if necessary, that it can thereafter be renewed periodically.⁹

In this connection, the Department feels that the agreement for military cooperation between the United States and Costa Rica should now be terminated. Before taking this matter up with the War Department, however, the Department desires to have the Embassy's comments on the advisability of initiating such action. It will, therefore, be appreciated if the Embassy will forward its views regarding the possible termination of the above-mentioned agreement.¹⁰

⁸ Not printed.

⁹ In note No. 531, October 22, 1946, to the Costa Rican Secretary of State for Foreign Affairs (copy enclosed in despatch 2449, October 22) Ambassador Johnson requested renewal by an exchange of notes of the agreement (set forth in the exchange of notes of June 7 and July 12, 1943) concerning the operation by the United States military personnel of the radio range and weather station at Parrita Point (810.20 Defense/10-2246). In despatch 2485, October 28, Ambassador Johnson transmitted a copy of a note from the Costa Rican Foreign Office, October 24, agreeing to the requested renewal for an additional term of 3 years (810.20 Defense/10-2846). In a memorandum of December 6 the Secretary of War was advised of this agreement (810.20 Defense/10-2846).

¹⁰ Ambassador Johnson stated in despatch 2449, October 22, 1946, "I am of the opinion, after consulting our Military Attaché, that there is no reason that the agreement for military cooperation between the United States and Costa Rica should not now be terminated." No action, however, was taken to terminate the agreement.

818.51/9-1646: Telegram

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

CONFIDENTIAL

WASHINGTON, October 4, 1946—6 p. m.

US URGENT

284. Negotiations regarding stabilization agreement mentioned urgram 362 Sept 16¹¹ in progress but not yet concluded. Matter presently before National Advisory Council for decision. Embassy's views regarding both economic and political advisability this Govt's concluding arrangement would be helpful to Dept's representative Council. Please send urgent telegram to reach Dept Mon.

ACHESON

818.5151/10-946

*Memorandum by Mr. Joseph R. Solana, of the Division of Central
America and Panama Affairs*

CONFIDENTIAL

[WASHINGTON,] October 9, 1946.

Proposal to purchase *colones* in order to stabilize the exchange value of Costa Rica's currency was brought to Department's attention by Treasury on Thursday afternoon, October 3, with request for immediate expression of our views. We were given little time to study proposition. Department stated that politically there would appear to be no reasons to support or oppose the fund but that economically it appeared somewhat unsound. Views Embassy San José were requested and reply of October 6¹² expresses desire to assist Costa Rica and present Administration, provided Department favors maintaining *colones* at present value and helping Picado, but advises that a "quid pro quo" stipulating tighter fiscal policy and sounder economic practice be obtained from Costa Rica.

¹¹ Not printed; Ambassador Johnson referred to a visit in August and September to the United States of the President of National Bank of Costa Rica (Madrigal) who, upon his return, informed officers of the Embassy that while in Washington he had arranged with United States Treasury Department officials to set up a stabilization credit of up to 5 million dollars in order to support the Costa Rican monetary unit until such time as the International Monetary Fund was fully functioning and prepared to assume a similar responsibility (818.51/9-1646).

¹² Telegram 337, not printed.

The working and staff committees of the National Advisory Council have already (prior to receipt of the Embassy's telegram No. 337) approved the fund in principle and proposal is to be submitted for final approval to the governing Board of NAC on Thursday afternoon, October 10, at which time Mr. Clayton¹³ could present the Department's views.

Although the Picado Government's opposition would probably object to the fund, we might incur the enmity of an extremely friendly Government if we turned it down. FN believes that disapproval of the fund could result in a chaotic exchange and financial situation, might lead to default on payments on the Exim Bank loans, and would place great pressure on the exchange value of the colon.

The gold and exchange reserve of U.S. \$3,200,000 available to the Government is equivalent to slightly more than seven weeks requirements at present rate of expenditure of foreign exchange. The inflow of exchange during the present period is low comparatively. Costa Rica depends on import duties for 40 percent of its income. Any tightening of exchange control, in addition to being politically difficult, would result in decreased imports consequently reducing revenue from import duties and throwing the budget out of balance even more than at present.

President Picado since his inauguration has advocated financial and fiscal reforms and he and his Minister of Finance instituted some measure of fiscal reform in September 1945. However, they have been consistently blocked by the wealthy landowners and coffee growers, politicians, and by Congress in their efforts to institute a more scientific and productive tax system. On the other hand, they have not made great efforts to reduce Government expenditures for political reasons and because the Picado Government is inherently weak politically, the President having few personal followers.¹⁴

¹³ William L. Clayton, Under Secretary of State for Economic Affairs.

¹⁴ Department's telegram 375, December 24, 1946, to San José, transmitted the following message from the Treasury Department to the National Bank of Costa Rica: "Your message that Costa Rica's foreign exchange position has improved to such an extent that you no longer need stabilization credits is indeed gratifying. Please accept the Treasury's best wishes for your increasing prosperity." (818.51/12-2446)

818.7962/10-2146

*Memorandum of Conversation, by the Divisional Assistant of the
Aviation Division (Cyr)*

[WASHINGTON,] December 2, 1946.

Subject: Costa Rican Ambassador's note of October 21, 1946 concerning the problem of developing airfields and airfield facilities in Costa Rica.¹⁵

Participants: Señor Don Francisco de P. Gutierrez, Costa Rican Ambassador to the United States
Mr. Philip Kidd, the Ambassador's attorney
Mr. H. G. Tarrington, Civil Aeronautics Administration
Mr. D. D. Thomas, Civil Aeronautics Administration
Mr. Murray Wise, State Department
Mr. Henry H. McGeorge, State Department¹⁶
Mr. Leo G. Cyr, State Department

The Ambassador explained the purpose of the above-mentioned note by saying that Costa Rica has spent \$1,000,000 on the airport at San José without having produced an airport that can be used by four motored planes. The runways will have to be lengthened considerably and the airport otherwise improved, he stated, if San José is to assume a place on the international civil aviation map. Moreover, the Costa Rican Government now suspects that the San José airport is not well located and before expending more money wishes to have the technical advice of experts in deciding whether to develop a new airport at Alejuela (10 miles from San José) or to improve the San José airport. He asked whether the United States could provide such assistance.

Mr. Wise recalled that Mr. Carl A. Posey of CAA had already prepared a study entitled "Airport Study for San José, Costa Rica". The Ambassador stated that he had not been aware of the existence of this study and seemed to be satisfied that it would answer the technical questions involved. He was furnished with a copy of the study and informed that four copies have been made available to the Costa Rican Government in San José.

The meeting closed with the understanding that the Costa Ricans will review Mr. Posey's study and will discuss the technical phases of the problem with the above-mentioned CAA representatives. Any questions which may later arise with respect to financial assistance or in respect to training of Costa Rican personnel will be raised through diplomatic channels.

¹⁵ Note not printed.

¹⁶ Divisional Assistant, Office of International Information and Cultural Affairs.

818.24/12-1046

*The Acting Secretary of State to the Costa Rican Ambassador
(Gutiérrez)*

CONFIDENTIAL

WASHINGTON, December 10, 1946.

EXCELLENCY: I have the honor to transmit herewith two copies each of Statement LL-9 and supporting schedules¹⁷ reporting charges made against Your Excellency's Government during the period from March 1, 1946 through May 31, 1946, covering defense matériel transferred in accordance with the terms of the Lend-Lease Agreement signed on January 16, 1942¹⁸ by representatives of the Republic of Costa Rica and the United States of America.

It will be noted that there were no charges during the period under reference and that charges through May 31, 1946 aggregate the grand total of \$151,967.52. Of this grand total the sum of \$82,000 represents the appropriate percentage due on account from Your Excellency's Government under the terms specified in the Agreement. This Department requested payment of this sum, the same sum that was due at that time, in its note of September 4, 1945, and again in its notes of January 11, 1946, April 10, 1946, and September 26, 1946.¹⁹ Similar requests for payment were submitted in notes dated July 14, 1944, November 28, 1944, March 21, 1945, and June 12, 1945.¹⁹ No payments have been received to date.

I bring this matter most earnestly to the attention of Your Excellency's Government in the hope that there may be received as soon as possible from the Government of Costa Rica a check in the amount of \$82,000, which would cover sums due including arrears. Such a check should be drawn to the order of the "Treasurer of the United States" and should be sent to this Department for appropriate disposition.

It is requested that the enclosed statement and supporting schedules be treated by Your Excellency's Government on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

818.20 Missions/11-2946

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

SECRET

WASHINGTON, December 12, 1946—9 p. m.

357. Policy of military assistance to Costa Rica has been limited primarily to helpfulness in organizing and training officers prin-

¹⁷ None printed.¹⁸ *Foreign Relations*, 1942, vol. vi, p. 235.¹⁹ None printed.

cipally for police duty. With concurrence interested Costa Rican authorities, other than René Picado,²⁰ policy has been to discourage growth of military organization.²¹ Costa Rican public, traditionally peaceful, apparently has always feared armaments and generally speaking has opposed entry of same into Republic. Importation of arms by Military Mission might well be misinterpreted, publicized and grossly exaggerated. Under present local political atmosphere Emb most likely would be drawn embarrassingly into matter. Accordingly, Dept concurs fully with position taken by Amb and supports his disapproval of proposed requisition (Embs desp 2628, Nov. 29²²).

War Dept informed.

ACHESON

UNITED STATES-COSTA RICAN COOPERATION IN INTERNATIONAL,
POLITICAL, AND LABOR RELATIONS

818.00/2-1146

The Ambassador in Costa Rica (Johnson) to the Secretary of State

CONFIDENTIAL
No. 1587

SAN JOSÉ, February 11, 1946.
[Received February 15.]

[Extract]

Subject: Elections Take Place with Comparative Freedom and with only very Minor Instances of Violence.

SIR: . . .

President Picado did his utmost personally to secure free elections and this fact has been noted even in the Opposition press. At an informal interview with the President this morning he hold me that he was very pleased with the result of his efforts to perpetuate democratic processes and to have free elections without violence. He

²⁰ General René Picado, Costa Rican Minister of Public Security.

²¹ In reply to a request of August 29 for assistance in obtaining five aircraft which the Costa Rican Government desired to purchase in order to organize a small military air force, the Department informed the Costa Rican Ambassador that inasmuch as Costa Rica's lend-lease account was entirely in arrears, this Government could not give serious consideration to the request for help in establishing an air force in Costa Rica. The Ambassador in Costa Rica was informed of this action, in instruction 646, October 30 (818.248/8-2746).

²² Not printed; it transmitted a requisition submitted by the Chief of the United States Military Mission to Costa Rica (Messinger) for United States weapons and ammunition which he considered necessary to demonstrate in order to train the Costa Rican Army in United States tactics and methods of instruction and to acquaint them with United States weapons. Ambassador Johnson indicated that he could find nothing in the agreement regarding the Military Mission (July 14, 1941, Department of State Executive Agreement Series No. 212) stating that it was the duty of the Mission to acquaint the Costa Rican Army with United States weapons, and further, if it was not the intention of the United States Government to supply the Costa Rican Army with such weapons in the near future, he could see little object in training the Army in use of such weapons (818.20 Missions/11-2946).

added that he was very grateful to me for the moral strength I had given him in personal conversations regarding honestly conducted elections. He also thanked me for the informal suggestion I made to him a week ago regarding the possibility of a "fireside chat" over the radio with the people of Costa Rica regarding his intentions of maintaining the freedom of elections and his desire to avoid violence of any kind. (The President did speak over the radio on the evening before election day, my despatch, February 11, 1946, No. 1586 ²³)

I have been most careful not to give even the semblance of interfering in internal politics, but within this principle and within the instructions of the Department I have done what little was possible to encourage free elections and a peaceful solution of political difficulties. My suggestion to the President regarding radio speech appears to have been helpful in obtaining the desired results. It will be recalled that several months ago upon my return from leave of absence I gave a press conference with the express authority of the Department in which I touched upon freedom of elections. I have also taken occasion to talk informally and personally with the leaders of all the political parties and have emphasized the great respect with which Costa Rica is regarded in the United States and in Europe, because of the stability of its Government and truly democratic processes maintained in Costa Rica.

A week before the elections I caused to be published in the local press the radio conversation in which Mr. Ellis Briggs ²⁴ was quoted as saying that we feel a greater friendship toward those governments which are based upon the approbation, freely and periodically expressed, of the governed. In the preamble to the quotations contained in the article it was stated that the American people heartily believe in peaceful and democratic processes.

I believe that within the very definite bounds of what diplomatic officers may say, this Embassy has contributed something to the continuance of democratic processes in Costa Rica as exemplified in yesterday's elections.

Few and minor incidents of violence took place and while there will be a considerable number of specific accusations regarding fraud, there is no doubt that the elections were conducted in a comparatively honest manner.

An analysis of the results of the elections will be forwarded immediately.

Respectfully yours,

HALLETT JOHNSON

²³ Not printed.

²⁴ Director of the Office of American Republic Affairs.

818.00/2-2046

The Ambassador in Costa Rica (Johnson) to the Secretary of State

[Extracts]

CONFIDENTIAL
No. 1621COSTA RICA, February 20, 1946.
[Received February 28.]

SIR: I have the honor to report that with the holding of midterm congressional elections on February 10 of this year, President Picado has reached the half-way mark of his period of office. (Picado was elected, it will be remembered, on February 13 and inaugurated President on May 8, 1944). Having reached this point it is felt that a review of the President's two years in office may be of use to the Department. . . .

International

The attitude of the Picado Government towards the United States has been from the beginning one of complete cooperation. Both President Picado and Foreign Minister Acosta have time and time again reiterated that the basis of the Administration's foreign policy is to follow the exclusive lead of the United States. Such has proven to be the case in many instances, notably at both the Chapultepec and San Francisco Conferences.²⁵

In at least one case, that of Spain, the policy adopted by the Administration has followed United States guidance to the detriment of the Government's popularity. It will be remembered that Congress voted to request that the Government break relations with the Franco regime, the press has been unanimous in requesting the same thing, and in 1945 an anti-Franco week was organized which was participated in by various groups throughout the country. Both the President and the Foreign Minister, however, have remained steadfast in their determination not to sever diplomatic relations until such time as the United States should do so.

Respectfully yours,

For the Ambassador:
LIVINGSTON D. WATROUS
Third Secretary

²⁵ For documentation on the Inter-American Conference on Problems of War and Peace, Mexico City, February 21-March 8, 1945, and the United Nations Conference on International Organization, San Francisco, April 25-June 26, 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff., and *ibid.*, vol. i, pp. 1 ff., respectively.

718.00/3-2246

The Ambassador in Costa Rica (Johnson) to the Secretary of State

CONFIDENTIAL

SAN JOSÉ, March 22, 1946.

No. 1741

[Received March 27.]

Subject: Attitude of Costa Rica in the Event of Trouble between the United States and Russia.

SIR: I have the honor to report that President Picado and the Minister of Foreign Affairs have many times assured me that the international policy of Costa Rica will be guided by that of the United States. The sincerity of these statements has been proven many times.

Communism and the Soviet Government has long been the "bête noire" of Don Julio Acosta, and his attitude in case of trouble between the United States and Russia would be unequivocal. The President has no such obsession regarding Russia, but his friendship for the United States is so firm that no doubt exists as to the position he would take in case of such trouble. The same may be said for the other members of the Costa Rican Government.

Moreover, the followers of Picado, of the Calderón Guardias²⁶ and of the opposition leaders would back up the Government solidly in any position it might take in favor of the United States against Russia. The leaders of the opposition are continually inveighing against Communism, both in and out of Costa Rica.

There remains the ex-Communist Vanguardia Popular Party, which according to available figures controls some 10 to 15% of those entitled to vote in Costa Rica. Manuel Mora, the leader of the party, is an opportunist and an admirer of the Soviets. He has, however, cooperated with American business interests and has stated to me that he follows no "line" other than the betterment of the laboring classes. Some of the subleaders of Vanguardia Popular might side with Russia against the United States, either openly or in secret, but I believe that the majority of their followers would be pro-United States in almost any eventuality. Mora himself would be governed by circumstances, and it is difficult to predict accurately what his attitude would be. It is true that *Trabajo*, the weekly paper of Vanguardia Popular contains many articles attacking capitalism and a few criticizing the United States and its attitude toward Russia, but this paper does not necessarily represent the attitude of Mora, who after V-J Day organized a large pro-Allied demonstration which turned out to be mainly pro-United States.

²⁶ Rafael Angel Calderón Guardia, Costa Rican President, 1940-44.

In summary it can safely be said that not only the Government but that a great majority of the Costa Rican people would be with us as opposed to Russia in any struggle between the two countries.

Respectfully yours,

HALLETT JOHNSON

818.5051/5-946

The Ambassador in Costa Rica (Johnson) to the Secretary of State

No. 1913

SAN JOSÉ, May 9, 1946.

[Received May 17.]

SIR: I have the honor to report that in the May 8th edition of *La Gaceta* there was published a decree removing certain agencies of the Government of the United States from the jurisdiction of Costa Rican courts. The decree, which is transmitted, read in translation as follows:

[Here follows text of Executive decree No. 1, by President Teodoro Picado, May 6, 1946.]

The decree will relieve the Institute of Inter-American Affairs, the Public Roads Administration, the Department of Agronomy, Rubber Experimental Station, Rubber Development Corporation, and the Cooperative Public Health Service from all claims in any Tribunal of Costa Rica. Of importance is the fact that the decree will permit the agencies to refuse the payment of "cesantía" and "preaviso",²⁷ since it will be impossible to demand their presence before a Labor Court.

It is understood, however, that the agencies, in case they so desire, are still in the position to pay "preaviso" and "cesantía" from an administrative standpoint. These payments are called for under the *Codigo de Trabajo*, a copy of which was forwarded in this Embassy's despatch No. 540* of September 7, 1943.²⁸

While the legal position of our agencies is clear, I believe that the policy question is still open. Contracts of various agencies with the Costa Rican Government are very different in form. The Public Roads Administration is specifically excepted from the provisions of the Labor Code, while it is stated in the Cinchona contract²⁹ that

²⁷ *Cesantía*, a term referring to terminal leave pay; *preaviso*, a term referring to payment of salary in lieu of 15-30 days' written notice prior to termination of employee's contract of employment.

*Subject: "Transmitting Copies of New Costa Rican Labor Code." [Footnote in the original.]

²⁸ Not printed.

²⁹ For memorandum of understanding on establishment of the cinchona plantation, March 12, 1943, see *Foreign Relations*, 1943, vol. VI, p. 96. Contract for effectuating the memorandum of understanding, March 4, 1944, not printed.

the provisions of the Labor Code must be followed. Mr. Stadtmiller, the head of the Cinchona development which now functions under the Reconstruction Finance Corporation,³⁰ informs me that he has already made many payments for "preaviso" and "cesantía". Mr. Ray Hill, the Assistant Director of the Food Supply Division of the Institute of Inter-American Affairs, who is now in San José, informs me that he understands that Institute employees in Peru and Venezuela are paid preaviso and cesantía. He adds that, since it is the policy of his office to follow local customs, Christmas bonuses are also given to such employees.

The above-mentioned decree makes it clear that the American organizations cited cannot be compelled to submit to the jurisdiction of a Costa Rican Court, but the question of policy still remains, first as to whether immunity should be claimed on this basis, and second as to whether preaviso and cesantía should not be paid in order to avoid complaints to the courts. Officers of the Embassy can, of course, claim diplomatic immunity under the authority of the Department, but there may be cases in which the Department would not authorize their so doing. The same question might arise with regard to cases brought before the Labor Court with regard to Costa Rican employees of United States Government organizations. It has been pointed out to me that an obstreperous "Chief of Party" might well rely on the lack of jurisdiction of Costa Rican courts in cases where there might be no moral justification for such action.

I venture to suggest, therefore, that the Department determine the policy which should be followed regarding cases brought under local Labor Codes, and should give specific instructions to the Embassies and to the Chiefs of Party in Latin American countries. I am personally of the opinion that preaviso and cesantía should be paid voluntarily in order that the good done by the expenditure of hundreds of thousands of dollars in the furtherance of the Good Neighbor Policy should not be undone by a refusal to follow the provisions of local Labor Codes. Public opinion is a very sensitive thing, and if laborers in these countries should vociferously complain that when they work for an American corporation they do not receive the benefits of their own Labor Code, much damage might be done. Moreover, while in

³⁰ During 1946 the Department of State participated, with other Governmental agencies concerned, in inconclusive discussions on the expressed desire of the Reconstruction Finance Corporation to dispose of its interests in the cinchona plantation at Isla Bonita, Costa Rica, at the earliest possible date, but efforts to settle the question of disposition of this Governmental project were extended into 1947.

With regard to the United States interest in the cinchona program, see the testimony of William E. Houk, special representative of the Reconstruction Finance Corporation, on August 30, 1946, printed in *Investigation of the National Defense Program: Hearings Before a Special Committee Investigating the National Defense Program*, United States Senate, 80th Cong., 1st sess., part 37, pp. 21091-21095.

theory local laborers are adequately protected under the United States Employees Compensation Act and other legislation, I understand that these acts have not been translated into Spanish and that the red tape necessary for non-English speaking peons to avail themselves of the provisions of our legislation would make it practically impossible for them to do so. I understand, for example, that there are no doctors in Costa Rica who are nominated in foreign countries under the Compensation Act to forward required proof in specific instances to American authorities.

I should appreciate the Department's instructions in the premises at the Department's early convenience.

Respectfully yours,

HALLETT JOHNSON

818.00/5-1646

The Assistant Secretary of State (Braden) to the Ambassador in Costa Rica (Johnson)

PERSONAL

WASHINGTON, May 20, 1946.

DEAR HALLETT: I have been interested in your despatches nos. 1767, 1797 and 1864 of April 1, 8 and 26 respectively, your personal letters of April 24 and May 9³¹ to Murray Wise³² and other reports from the Embassy relative to the current political situation in Costa Rica. As you have pointed out and as has been seen from the remarks recently made by Ambassador Gutiérrez to me and to other officers of the Department, there has been a tendency both among Administration and Opposition leaders to misinterpret the attitude of the Embassy and the Department toward present Costa Rican political issues.

I have told Ambassador Gutiérrez with respect to Costa Rican politics that this Government would definitely maintain its policy of non-participation in the internal affairs of the other American republics. I gave him specific instances of my own endeavors and actions to prevent United States intervention in the political affairs of Cuba and Argentina during recent campaigns in those countries and let it be known that this represented the policy of the United States Government and that Costa Rica would be no exception to our policy not to interfere in what are purely internal affairs of another republic.

As you know, I was also visited by Otilio Ulate³³ and Rafael Calderón Guardia. I was most emphatic in telling them that while this Government would not participate in any way in the internal affairs of Costa Rica I hoped that the responsible citizens of that

³¹ None printed.

³² Area Specialist, Division of Caribbean and Central American Affairs.

³³ Costa Rican newspaperman.

country would during the coming political campaign endeavor to maintain the traditional peaceful political record of Costa Rica and that they would do everything possible to insure democratic procedures and to avoid any use of arms. I expressed the hope that the candidate elected to the presidency in 1948 would represent the free choice of the people.

I sincerely hope that the situation which now obtains in Costa Rica will soon give way to an era where individualized politics with accompanying emotional upheavals will be replaced by party politics and reason. In the meantime we must remain neutral and impartial and every act of ours must indicate to observers that we are definitely committed to a policy of non-interference in Costa Rican political matters. I think the Administration and the Opposition are now quite well and correctly informed of our attitude and know of our special feeling of friendship toward honest and democratic governments.

With warm personal regards,
Sincerely yours,

SPRUILLE BRADEN

501/10-2546

The Ambassador in Costa Rica (Johnson) to the Secretary of State

CONFIDENTIAL
No. 2480

SAN JOSÉ, October 25, 1946.
[Received October 28.]

SIR: With reference to the Department's confidential circular telegram, dated October 8, 1946, 8 a. m.,³⁴ I have the honor to make the following report on the attitude of the Costa Rican Government towards various questions which are coming up in the meeting of the Assembly of the United Nations:³⁵

The Costa Rican delegation to the Assembly has been instructed to only telegraph the Ministry of Foreign Affairs regarding the most important issues and, in general, to follow the line desired by the United States Government.

The Minister for Foreign Affairs is against the use of veto power in the United Nations organization and has instructed the Costa Rican delegates, now in New York, accordingly. Don Julio Acosta has also instructed Costa Rican representatives, however, to be guided on this question by the United States representatives, even though the

³⁴ Not printed.

³⁵ The General Assembly of the United Nations held the second part of its first session in New York, October 23-December 16, 1946. For documentation, see vol. I.

latter should hold a contrary opinion to that of the Costa Rican Government.

There would appear to be but a single matter in which the Minister for Foreign Affairs would be unwilling to follow our lead, namely, the question of relations with the Spanish Government. Señor Acosta informed me yesterday that the Minister of Ecuador to Guatemala recently asked the Costa Rican Minister there whether, if the question of breaking relations with Franco should arise at the Assembly, Costa Rica would not advocate such action. The Minister was instructed to reply in the negative. Señor Acosta is very much under the influence of the Spanish Chargé d'Affaires here, Señor Casares, who has consistently and successfully endeavored to become a great personal friend of the Minister for Foreign Affairs (it is still true, however, that the Costa Rican Congress and press have been steadily in favor of breaking relations with the Franco Government).

Señor Acosta has also informed me that he knows nothing of an attempt of an Argentine representative to the Assembly to call a meeting of Latin-American representatives in order to form a common policy. I am certain that the Minister would be opposed to any such attempt.

At the conclusion of our conversation the Minister stated that he knows nothing of the reported intention of the Salvadoran delegate to inform the Assembly with regard to possible plans looking toward the bringing about of Central American unity. He added that there had been no consultation with his Government on this subject.

Respectfully yours,

HALLETT JOHNSON

818.5051/5-946

The Secretary of State to the Ambassador in Costa Rica (Johnson)

No. 680

WASHINGTON, November 26, 1946.

The Secretary of State refers to the Embassy's despatch no. 1913 of May 9, 1946, in regard to the status of the employees of certain United States Government corporations that operate in Costa Rica vis-à-vis the courts of that country.

That a Government agency operating in a foreign country is entitled to sovereign immunity in that country is a recognized principle of international law. This is equally true in Costa Rica, and there a Presidential decree has been issued with respect to United States Government agencies operating in that country giving concrete expression to that fact. Consequently, no issue is involved in regard to the recognition of this principle.

From a policy standpoint The Institute of Inter-American Affairs and the Inter-American Educational Foundation, Inc. have quite properly insisted that they are entitled to sovereign immunity, but at the same time, according to the Department's understanding, have endeavored insofar as possible to conform to local customs and usages in the employment of national personnel, not as a matter of duty or obligation but rather as a gesture of courtesy and good will. . . .

It should be noted, however, that the practice of the corporations under reference has not been uniform in the various American republics with respect to payment of Social Security and other similar benefits. In some countries, notably Chile and Ecuador, the contributions called for by local laws have been adopted by the corporations as the basis or scale for making such payments, and, as a consequence, there has been in effect almost complete compliance with such laws although on a voluntary basis. In other countries no compliance has been made at all and in still other countries there has been a partial compliance. The variance in practice may possibly be explained, in part at least, as a result of the comparative strength of the Social Security and labor systems and the political situation existing in the particular country at the time the decisions were made. It has not been considered advisable to attempt to lay down an invariable course of action applicable to the activities of the corporations in all the countries, and it has seemed more desirable to follow whenever possible the precedents which had already been established in that regard.

As regards the transfer of certain employees of the Health and Sanitation Division of The Institute of Inter-American Affairs to the Servicio in Costa Rica, it is understood that this has been effected in such a way as to comply with "preaviso" requirements. . . .

In the case of the Food Mission of the Institute which operates in Costa Rica, substantial compliance with those laws has been made on a voluntary basis by promulgating locally regulations which follow very closely the national Codigo, especially with respect to the provisions of preaviso and cesantía. Upon termination of employment their personnel has been paid amounts equivalent to the cesantía received by employees of private concerns.

In regard to the compensation of local employees for injuries, it has been held that all classes of employees of the corporations are considered to come under the protection of the United States Employees' Compensation Act and the Field Manual of the corporations provides that claims for injuries and death shall be referred to the Commissioner of the United States Employees' Compensation Com-

mission³⁶ for action and payment. With the amendment of the United States Employees' Compensation Act (Public Law 161, 79th Congress, approved, July 28, 1945) considerable freedom has been given to the Commission with respect to the payments of compensation for disability of employees in foreign countries. The Commission can, in effect, adopt either the local laws, customs, or practices or promulgate its own schedules of compensation. It is the understanding of the Department that the Resident Claims Commissioner in the Canal Zone, by letter dated September 18, 1945,³⁷ indicated to the United States Ambassador to Costa Rica that it intends to follow the provisions of the local laws in regard to payments to Costa Rican nationals who are employees of the corporations. Consequently, there is no reason to believe that such local employees are not adequately protected against injury. To comply in addition with the labor laws of Costa Rica by purchasing locally a policy of Workmen's Compensation Insurance would increase the expenses of the corporations and uselessly duplicate their insurance protection. The additional cost required would have to be defrayed by the corporations and there is certainly a strong possibility that the Comptroller General of the United States would question the propriety of such payments.

It is the understanding of the Department that exceptions have already been taken by the General Accounting Office in regard to payments made on behalf of Social Security in Ecuador. In making such exceptions the Comptroller General referred to his previous ruling in the same sense and cited Volume IV of Hackworth's *Digest of International Law*, page 798, as authority for the doctrine that the United States, in its capacity of employer of subjects of foreign countries in its consulates, embassies, etc. abroad, is not required to comply with the laws of foreign governments requiring payments of a similar nature.

It was believed in view thereof, that it would be desirable from the standpoint of good relations, especially because of the type of operations being conducted by the corporations abroad in the fields of Health and Sanitation, Agriculture and Education, that some method be worked out to legalize the payments or contributions under the social security or labor laws of the local governments. In order to clarify the situation generally and with the view to ratifying payments already made by the corporations and providing authority for payments in the future, resolutions of that nature were adopted by the Boards of

³⁶ Functions of this Commission were assumed by the Bureau of Employees' Compensation which was created by the Federal Security Administrator, effective July 16, 1946.

³⁷ Not printed.

Directors of The Institute of Inter-American Affairs and the Inter-American Educational Foundation, Inc. on July 15, 1946. These resolutions authorize the Ranking Field Officials of the corporations to determine in each country whether or not and to what extent compliance on a voluntary basis should be made by the corporations with the local social security and labor laws. In arriving at a decision on these points the Ranking Field Officials will be expected to be guided in making an appraisal of the importance of the local factors involved by the experience of the United States diplomatic missions. Relating this to the questions presented in Costa Rica, the effect would be to permit a reappraisal of the situation in the light of existing circumstances by the Ranking Field Officials of the corporations and the U.S. Embassy there.

CUBA

UNITED STATES CONCERN WITH CUBAN PROBLEMS RELATED TO THE DEFENSE OF THE WESTERN HEMISPHERE¹

811.24537/2-946

The Secretary of State to the Cuban Ambassador (Belt)

CONFIDENTIAL

WASHINGTON, February 13, 1946.

EXCELLENCY: Reference is made to your note of September 24, 1945,² requesting that by March 2, 1946, the Government of the United States turn over to the Government of Cuba the San Antonio and San Julián bases, as well as the structures built at the Camagüey Airport.

I am pleased to inform Your Excellency that, without reference to the correctness of the assumption appearing in your note as to the date of re-establishment of peace between the United States and the Axis Powers, this Government will proceed to evacuate the airports at San Antonio de los Baños and San Julián. Every endeavor will be made to complete the evacuation by March 2, 1946, the date suggested by Your Excellency's note, or as soon as possible thereafter. These operations will be carried out in conformity with the pertinent provisions of the Agreement for Military Cooperation of June 19, 1942,³ and of the exchange of notes of July 17-20, 1942,⁴ to which Your Excellency's note refers, concerning the transfer to the Cuban Government of fixed installations placed by or on behalf of the Government of the United States.

This Government will presently despatch a special Military Commission from Washington to plan and coordinate the details of the transfer. The Commission will, among other things, make an inventory of the installations and constructions of every kind which are to be removed. Your Excellency's Government is cordially invited to designate representatives to meet with the Commission and to observe its work.

¹ For previous documentation on the questions of control and use of strategic air bases and of airports in Cuba, see *Foreign Relations*, 1945, vol. ix, pp. 896 ff. For documentation on military collaboration between the United States and other American Republics during 1946, see pp. 86 ff.

² *Foreign Relations*, 1945, vol. ix, p. 909.

³ For text of agreement, see *Foreign Relations*, 1942, vol. vi, p. 267.

⁴ Not printed; see telegrams 584, July 17, 10 p. m., and 588, July 19, 10 p. m., from Habana, *ibid.*, pp. 278 and 279.

Inasmuch as I am not aware, however, of the precise structures at the Camagüey Airport ⁵ which your Excellency's note contemplates, I am referring this aspect of the matter to the appropriate authorities of this Government for their consideration; and I hope to be able to advise you further in the premises in the near future.

Accept [etc.]

For the Secretary of State:
SPRUILLE BRADEN

811.24537/11-545

The Secretary of State to the Secretary of the Navy (Forrestal)

SECRET

WASHINGTON, March 22, 1946.

MY DEAR MR. SECRETARY: Reference is made to negotiations which have been conducted with the Government of Cuba for the postwar use of the air base at San Julián.

A draft agreement for the reciprocal use by Cuban and United States military forces of air bases at San Antonio de los Banos and San Julián was delivered to the Cuban Ambassador on November 8, 1945.⁶ Ambassador Norweb discussed the matter on several occasions with President Grau, and discussions were also held here between the Cuban Ambassador and representatives of this Department. While President Grau assured Ambassador Norweb of Cuba's desire to cooperate fully with the United States in the post-war use of the bases, he has refused to consider any agreement until after the return of the bases to the Cuban Government.

It is, therefore, recommended that the Navy Department take steps to remove from the base at San Julián such non-fixed installations, equipment, and material as it deems appropriate in order that the base may be turned over to the Cuban Government in conformity with the provisions set forth in an exchange of notes between Ambassador Braden and the Cuban Minister of State in July, 1942.⁷

The question whether any of this removable equipment should be declared surplus in Cuba was discussed at a meeting attended by representatives of the War, State, and Navy Departments on March 18. The view was expressed that it would not be desirable to inform the Cubans at this time that any equipment may be declared surplus, but that recommendations should be formulated by the Navy Department as soon as possible so that should it be considered desirable, later but prior to the transfer of the base, to make available to the Cubans such items, for example, as vehicles and equipment the removal of which

⁵ For data on Cuban authorization for the Camagüey project, see *Foreign Relations*, 1942, vol. VI, pp. 262, 281-282, and 288.

⁶ Not printed.

⁷ See footnote 5, above.

in terms of probable surplus value in the United States would not appear economical, steps to make such equipment available could then be taken. Because of the possible negotiating value of such equipment it should be emphasized, however, that no statement of possible surplus should be made to the Cubans until agreement has been reached between the State and Navy Departments. Should it be decided to declare surplus and offer for sale in Cuba any of the movable equipment, the opinion was expressed that cash transactions exclusively should be undertaken.

The fixed installations, title to which will be vested under the agreement in the Cuban Government as of the date of transfer, are of course not involved and will be transferred in accordance with the procedure referred to in my letter of March 8, 1946.⁸ An inventory of such installations should be made and signed by the Cuban Government on the date of transfer.

I suggest May 20, which is the Cuban national holiday, as the appropriate date for the formal transfer of the base.⁹

A similar communication, together with a copy of this letter, is being sent to the Secretary of War recommending the same procedure and simultaneous action with respect to the air base at San Antonio de los Baños.¹⁰ Copies are likewise being sent to the Foreign Liquidation Commissioner for his information.

Sincerely yours,

JAMES F. BYRNES

811.24537/2-946

The Secretary of State to the Cuban Ambassador (Belt)

WASHINGTON, April 1, 1946.

EXCELLENCY: Reference is made to the note of February 6, 1946 from Your Excellency's Minister of State to Ambassador Norweb¹¹ concerning military bases constructed at San Antonio de los Baños and San Julián, Cuba, by the United States Government under the 1942 agreements for military and naval cooperation¹² and setting

⁸ Not printed.

⁹ Secretary Forrestal replied in his letter of April 4, 1946, that Naval commands had been instructed to remove all equipment and materials from San Julián, with the exception of the fixed installations and equipment necessary to leave the base in a minimum operating condition; formal transfer of that base to the Cuban Government on May 20, 1946 was completely satisfactory to the Navy Department (811.24537/4-446).

¹⁰ Secretary of War Patterson replied on March 30, 1946, that instructions had been given to make preparations to turn over all fixed installations at Batista Field to the Cuban Government, and estimated that all property and equipment not covered by the 1942 agreement might be removed from Batista Field within 90 days (811.24537/3-3046).

¹¹ Not printed.

¹² Dated June 19 and September 7, 1942; *Foreign Relations, 1942*, vol. VI, pp. 267 and 283, respectively.

forth the principles by which the Government of Cuba proposes to be guided in the future administration of these bases. Reference is also made to the Department's note of February 13, 1946 to Your Excellency and to discussions which have taken place here and in Habana concerning the transfer of the bases to the Cuban Government.

As your Excellency is aware, a commission was despatched to Cuba last February to make an inventory of the installations and equipment at the bases. The removal, in accordance with the agreements, of non-fixed installations and equipment is now being effected, and I am pleased to inform Your Excellency that this Government proposes to transfer the bases, together with fixed installations and constructions, to the Cuban Government on May 20, 1946.

Your Excellency will readily understand that this action with respect to the base at San Antonio de los Baños is being taken notwithstanding Article XIII of the Agreement for Military Cooperation, which provides that "the authorizations contained in this Agreement for military wartime cooperation shall cover the period of the present war plus six months after the establishment of peace between the United States and the Axis powers."

I am instructing Ambassador Norweb to discuss with appropriate representatives of Your Excellency's Government details for arranging the formal transfer of the bases. In this connection, it is hoped that Your Excellency's Government will understand that while normal progress in making arrangements for the transfer of the bases will be maintained by representatives of this Government's Army and Navy, there may be some unavoidable delay in removing all of the non-fixed installations and equipment by May 20. Such a delay, however, would not interfere with the plans of this Government formally to transfer the bases to Your Excellency's Government on that date.

These bases constitute important links in the hemisphere defense system. The dangers that would result from permitting that system to disintegrate are obvious. Speed is one of the principal characteristics of new methods of warfare and it appears unlikely that in the event of another emergency, time will be available to prepare or repair our defenses. I desire therefore to express the satisfaction with which this Government has taken cognizance of the declaration made by Your Excellency's Minister of State in his note of February 6 to Ambassador Norweb,¹³ to the effect that Cuba proposes to maintain the bases at their maximum degree of efficiency in order that they may always be in first-class condition and available for use in the common endeavor of our two countries to assure the defense of the American Continent.

Accept [etc.]

JAMES F. BYRNES

¹³ Not printed.

811.24537/3-3046

The Secretary of State to the Secretary of War (Patterson)

SECRET

WASHINGTON, April 12, 1946.

MY DEAR MR. SECRETARY: I have your letter of March 30, 1946¹⁴ with further reference to the transfer of the air base at San Antonio de los Baños to the Cuban Government.

The Department on April 1 presented a note to the Cuban Ambassador informing him that the bases at San Antonio de los Baños and San Julián will be transferred to the Cuban Government on May 20, 1946. A copy of this note is enclosed herewith.¹⁵ It is understood, of course, that property at San Antonio de los Baños excess to the needs of the Army and Navy will be declared surplus and disposed of by the Foreign Liquidation Commissioner.¹⁶ A list of such property should be furnished to this Department as soon as possible in order that it may be made available to the Foreign Liquidation Commissioner.

Ambassador Norweb has been instructed to discuss with appropriate officials of the Cuban Government details for arranging the formal transfer and will continue to collaborate closely with Colonel Wade, Commanding Officer of the base. It is suggested that instructions be sent to Colonel Wade regarding military representation at the formal transfer ceremony.¹⁷

After the return of the base further negotiations will be conducted with the Cuban Government for the purpose of reaching an agreement for the post war use of the base.¹⁸

¹⁴ See footnote 10, p. 704.

¹⁵ *Supra*.

¹⁶ Ambassador Norweb reported in telegram 366, May 20, 1946, 3 p. m., that movable surplus from Batista Field, at San Antonio de los Baños, had been disposed of in two bulk sales to the Cuban Government; total cost value material sold was \$1,591,254; total estimated fair value was \$1,247,487; total sales value received was \$997,990; and small individual sales yet to be effected would bring total to slightly over \$1,000,000 (837.24/5-2046).

¹⁷ In despatch 2160, September 12, 1946, Ambassador Norweb commented that the "turning-over ceremony, held very appropriately on Cuban Independence Day, was featured by tributes from the highest Cuban authorities to the understanding and non-interventionist spirit evidenced by the United States." (711.37/9-1246)

¹⁸ In telegram 331, May 3, 1946, 5 p. m., the Acting Secretary of State informed Ambassador Norweb that the proposed discontinuance of Army teletype circuit No. 9881 on May 20 when the U.S. Army was to relinquish Batista Air Base to Cuban Army Air Forces, had been referred to the Weather Bureau, which stressed the vital importance to military and commercial aircraft operation of the exchange of meteorological data through this communication channel, and strongly advised the maintenance of circuit 9881 between Miami, Key West, the National Observatory at Habana, and the air bases at San Antonio and San Julián (837.9243/4-1246). In an exchange of notes of May 22 and June 5, the Embassy and the Cuban Ministry of State reached an agreement for maintenance of this circuit, and the Cuban Government agreed to contribute half of the monthly operating cost of \$2,478.00 (837.9243/6-746). For the United States-Cuban memorandum agreement for the cooperative establishment and operation of a weather station at Habana, August 2, 1944, see Department of State Treaties and Other International Acts Series (TIAS) No. 1842.

Copies of this letter are being sent to the Secretary of the Navy and the Foreign Liquidation Commissioner.

Sincerely yours,

JAMES F. BYRNES

811.34537/4-2246

*Memorandum by Mr. Howard H. Wilson of the Division of Caribbean and Central American Affairs*¹⁹

[WASHINGTON,] April 29, 1946.

Attached letter of April 22 from Navy²⁰ requests representations to the Cuban Government for the extension, for another year beginning June 4, 1946, of the temporary authority of the United States to operate a pumping plant which supplies water to the Base at Guantánamo.²¹

The background of the question is as follows:

In 1938 the Henri Schueg Chassin Company, of Cuba, constructed a pumping plant on its land near the base and concluded a twenty-year water supply contract with the Base. As the capacity of the plant proved inadequate, and as the Company apparently did not wish to finance a new or larger plant, the Navy had a second pumping plant constructed on the Company's land, with the idea of having the Company operate this one also. Since no agreement was reached on the terms of operation, the Navy proceeded to operate the second plant itself, and continues to do so.

The Cuban Government has consented to this arrangement for the second plant, only on a year-to-year basis, and with the qualification that permanent arrangements must in any case be reached six months after the end of the war. It has been that Government's contention, that under Article V of the Agreement for Military and Naval Cooperation of September 7, 1942, the United States is obliged to turn over the pumping plant to the Cuban Government six months after the end of the war (Des. 3303, June 1, 1943, from Habana, file 811.34537/-573²²). This contention was refuted in an unanswered memorandum of May 14, 1943, presented by Ambassador Braden to President Batista (*ibid.*, enclosure no. 4).

Although it is possible that when authorization is requested again to operate the second plant for another year, Cuba may, in line with her airbase tactics,²³ now counter with a request that we turn over the

¹⁹ Addressed to CCA—Mr. Walker and Mr. Barber.

²⁰ Not printed.

²¹ For texts of agreements of 1903 by which the United States leased from Cuba the land and water areas comprising the Guantánamo Naval Base, see *Foreign Relations*, 1903, pp. 350-353; for text of the agreement which continued the terms of this lease, see article III of the treaty of relations, *ibid.*, 1934, vol. v, p. 184.

²² Not printed.

²³ See note from the Secretary of State to the Cuban Ambassador, February 13, p. 702.

second pumping plant to her entirely, the Cuban Government might be reluctant to do this without first satisfying the Company, which is quite influential, that the latter would not be adversely affected with respect to its own plant and its existing water supply contract with the Base.

In any event it appears that since negotiations to fix the future status of the plant have not progressed, although they have now been in progress for nearly five years, we have no alternative but to request such authorization on the same basis as before.²⁴ The Embassy has already been requested for its recommendations for further action; and their recommendations will undoubtedly cover the subject of the Navy Department's letter.

837.5041/5-1846

The Secretary of War (Patterson) to the Secretary of State

WASHINGTON, May 18, 1946.

DEAR MR. SECRETARY: Upon overtures of The Judge Advocate General and the Chief of Engineers of this Department, the Assistant Attorney General, Mr. John F. Sonnett, has brought to the attention of your Office of American Republic Affairs the possible impropriety of releasing to the government of Cuba the Batista Airport in that country without prior settlement of their moral obligation to the United States as concerns the Cuban labor problem.

As you possibly may know, suits have been filed in the New York City Court against the cost-plus-a-fixed-fee construction contractor of this project by 2048 Cuban nationals for wage claims aggregating approximately \$3,000,000.00. Due to newspaper advertising of Havana attorneys, it is contemplated that many more plaintiffs will join these actions before the trial date is set, and that the amount sued for may well exceed the total cost of the airport (approximately \$15,500,000.00). The local United States Attorney and private counsel defending the actions are not hopeful of a judgment for defendant as matters now stand, and the War Department will be legally bound to reimburse the defendant contractor for all its losses and expenses in this case.

These actions arise under a provision of the Cuban constitution which guarantees the Cuban citizens a pay scale equal to that of

²⁴ Ambassador Norweb reported in despatch 1591, May 16, 1946, that a note dated April 27 had been received from the Cuban Minister of State in which authority was granted for United States Navy personnel to operate the water supply system supplying the base at Guantánamo Bay for a further period of one year from June 4, 1946, in order that a definitive arrangement for the disposal of the United States Government-owned water supply system might be concluded (811.34537/5-1646).

foreign nationals employed in Cuba on equivalent jobs. Approximately 500 technicians, skilled and semi-skilled workmen from the United States were employed on this project, as well as 11,000 Cubans. All wage rate schedules for locally employed workmen were cleared with the Cuban Department of Labor by the contractor, and it was assumed that approval by that Department precluded any liability by the contractor under said constitutional provision.

I am advised that the Batista Airport is to be released to the Cuban Government on 20 May 1946, as a compromise arrangement, although your advisers have not conceded that you are legally required to do so, since the transfer had originally been agreed upon for a date six months after the end of the war. It was first proposed by this Department, and in turn by the Department of Justice to your Office of American Republic Affairs, that an attempt be made to obtain a commitment from the Government of Cuba whereby it would agree to indemnify the United States for all expenses incurred as a result of these suits, transfer of the field to be held in abeyance in the meantime. It is my understanding that Mr. Ellis O. Briggs of your office deems it inadvisable to postpone transfer of the airport or to press for such a commitment. Nevertheless, I further understand that Mr. Briggs has agreed to an alternative suggestion, and will seek from the Cuban government an official opinion that actions of the construction contractor were not violative of the constitution of Cuba. The issuance of such an edict appears reasonable in view of the previous position of Cuba's Labor Department, and introduction of same into evidence in this litigation would probably result in dismissal of the actions.

In view of the potential liability of the United States Government in the litigation, I shall greatly appreciate any action that you can take to expedite and make certain of the successful conclusion of this matter.²⁵

Sincerely yours,

ROBERT P. PATTERSON

811.24537/6-1946

The Chargé in Cuba (Woodward) to the Secretary of State

SECRET

No. 1764

HABANA, June 19, 1946.

[Received June 21.]

SIR: I have the honor to refer to past correspondence regarding the former United States Army Air Force Bases in Cuba, which were released to the Cuban Government on May 20, 1946, and to enclose herewith a copy of the text of a report submitted by the Military Attaché

²⁵ This matter was not concluded in 1946.

to his Department, in which there is set forth the attitude verbally expressed in a recent conference, by the Chief of the Cuban Army Air Force, with respect to possible reciprocal use by forces of each nation of the Air Bases pertaining to the other.²⁶

It will be seen that while the attitude of the Cuban Army Air Force Chief is reported as more than cordial, he has not yet been able to discuss technical details at length, much less to express any views regarding the possible basing on Cuban territory of American army aircraft or stationing at bases in Cuba of U.S. Army Air Force personnel.

Respectfully yours,

ROBERT F. WOODWARD

[Enclosure]

Report by the Assistant Military Air Attaché (Rigley)

SECRET

HABANA, June 17, 1946.

1. Colonel Camilo González Chávez, Chief of the Cuban Air Corps, requested a conference with the MAA office on the afternoon of 10 June 1946. The conference was attended by Colonel Chávez; Captain Efrain Hernández, Cuban MA and MAA to the United States; Colonel Edgar E. Glenn, and Lt. Colonel O. H. Rigley, Jr. At this conference Colonel Chávez proposed that the United States and Cuba enter into a reciprocal agreement for the use of military air bases in those two countries. This proposal contemplates the unlimited use of air bases and facilities by both countries without the necessity of previous permission or information for the desired use of the air bases or facilities. The proposal includes preferential treatment to military personnel on immigration and customs regulations. Chávez stated that as far as the Cuban Air Corps was concerned the agreement was effective as of Monday, 10 June 1946, and that all U.S. military aircraft, both Army and Navy, were welcome to use the Cuban air bases as desired and that no previous notice of intended use of these facilities was necessary.

3. Captain Efrain Hernández brought up the question of the Staff Conferences between Cuba and the United States. He told Colonel Chávez and this office that the U.S. War Department had informed

²⁶ The Cuban Minister of State transmitted to the Ambassador in Cuba note No. 137, February 6, 1946, regarding the delivery of the military bases in Cuba which had been operated by United States Armed Forces and concluded with the statement: "At the same time I am happy to add that the Cuban Government maintains with ever increasing firmness the same sentiments of cooperation within the same spirit of solidarity and identification with the common ideals of liberty and democracy which gave rise to the military and naval agreements already referred to and it is the most firm desire of the Government of Cuba that the military and naval installations mentioned may remain apt for use in the cooperative endeavor of our countries for the defense of the American Continent." (811.24537/2-1146)

him that no action would be taken on the Staff Conferences until Cuba paid its lend-lease debt. Colonel Chávez stated that he and the General Staff were in favor of paying the lend-lease debt; that in fact the Army had been authorized to pay the lend-lease debt, but that money had not been appropriated for this expenditure.

AMAA Comment: The reason Chávez is desirous of the reciprocal agreement is because of embarrassment to Cuban pilots who have landed in the United States and have been forced to pay in cash for services received, such as gasoline, oil and minor repairs. This cash-on-the-barrelhead system is embarrassing to the Cubans, and they desire more favorable treatment in the United States. This reporter believes that the agreement would be more advantageous to the United States, as U.S. aircraft are more likely to use the Cuban bases than the Cuban aircraft are to use AAF bases in the United States. The only continental AAF bases in which the Cubans are particularly interested are those at Miami and Washington and refueling stops between Miami and Washington.

The Cubans realize now that the United States is not going to play Santa Claus any longer and that they have no chance of receiving additional equipment and aid from the United States, as outlined in the Staff Conferences, until such time as the lend-lease debt is paid. Cuba is able to pay its lend-lease debt without its economic situation being affected. This reporter predicts a token payment towards the lend-lease debt in the near future in order that Cuba can maintain its prestige among the Latin American countries.

O. H. RIGLEY, JR.
Lt. Colonel, A. C.

837.24/5-1546

The Acting Secretary of State to the Cuban Ambassador (Belt)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Cuba and has the honor to refer to his note No. 207 of May 15, 1946²⁷ requesting assistance in obtaining equipment for the Air Corps of the Cuban Army.

The Department understands from the War Department that no 37mm or 20mm automatic aircraft guns are available from surplus property. The other equipment desired by the Air Corps of the Cuban Army is believed to be available from property earmarked for allocation under a program designed to supply military material to Cuba. However, it is noted that this Government has not as yet received any

²⁷ Not printed.

reimbursement for the materials furnished to Cuba under the Lend-Lease Agreement, and the Government of the United States feels that it would be difficult to justify, to the Congress and to the people of this country, the release of further military equipment to Cuba as long as that situation exists.²⁸ The policy of the Government of the United States in this respect was communicated orally to Señor José Barón, Minister Counselor of the Cuban Embassy, by an officer of the Department on March 13, 1946.

WASHINGTON, June 22, 1946.

811.34537/7-1646

The Chargé in Cuba (Woodward) to the Secretary of State

SECRET
No. 1888

HABANA, July 16, 1946.
[Received July 18.]

SIR: I have the honor to refer to my despatch no. 3631 of May 29, 1946, entitled "Further Developments with Respect to Guantánamo Water Supply Negotiations"²⁹ and to enclose a copy of the document entitled "Proposed Bases for the Operation of the Aqueduct Built by the United States Government for the Guantánamo Naval Base",²⁹ a Spanish translation of which on May 7, 1946, was handed by Mr. Fiallo, attorney for the Schueg Chassin Company, to the Sub-Secretary of State, Dr. Gonzalez Muñoz, in connection with the purpose of the Base to obtain the permission of the Cuban Government to sell the so-called second water-works system. It is understood (reference despatch, enclosure 2, last sentence paragraph 1; and paragraph 3) that these "proposed bases" are satisfactory to the Commandant, Guantánamo Naval Base.

On July 12, Dr. Güell of the Ministry of State, after a general discussion of this matter, handed an officer of the Embassy a proposed draft note, a translation of which is enclosed,²⁹ which the Ministry would be willing to address to the Embassy on receipt from it of a note composed along the lines indicated in the draft proposal.

It thus appears that the Cuban Government is disposed to permit the sale in question on the basis of the conditions (or "bases") proposed by Schueg to the Navy, provided that in its note seeking Cuban

²⁸ The Acting Assistant Chief of the Division of Caribbean Affairs (Walker) noted in a memorandum of October 29, concerning the interest of the Cuban Government in obtaining 1,500,000 rounds of rifle ammunition, that he had told Captain Efraín Hernández that he hoped the lend lease account would soon be settled in order that the provisions of the Interim Arms Program for Cuba could be implemented; he explained that the Cuban Army would be furnished with a quantity of ammunition under the program and that if any additional ammunition was needed, consideration would be given to requests from the Cuban Government (711.00111 Armament Control/12-2946).

²⁹ Not printed.

authorization for such sale the Embassy would stipulate four clausal considerations, to wit:

(1) The sale involves no "enlargement or additional right" for the United States Government in connection with the Guantánamo Base.

(2) Cuba retains full "sovereignty and protection" of the second water-works area and, in case of war, would protect the property "in consultation and cooperation with the United States".

(3) The transaction is to be realized "in accordance with the laws of the Republic, of the State, the Province and the Municipality, and the new water-works system will remain subject to those laws".

(4) "Other details" relative to the transaction will be worked out "in conformity with the aforementioned laws of the Republic, of the State, the Province and the Municipality".

As will be seen, the Ministry's draft proposal, which it has been careful to qualify as "unauthorized", is in unfinished, preliminary form and drawn in too general terms to be accepted without careful examination and study of the full potential significance of the terminology, particularly with respect to taxation. The matter is being reported to the Department, however, for an expression of its views.

In the discussion referred to above, the Ministry official mentioned that the Minister of State was "quite anxious" to effect an exchange of notes along the above lines at the earliest possible moment, and referred to "possible political embarrassment" which the Government might suffer as a result of too great delay in having the water-works transferred to Cuban ownership and operation. He also said quite frankly that the first two clauses mentioned above were conceived to counter political apprehensions or attacks, a consideration likewise attaching to the last two which might, however, be more concerned with the application of fiscal and social legislative measures.

A copy of this despatch is being sent to the Commander of the United States Naval Operating Base at Guantánamo for his information.

Respectfully yours,

ROBERT E. WOODWARD

811.34537/9-1746

The Acting Secretary of State to the Ambassador in Cuba (Norweb)

SECRET

WASHINGTON, October 21, 1946.

No. 1082

SIR: Reference is made to your secret despatch no. 1888 of July 16, 1946 concerning certain conditions proposed by the Cuban Government for the sale to the Schueg Chassin Company of the second water supply system at the Guantánamo Naval Base.

Your despatch, together with enclosures, was referred to the Navy Department for its comments and recommendations. A reply com-

munication dated September 17, 1946,³⁰ has been received from the Navy Department stating that it agrees in principle to the four stipulations suggested by the Cuban Government as a condition precedent to its formal approval of further negotiations with the Schueg Chassin Company for the sale and operation of the water supply system at Guantánamo. Pertinent excerpts from this communication are quoted below :

“I have examined the terms of the proposed bases for the sale of the water works in question to the Henri Schueg Chassin Company and the operation thereof, under contract, by that company, and find that a satisfactory framework is presented for further detailed negotiation which presumably will be carried out by representatives of this Department and the Schueg interests.

“I agree also in principle to the four clausal conditions imposed by the Cuban Government as a condition precedent to formal approval by that government of further negotiation for sale to and operation by the Schueg Company of the United States owned water works.

“Condition (*a*) appears to be an affirmation that the government of the United States is not seeking by the proposed contract and sale to enlarge its rights or the extent of its territory in the Guantánamo Naval Base under Article III of the Treaty of 1934, with respect to that base. Since no such purpose is intended or expressed in the proposed bases there is no objection to this condition.

“Condition (*b*) confirms the full sovereignty of Cuba in the land area on which the new water works is situated and assigns to that government the obligation of protecting the area in peace and in case of war defending it ‘in consultation and cooperation with the government of the United States for tactical necessities’. It would be desirable in connection with this condition to seek assurances from the Cuban Government that in case of labor unrest or a threatened closing down of the water works for any other reason, it would use its good offices to insure the continued operation of the plant.

“Conditions (*c*) and (*d*) stipulate that the purchase-sale of the new water works system and all details in connection therewith will be worked out in conformity with the laws of the Republic, of the State, the Province and the Municipality and that the system will remain subject to those laws. There is, of course, no objection to working out the purchase-sale agreement in accordance with existing laws of the Republic, State, Province and municipality. Once again, however, I consider it desirable to seek assurances from the Cuban Government that it will use its good offices to prevent the passage of any local law which would in effect cause an abrogation of the terms of the proposed contract.”

You should inform the Cuban Government that while this Government agrees in principle to the Cuban proposal of four conditional clauses in a note seeking authorization for the sale and operation of the water system, it is considered desirable that there be included in

³⁰ Not printed.

such a note a statement that in the event of strikes or any other conditions which might affect the water system, the Cuban Government will endeavor to insure the continued operation of the plant. There should also be included a stipulation that the Cuban Government will oppose the enactment of any local law which would in effect cause an abrogation of the terms of the proposed contract with the Schueg Chassin Company. If the Cuban Government agrees to the inclusion of these additional statements and to the proposal submitted to the Ministry of State on May 7, 1946 by the Schueg Chassin Company, you are authorized to effect an exchange of notes along the lines suggested by the Cuban Government.

Very truly yours,

For the Acting Secretary of State:
E. O. BRIGGS

811.24537/7-3146

The Acting Secretary of State to the Secretary of War (Patterson)

WASHINGTON, November 6, 1946.

MY DEAR MR. SECRETARY: I have your letter of July 31, 1946³¹ outlining the War Department's recommendations for the disposal of property at the General Ignacio Agramonte Airport, Camagüey, Cuba.³²

It is my understanding that all of the land and structures, except the Diesel Generator Building, located in the so-called Military Cantonment area, were transferred to the Cuban Government on May 20 in accordance with an agreement reached between the War Department, Pan American Airways, and this Department. These buildings are referred to in the map enclosed with your letter as nos. 103 to 114, inclusive, plus no. 116.

Many of the improvements at this airport, such as the construction of barracks in the Military Cantonment area, were authorized by the Cuban Government under the terms of the Agreement for Military and Naval Cooperation of September 7, 1942 between the United States and Cuba, which provided that upon the termination of the agreement, all fixed installations and constructions of every kind placed in Cuba by the United States or in its name during the life of the agreement would become the property of the Cuban Government without cost. If the sentry box, known as building no. 17, and the buildings in the Post Engineer's Compound were constructed by the

³¹ Not printed.

³² The airfield at Camagüey was one of the 22 airfields in Latin America being partially maintained by War Department funds through the Airport Development Program, according to a list enclosed in a letter of February 19, 1946, from the Secretary of War to the Secretary of State (810.7962/2-1946). For documentation on the Airport Development Program, see pp. 101 ff.

United States Army subsequent to the conclusion of this agreement, this Government would be obligated under the terms of the agreement to transfer the buildings to the Cuban Government without cost. The decision as to whether this property should be transferred to the Cuban Government or disposed of in some other manner would, of course, depend upon the date on which the buildings were actually constructed. I should therefore appreciate it if you would furnish me with that information.³³

It is a matter of national interest that aviation facilities developed during the war be disposed of in a manner which will promote the world-wide air commerce of the United States. In this connection the War Department may wish to consider the procedure, approved by the Air Coordinating Committee, whereby air navigation, air traffic control, airway-communication and meteorological facilities have been disposed of by the Foreign Liquidation Commissioner for monetary consideration and the execution of service agreements for the maintenance and operation of such facilities. While the Department recognizes that the settlement of the contract is a matter for determination between the War Department and the contractor, it believes that in connection therewith, it is important that the War Department take such action as may be appropriate to assure that the beneficial use of facilities constructed or improved through the use of public funds should be available to all United States aircraft authorized to be operated by the United States and the foreign government concerned.

Since it appears, with respect to the airport development contract, that the greater portion of the property involved will be transferred to the contractor under obligations of the contract and that disposals of any surplus property will be closely related thereto, the Office of the Foreign Liquidation Commissioner is of the opinion that arrangements for disposals to the airline should be made directly by the War Department. Undoubtedly the Foreign Liquidation Commissioner could arrange to delegate authority to the War Department to dispose of such of the property as may be surplus. This Department is also of the opinion that any discussions with the Mead Committee³⁴ concerning the disposal of this property should be undertaken by the War Department.

The disposal plan transmitted as an enclosure to your letter is returned herewith as requested.

Sincerely yours,

DEAN ACHESON

³³ No further information was received on this subject during 1946.

³⁴ Senate Special Committee Investigating National Defense Program.

811.34537/11-2546

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

SECRET

HABANA, November 25, 1946.

No. 2495

[Received December 2.]

SIR: I have the honor to refer to the Department's secret air mail instruction No. 1082 of October 21, 1946 and previous correspondence concerning a proposed exchange of notes between the Cuban Ministry of State and this Embassy with respect to the sale to the Henri Schueg Chassin Company of the so-called new or second water supply system at the Guantánamo Naval Base—so that the Base can enter into a contract with the Company for this water supply after having eliminated any possibility of question arising concerning present United States Government ownership of such facilities outside of the Base area.

Dr. Gonzalo Güell of the Cuban Ministry of State, who has been discussing the wording of the proposed exchange of notes, with officers of the Embassy, has agreed to the incorporation of the provisions specified in the last paragraph of the Department's air mail instruction No. 1082—after appropriate consultation between Dr. Güell and the Acting Minister of State. At the same time, the Ministry of State has withdrawn one of the four requested "conditions" reported to the Department in this Embassy's despatch No. 1888 of July 16, 1946. Dr. Güell says that the Cuban Government now prefers to omit mention of the provision (specified as (2) in our despatch No. 1888, and (b) in the draft proposal of the Ministry of State) that Cuba would protect the second water works area in case of war, "in consultation and cooperation with the United States". It is now the Cuban view, with which this Embassy agrees—and with which it is assumed the Department is in accord—that this is a hypothetical question which would be dealt with promptly and drastically in the most practicable cooperative way and that any effort to anticipate such a momentous eventuality in a simple exchange of notes of this kind would be superfluous and somewhat incongruous.

The Commandant of the Naval Base at Guantánamo has kindly provided a general but concise description of the second water supply system which has been included in the first paragraph of the draft of the notes.

As a result of discussions with Dr. Güell, no further modification in this Embassy's proposed note is required so far as this Embassy is aware. There is enclosed, for the files of the Department, a copy of the draft as it is now being studied and discussed further among officials of the Cuban Government. Presumably, the Cuban reply will be

essentially a duplication and approval of the wording in the enclosed draft.³⁵

Respectfully yours,

R. HENRY NORWEB

837.504/11-2746

*Memorandum by the General Manager of the Nicaro Nickel Company
(Dufour) to the Cuban President (Grau)*³⁶

[Translation]

RESTRICTED

The Nicaro Nickel Company built and has operated the plant at Lengua de Pájaro with funds furnished by the Reconstruction Finance Corporation, as part of the program of National Defense of the Government of the United States of America.³⁷

With the end of the war, the Reconstruction Finance Corporation nevertheless continued to finance the operation of the plant, thus giving time to the Nicaro Nickel Company to study the economic feasibility of operating it for its own account, but in accordance with instructions received from the offices of the Metals Reserve Company of the said Reconstruction Finance Corporation, the operation of the plant must be terminated. The Nicaro Nickel Company, on the other hand, after having studied all the possibilities, has decided that it would be absolutely uneconomic to undertake operation of the plant on its own account.

The cessation of operations should take place as soon as possible as stocks of materials are exhausted, approximately January 15, 1947. In the meantime, all non-essential work will be discontinued immediately. For the purpose indicated, the personnel will be discharged gradually, in accordance with the plan, in order that the final termination of operations might take place in the manner and at the time aforementioned.³⁸

³⁵ Draft of note not printed; an exchange of notes between Ambassador Norweb and the Cuban Minister of State on April 26, 1947, authorized the subsequent sale of the second waterworks system to the Henri Schueg Chassin Company (811-34537/4-2847).

³⁶ Copy transmitted to the Department in despatch 2503, November 27, 1946, from Havana. According to this despatch, the memorandum was handed to President Grau on November 21 by a delegation from the Nicaro Nickel Company, in accordance with arrangements for the interview which had been made by the Embassy, in order to inform him of the decision to close the Nicaro plant on or about January 15, 1947 (837.504/11-2746).

³⁷ See memorandum of August 3, 1942 (concerning the fourth report of the American Technical Mission in Cuba), which mentioned a \$20 million Reconstruction Finance Corporation advance for the development of nickel deposits, *Foreign Relations*, 1942, vol. vi, p. 301.

³⁸ The responsible agencies of the United States Government later decided to terminate operations of the plant under Government auspices on March 31, 1947. The assets of the plant were declared to the War Assets Administration as surplus for disposal under the provisions of the Surplus Property Act of 1944. (837-6359/3-1947)

We regret to have to inform the Government of Cuba of the foregoing, but we are compelled by circumstances to do so and at the same time we request the good offices of the President of the Republic with the Ministry of Labor and other agencies of the Government in order to enable the termination of operations and the closing of the plant to be effected as normally as possible.

HABANA, November 19, 1946.

MAURICE DUFOUR

UNITED STATES INTEREST IN CUBAN-SOVIET RELATIONS AND
COMMUNIST ACTIVITIES IN CUBA

837.00B/3-2946

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

SECRET

HABANA, March 29, 1946.

No. 1356

[Received April 8.]

SIR: I have the honor to refer to the Department's secret circular airgram of February 19, 1946³⁹ providing an appraisal by our Embassy at Moscow of the attitude of the U.S.S.R. toward Spain as a field of Communist activity, and indicating that one of the reasons for Communist political interest in gaining eventual control in Spain is that it would afford a direct channel of influence to the Latin American countries independent of the United States or of any other powerful American nation. Reference is likewise made to the comments of our Embassy at Madrid on this subject (as summarized in the March 12, 1946 issue of the *Weekly Report on the Other American Republics*). In view of the information in these reports, the Department may be interested, at this time, in this attempt to estimate the significance of the Communist Party in Cuba.

This despatch includes a summary that begins with the next paragraph, after which there are comments on: *The Communist Party Name*, the *Partido Socialista Popular*, which is freely interchangeable with the term Communist in Cuba; *The Question of Whether Direct Coordination of Communist Party Activities has been Renewed since Dissolution of the Comintern*, with an expression of the view that the Party in Cuba now seems to be sufficiently strong so that little or no guidance is necessary beyond the sort of information that comes from Moscow in regular AP and UP news despatches; *The Question of the Possible Effectiveness of Spain as a Direct Channel of Communist Influence to Cuba*, with an expression of the view that the effect through that channel would probably not be outstanding in Cuba; and three sections, providing more facts and comments on the numbered subjects in the summary. Translations of Cuban Com-

³⁹ Not printed.

munist Party programs are enclosed, and the final page is a brief Table of Contents of the despatch.⁴⁰

1) *Strength*: [Here follows paragraph on the strength of the Communist Party in Cuba.]

2) *Possible Influence during Next Few Years on Specific and Material United States Interests in Cuba*. The immediate interests of the United States and United States citizens in Cuba are already influenced by the general program of the Communist Party, which encourages and prods the nationalistic inclinations of the Auténtico⁴¹ Administration leaders and the public. While, from the Communist viewpoint, this policy may be intended more for long-term weakening of the bonds between the United States and Cuba, it already seems to be having the effect of encouraging high Government officials to delay or avoid concessions to the United States, and reciprocal exchanges with the United States, if they do not appear to the Cubans immediately vital to their self-interest. The Department has seen evidence of this in such negotiations as those pertaining to possible continued use of the Military Aviation Bases in Cuba, and the many old debt and claim questions on which the Cuban authorities have persistently delayed action.

As indicated in very recent pronouncements of its policies concerning certain specific United States interests, the Communist Party in Cuba advocates unqualifiedly the division of large tracts of land throughout the country and their distribution to poor farmers, which would of course affect sugar, tobacco and cattle lands held by United States citizens as well as Cubans (and probably action in this respect would affect properties of United States citizens first, because of concurrent "anti-foreign" and "anti-imperialist" propaganda and feeling). The Party advocates that Cuban sugar all be refined in Cuba (which would affect large sugar refining interests in the United States). The Party approves and advocates Cuban Government intervention of any companies which do not comply with the Administration's interpretation of social legislation and official provisions, along the lines of the recent intervention of the Havana Electric Company (which asserted that it could not raise wages because its fares do not provide enough revenue).

The Secretary General of the Party has announced that there is a difference of opinion in the Party as to whether all foreign companies should be nationalized. He said publicly, at the Third National Assembly of the Party in January 1946, that while the Party "naturally" aspires to shake off the "yoke and oppression" of the foreign firms, he

⁴⁰ Enclosures not printed.

⁴¹ Partido Revolucionario Cubano (PRC).

personally believes immediate action should be confined to nationalizing public utilities and services whose contracts expire, or who do not comply with the terms and conditions in their contracts. (This program would eventually mean nationalization of the *Compañía Cubana de Electricidad*, the Cuban Telephone Company, and foreign-owned railroads, and later all large foreign companies.) The Communist Party in Cuba has recently repudiated the Browder⁴² thesis that labor and capital can formulate long-term working arrangements, and has reverted to the thesis that unqualified class struggle is essential to the virility of the Party. This Party principle should of course lead to labor conflicts with American management as well as Cuban management in Cuba.

3) *Possible Influence on Long-Term United States Interests in Cuba.* While the Communist Party advocates, in general terms, warm relations between Cuba and the United States, even the wording used tends to lead away from such relations. For example: "We will fight for those relations; but these Cuban interests are opposed to having our relations with the United States those of a country submitted to its oppressors, to their being relations based upon the open or covert imposition of conditions favorable to our exploitation and contrary to our progress." In general, it appears that the possible long-term influence of the Communist Party on the interests of the United States in Cuba may occur along the following lines: (a) persistent and continual effort to discredit the United States and its ideals and objectives and to disillusion the people of Cuba concerning our motives, thus weakening the bonds of solidarity and friendship with the United States; (b) a large-scale voluntary advertising of the U.S.S.R., taking its side unqualifiedly in every argument; (c) direct aid to the Russian Government representative when necessary, and possible development of public support for the U.S.S.R. in future important issues that may arise, even to the point of specifically urging the American Republics to withhold their support from the United States in the event (however remote) of war with the U.S.S.R.; and (d) possible eventual creation of a system of State Capitalism in Cuba which might likewise weaken support for the private capitalism and private enterprise system of the United States in tri-Power or bi-Power discussions, and which might promote similar change in our own system in the United States.

In considering measures which our own Government might take in the light of these possible developments, it seems that (e) the cause of private capitalism and private enterprise in the United States would

⁴² Earl Browder, former leader of the Communist movement in the United States.

probably be advanced by greater internal improvement in the United States than in the U.S.S.R., by strengthening our own direct relations with Russia, and by perfecting the UNO, in contrast to probable ineffectiveness of any attempt to influence Communist development by our direct relations with Cuba. Also, a strong system of inter-American cooperation might do much to prevent weakening of relations with Cuba because of Communist influence.

The Communist Party Name

[Here follow comments on the Communist Party name.]

Question of Whether Direct Coordination of Communist Party Activities has been Renewed since Dissolution of the Comintern.

If the Communist Party in Cuba is receiving any direct instructions from a central point, presumably Moscow, logic suggests that they are not transmitted through the Legation of the U.S.S.R. in Habana. This impression comes, first, from the assumption that the Government of the U.S.S.R. would not take a totally unnecessary chance, in this way, of creating a new cause for immediate friction with the United States. Specific indications of changes in clearly-understood Party tactics, could much more safely, and equally effectively, be communicated orally through occasional interchanges of visits of Communist leaders between various countries. For example, William Z. Foster of the Communist Party in the United States took part in the Third National Assembly of the PSP in Habana from January 24 to 28, 1946 and quite openly contributed to the changing of a major policy of the Party in Cuba—the abandonment of the Browder thesis that Communism and Capitalism could come to a practical long-term working arrangement. By the same token, the President of the Communist Party in Cuba, Juan Marinello, is about to go to the United States for a brief visit “in his capacity of First Vice President of the Cuban Senate and member of the Committee of the Senate for Aid to the Spanish Republic”.

It seems apparent that the Government of the U.S.S.R. has made every effort to avoid giving the impression that the Russian Legation in Habana has been used as a direct coordinating instrument. In the first place, though diplomatic relations were formally established between Cuba and the Soviet Union on October 16, 1942, it was six months before Maxim Litvinov presented his credentials as Minister on April 9, 1943. He then stayed only a few days in Cuba and Dimitri I. Zaikin, a Russian Vice Consul then in New York, was assigned to Habana as Chargé d’Affaires ad interim. The present nominal Soviet

Minister, Andrei Gromyko, likewise stayed in Cuba only very briefly when he presented his credentials on December 22, 1943. Zaikin, a former engineer from Leningrad, gives the impression of being of only moderate intelligence and somewhat slow-witted. One's first impulse is, of course, to suspect that this is a pose, but repeated conversations and impressions indicate that these manifestations are too consistent to be anything but genuine. When the energetic "cultural" activities of the Press Attaché of the Soviet Legation, Mrs. Nora P. Chegodaeva, began to attract noteworthy attention she was transferred away.

The Communist Parties throughout the world recognized, at the time of the public dissolution of the Comintern, that economic, sociological and political circumstances in various countries of the world differ sufficiently so that only highly general central directives can be issued by persons who are not intimately acquainted with the day to day conditions of a particular country such as Cuba. This logical conclusion—consistent with the strategy of Communism to adapt itself to local "progressive" or "radical" currents—makes it seem all the more unlikely that the amount of direction that would need to come from abroad would require anything but oral and highly personal communications. In fact, the Party line and technique are now well enough known, even automatic enough with Cuban Communist leaders, so they probably need no directives other than newspaper reports and radio speeches from Moscow.

One aspect of this very Party line, in fact, tends to make direct and publicly-known relationship with Moscow more difficult: that is, the nationalistic tendencies which the Communists encourage in Cuba and which also have the effect of building up potential resentment against possible signs of Soviet influence over the Communist Party in Cuba.

Question of Possible Effectiveness of Spain as a Direct Channel of Communist Influence to Cuba

[Here follow comments on this subject.]

1) *Strength*: [Here follow additional facts and comments on the strength of the Communist Party in Cuba.]

2) *Possible Influence during Next Few Years on Specific and Material United States Interests in Cuba*. It seems probable that the most important Communist influence on specific and material United States interests in Cuba during the next few years will come from mutual encouragement of the nationalist spirit between the left-of-center element in the President's Partido Revolucionario Cubano (Auténtico) and the Partido Socialista Popular. The Communist Party is eager to "egg on" the PRC in its nationalistic inclinations, in conformity with the PRC slogan during the Presidential elections of June 1, 1944, "Cuba for the Cubans". The nationalism of the Ad-

ministration itself, which can have a far-reaching effect on the interests of American business (and on our Government, in such matters as the military aviation bases), seems to be due to a series of factors, such as the following: (a) resentment of the fact that foreigners control very important segments of Cuban commerce and industry, including over half of the sugar production, and that they make whatever proprietor profits are realized from such operations; (b) a natural swing of the pendulum away from foreign political control, as a result of abrogation of the Platt Amendment and the munificence of the Good Neighbor Policy; (c) the world-wide popularity of nationalism in practice while internationalism continues to be largely a theory even in the actions of its most important advocates; (d) vestiges of a specific feeling that the support of United States business interests and our Government made it possible for Machado⁴³ to stay in power for eight years before his Government fell; and (e) very possibly, a feeling of personal resentment on the part of President Grau that lack of official recognition by our Government in 1933 made it impossible for him to stay in office as President at that time. With this background, President Grau's marked amenability to the suggestions of Ambassador Braden between his election as President on June 1, 1944 and his inauguration on October 10, 1944, may have been due, at least in part, to fears that his Government would suffer in some way from our displeasure.

Illustrative of the affinity between the current stated programs of the Grau Administration and the PSP, it was pointed out in section 38 of the "Resolution on the First Point of the Order of the Day" at the PSP Assembly in January 1946, that ". . . [President Grau] has not yet initiated the program which should be the core of the policy of the Partido Revolucionario Cubano—whose postulates are anti-imperialism, nationalism and socialism . . ."

Therefore, with respect to such matters as the distribution of foreign-owned lands in Cuba, the Communists have the principle established for them in Article 90 of the Cuban Constitution of 1940 which provides for ". . . doing away" with "large landholdings" and the restrictive limitation of acquisition and possession of land by foreign persons and companies. In the light of this precedent, the Administration could hardly object to the following statement of the Secretary General of the PSP in January 1946:

". . . And the farmers will not be able to live in better houses, will not be able to rid themselves of parasites, will not be able to have more civilized living conditions, as long as an end is not made of the

⁴³ For documentation on the downfall of the Government of Cuban President Gerardo Machado Morales, August 12, 1933, see *Foreign Relations*, 1933, vol. v, pp. 270-361.

feudalistic possession of land, as long as the rental system is not eliminated, as long as there is not undertaken the division of the big holdings and the distribution of the lands to the farmers.”

So far, the Party has not emphasized greatly its belief that all Cuban sugar should be refined in Cuba, but an allusion was made to this in the same statement of the Secretary General of the PSP, as follows:

“. . . Our program—is one for all those who want to fight to assure us a market for our crops of from four to five million tons of sugar, refining it ourselves, and for avoiding the closing of our mines which would paralyze industries such as trucking, tobacco, boxes, diamonds, etc. . . .”

With respect to Government intervention of business firms—with its tendency toward State capitalism—the Secretary General said in the same report:

“. . . In the face of objections of the powerful enterprises that have attempted to create a national crisis by definitely refusing to comply with the social laws and official provisions, the Government has been applying firmly the policy of intervention (Industrial Slaughterhouse, Havana Electric, Workshops of Confections).

“. . . we must support the measures adopted by Dr. Grau in politico-social matters: increases in salaries, intervention of firms, prohibition of dislodging of farmers . . .”

Further accentuating this tendency toward State capitalism, the following detailed comments of the Secretary General concerning “nationalization” of public utilities and large firms may be of interest to the Department:

“. . . Some of the comrades, in discussion, have demanded that there be included in this program a general policy of nationalization. Others, that there be demanded only nationalization of the Public Services. I believe that our immediate Program can very well demand the review of all concessions granted to Public Service firms and the nationalization of all those whose concessions have expired and those which may not have complied with the terms and conditions fixed in them.

“I do not believe that we should raise in this immediate program a general demand for the nationalization of the large foreign firms. We aspire, naturally, to our own, national, economy, to shake off the yoke and oppression of firms that exploit our people, deforming and feudalizing our economy; but at the same time we favor under definite conditions, and with certain guarantees, the investment of foreign capital which, under a really national government, would be able to aid in the progress of the country. This should be taken into consideration in our immediate program, and I believe that a general policy of nationalization would sow confusion without really advancing at present the task of our liberation . . .”

This qualified statement could hardly be called an encouragement to new foreign investment. In fact it may be pertinent to note that 25 of the 161 sugar mills in Cuba are now understood to be "for sale", although this might be at least partly the result of the owners' belief that the end of the present sugar bonanza may be approaching.

There is of course ample precedent in many countries for a program of nationalizing public services—such as the trend toward public-owned light and power systems in the United States—and even nationalizing major industries—such as the coal industry in England. The past experience of our Government indicates, however, that the Cubans would undoubtedly ascribe less importance to the corollary precedent of prompt and equitable compensation.

With respect to the prospects of future difficulties between management and labor in Cuba, the Secretary General made the following comments in connection with repudiation of the Browder thesis:

" . . . Can we accept, in the conditions of Cuba, the concept of a long peace between the classes? No. On the contrary, we affirm in the very pamphlet in which we refer to the meeting between the CTC and the Association of Industrialists that 'as long as contradictions of class exist, as long as there exists an antagonistic class within capitalist society such as the proletariat and such as the capitalists with respect to the workers, the struggle of classes is inevitable and cannot cease definitively.'"

Illustrative of the local Communist concepts, a Party worker asserted to an officer of this Embassy that the high standard of living enjoyed by workers in the United States was illusory because the high wages were made possible only by the very low wages which the same American firms pay Latin American workers they are exploiting!

3) *Possible Influence on Long-Term United States Interests in Cuba.* Although the PSP, in its official and public pronouncements, frequently refers to the necessity for friendly relations between Cuba and the United States, the phraseology is usually so qualified that the effect seems to be largely cancelled out, or even counter-productive. For example, in the very long "Resolution on the First Point of the Order of the Day" at the Third National Assembly in January 1946, Article 55 was entitled "True 'Good Neighborliness'" and stated (in translation) :

"55. The struggle of our country to maintain its economic level, requires a democratic attitude and true "Good Neighborliness" on the part of the Government of the United States and, above all, the friendly collaboration of the North American workers and people.

"The policy of "The Good Neighbor" inaugurated by President Roosevelt, even though it was maintained within the framework of imperialist relations, signified a positive advance in the relations between the United States and Latin America, despite all the inconsequential

activities and vacillations shown by the Roosevelt Government itself in its application.

“The imperialists are exerting pressure, not without success, on the Truman Government to twist this policy, which was the result of the democratic spirit of the American masses as much as it was of the active struggle of our peoples.

“The Partido Socialista Popular asks the establishment of a democratic policy and a true “Good Neighborliness” on the part of the United States, as well as a friendly and dignified attitude on the part of Cuba, in the relations of the two countries, which is the interests of the two peoples. The Partido Socialista Popular hopes that the North American workers and progressive forces—unions, Communist Party, popular organizations—will exert themselves to bring about the establishment of such relations with our country.”

a) *Efforts to Discredit the United States.* Accompanying such semi-friendly indications, there seem invariably to be sufficient other statements which tend to undermine the prestige of the United States, so that the sum total effect is definitely a depreciatory one. In this same “Resolution”, the following assertions were included :

“26. The relative position of the American imperialists has been strengthened with the defeat of their German and Japanese rivals, with the tremendous development of the productive capacity of the United States and the preponderant position that they occupy in world affairs.

“Due to this, the decisive imperialist forces of the United States are intensifying their effort to extend their control, by initiating an ‘American century’, by extending their monopolistic power over Latin America ; they are doing everything possible to avoid the democratization of Europe under Governments that are authentically popular, they are obstructing the democratic unification and independent development of China and encouraging an anti-Soviet policy, designed to reestablish ‘the cordon sanitaire’.

“Because of these efforts of the American monopolists to extend their world control, the rivalries between England and the United States have become more sharp and apparent, despite all the talk about an Anglo-American bloc, despite the mutual anti-Soviet campaigns that are carried on in the two countries.”

“... 27 . . . In the United States the imperialists are regrouping themselves more rapidly than anywhere else, with a view to an openly aggressive policy for world domination, and they are making important advances in their desire to control the Government which is today under the democratic-capitalist leadership of Truman, who has made considerable concessions to them, departing visibly from the peace policy delineated by Roosevelt.”

“... 29 . . . The North American imperialists and trusts openly sabotage the maintenance of relations of cordiality and mutual respect between the United States and Cuba. They are working openly to prevent our economic development and for the maintenance of the old and backward colonial system of monoculture, or large landholdings and the production of primary materials, in order to keep us away

from direct commerce with Latin America and with the rest of the world, in order to reinforce their monopolistic control over our country."

"In order to attain their ends, contrary to the interests of Cuba and to the national interest of the United States itself, such elements support the Falangists, the reactionaries, and large importing firms and feudal proprietors of the large estates."

"30. Even during the course of the war, and despite frankly pro-Axis slant, such elements were protected by the American Department of State which invited Maestri, notorious pro-Fascist, to visit the United States, and who honored Pepin Rivero, principal spokesman for Falangism, granting him the Cabot Prize.

"Despite the exigencies and needs of the war, such American imperialist elements and reactionary elements of Cuba, succeeded in obstructing the military participation of our people in the war and the development of an independent production and the creation of a Merchant Marine.

"31. During the war and at present, agents of the G-Men, the American political police, instead of pursuing Nazi, Fascist and Japanese spies and saboteurs, are intervening in the domestic policies of our country and are making active and provocative anti-Soviet and anti-Communist propaganda."

Many of these assertions have been reported to the Department, as most of them have been reiterated time after time in the speeches and publications of the PSP. A variety of other accusations is included in the same Resolution, . . .

It is easy to perceive that this gradual "whittling away" at the character and motives of the United States, combined with ardent encouragement of nationalism, has already created an atmosphere in which officials of the Cuban Government hesitate to respond to important requests of our Government because a response might receive adverse publicity in Cuba and unfavorably influence voters. This may eventually go further and have a deleterious effect upon inter-American solidarity and cooperation. At the same time, it works in conjunction with warm advertising of Russia, toward the eventual possibility of a change in the balance of prestige in world councils.

b) *Large-scale voluntary advertising of the U.S.S.R.* This publicity is conducted untiringly in the publications and speeches of the PSP—both in direct terms and through unqualified support of the acts and motives of Russia in any Russian discussion with the "imperialist" countries. As an example of direct eulogy, the following is a translation from the Report of Blas Roca, Secretary General of the PSP, at the Third National Assembly in January 1946:

". . . The sentiments of our people are those of enormous affection and great admiration for the Soviet Union, the powerful country which, despite all auguries and all the hopes of the reactionaries of the world, raised, with the unbreakable stone wall of its courage and

decision, the barrier against which there were broken all the Nazi efforts to dominate the world, to submerge liberty, to establish the slavery of men.

“The sentiments of the Cuban people are those of admiration and affection for the men who contributed eminently to forge, with their suffering, with their labor, and with their blood, the victory of the United Nations over their enemies, for the men such as the genial leader Stalin, such as Zhukov and Rokosowski.

“The sentiments of the Cuban people are those of admiration and affection for the great State which united the peoples of its multiple nationalities, knew how to shake off, in a great revolution, the ominous yoke of the decrepit Czarist tyranny and Russian capitalism, and how to construct, through years of penury and limitless sacrifice, an advanced country with a powerful socialist economy, with gigantic factories, admirable communities, and creative schools, in the most backward territory of Europe.

“The interests of our Country dictate the maintenance of cordial and friendly relations with the Soviet Union, one of the Three Great Allies that forged the Victory and are forging the peace, since good relations with the Soviet Union can only bring benefits for us, and by expanding those relations we can obtain a market for our products and provisions for our needs. . . .”

At the same time, the PSP publicity system advocates the Russian point of view in every controversial issue—such as the recent discussions concerning Iran and about Manchuria. For the better-informed readers and listeners, the publicity is too unqualified to be very convincing, but this technique is undoubtedly in conformity with the most effective propaganda principles. Besides the word-of-mouth publicity between members of the Party, the regular publicity organs include a well-managed newspaper, *Hoy*, with over 28,000 daily circulation and almost 47,000 on Sunday, a well-managed radio station, CMX or *Mil Diez*, a monthly publication *Fundamentos* with 12,500 circulation, and a weekly magazine *Tiempo* published by the dissident and original anti-Browder group which nevertheless supports Soviet policy unqualifiedly.

The sort of advertising and advocacy that the U.S.S.R. obtains from the Communist Party in Cuba approaches that which the U.S.S.R. might receive from a community of Soviet Russian nationality of similar size in Cuba. What the Cuban enthusiasts may lack in patriotic fervor because they are not from Russian soil, they seem to add in enthusiasm because they have never witnessed or felt any of the more discouraging aspects of actual life in Russia. The dimensions of this advertising are such that it seems futile to regard the publicity as the result of present-day mechanical control, management or financing from Moscow or from any other point outside of Cuba. Whatever guidance that may occur through occasional and intermittent—or even frequent and regular—directives would seem to

be so secondary to the enthusiasm that has already been generated in Cuba by the Communist idea, that the complete elimination of any direct international communication between Communists would probably have little effect upon the movement. However important it may be considered to *know* whether such direct communication and guidance exists, it would seem fundamental and very important at this point that we recognize and constantly remember that the strength of Communism lies in (1) the living standard of the people which is just high enough to awaken the hope for much more, (2) the contrasting wealth of a few people in Cuba, many of them foreigners, and (3) the growing appeal of Marxism for the great majority of the population who feel that they have essentially "nothing to lose". In other words, any organization which presents a thesis competing with Communism might underestimate the strength of Communism if it were to attribute any important part of that strength to direct supervision from Moscow other than that which arrives publicly over press wires and in radio broadcasts.

The international advertising strength of "the Communist idea" probably could not persist for very many years without a basis in actual current accomplishments of the U.S.S.R. Therefore, the eventual effectiveness of Communist advertising in the American Republics will undoubtedly be roughly consistent with the success or eventual failure (or further modifications) of the economic and political system in Russia. There is a widespread feeling now that Russian strength in World War II was a splendid example of the productivity and success of Marxism and Communism, and the Communists of course assume that developments within Russia will be increasingly successful. If this should prove not to be so, in the course of the next 10 or 20 years, it will undoubtedly be the single most important factor in deterring the widespread popularity of Communism or Marxism in the American Republics. By the same token, it seems that our own publicity strength during the same period will depend to a great degree upon the extent to which our own country may improve in the elimination of poverty, ignorance, racial prejudice, and in other ways.

In considering the "free publicity" given to the U.S.S.R., it may be well to note that our own country receives a vastly greater amount of publicity in Cuba—from the many close relationships and press services which fill the pages of the excessive number of newspapers.

There is of course some dissemination of official or semi-official Soviet publicity in Cuba—principally through the Cuban-Soviet Institute of Cultural Interchange established April 6, 1945, the Institute's monthly publication *Cuba and the U.S.S.R.*, and official publications of the Soviet Legation. Detailed information concerning this

information program has been reported to the Department. Although the Soviet Chargé d'Affaires a.i. mentioned to the Cultural Relations Attaché of this Embassy that he "knew little" about the Institute, it may be assumed that he has full knowledge of it and that his Government is financing it in the same way that other Cultural Institutes are financed by the respective Governments. Although the 13 persons comprising the Committee organizing the Cuban-Soviet Institute were all Cuban citizens, it is of interest that four of them were known to be members of the Communist Party.

(c) *Possible Direct Aid to Government of U.S.S.R.* Consistent with the view mentioned in the preceding paragraphs, it seems likely to the officer drafting this report that any direct communication between the Cuban Communists and the Russian Legation in Habana would probably be the reverse of the popular conception—that is, the PSP might be writing reports and performing other semi-personal chores in Cuba for the Soviet Chargé d'Affaires and his small staff. The principal interest of the U.S.S.R. in Cuba is the Communist Party itself, and any of the PSP leaders could easily supply the Legation with complete reports on that subject and all its ramifications. Likewise, any of the three PSP Senators or seven Members of Congress could quickly write detailed, accurate and authentic political reports that would require a large amount of work by a foreigner—if reports of this nature are of interest to the Kremlin. There are five officers in the Soviet Legation, and there would not seem to be need for much additional staff with approximately 14,000 militant members of the PSP in the country. (Various unverified reports were received by this Embassy in 1943, at the time the Soviet Legation was first established in Habana, indicating that subordinate staff—i.e., the staff not included on the Diplomatic List—was very large. If this was true, it now appears that the U.S.S.R. has decided that such staff was either not necessary or counter-productive—because it might afford a basis for alarm of "foreign interference"—and there is no indication that the subordinate staff is now more than 10 or 15. There has been some speculation as to whether the U.S.S.R. may not consider Mexico City more of a Latin American headquarters or training center than Habana, and therefore may have transferred the surplus staff to that post.)

Far more important than assistance to the Soviet Legation staff is, of course, the influence that could be exerted—should any real occasion arise—by the U.S.S.R. through the three PSP Senators and seven Congressmen and through the large PSP membership and publicity machine. The only specific question of remote direct interest to the U.S.S.R. which has arisen recently in Cuba is the question of United States Military Aviation Bases, and the Communist organs quickly

took the first opportunity to make a nationalistic issue out of that question—in an apparent effort to embarrass our Government in conversations with the U.S.S.R. concerning the presence of Russian armed forces in Iran.⁴⁴

The most important emergency use of the Communist Party organization in Cuba, to the advantage of the U.S.S.R. and to the detriment of our own country, would be of the kind which Juan Arévalo, labor leader, alleges that Blas Roca mentioned to him privately. Arévalo said that Roca expressed the belief that the United States would eventually go to war with the U.S.S.R. and that “. . . all of Latin America should be apprised of the dangers of capitalist imperialism . . . in order that when the time comes the United States may get no help and no cooperation from these countries.”

d) Possible eventual creation of a system of State Capitalism in Cuba. It is not beyond the realm of possibility that the Communist Party might eventually become the most powerful political party in Cuba, and that this could happen even as soon as the Presidential elections of 1956. This would probably tend to weaken solidarity in the American Republics. Moreover, it would probably weaken support—in world tri-Power or bi-Power discussions—for the United States and for its system of private capitalism and private enterprise. It might even contribute to promoting change in our own system in the United States.

In considering this possibility, it should of course be borne in mind that any economic system sponsored by a dominant Communist Party in Cuba might be modified greatly in application—even though Blas Roca said publicly, as recently as January 1946, that “The PSP has a firm Marxist Leninist ideology as the basis of its program . . .” The modifications in actual practice, however, could be sufficient so the average Cuban might not even recognize a difference in his daily life under such a system, as compared with the situation today. The principal measures of a “Communist” Government in Cuba would probably be to nationalize any public services that had not already been nationalized, and possibly to nationalize the principal industries. At the same time, developments in other countries—possibly our own—might conceivably have been such as not to make the Cuban developments especially conspicuous. (As in Russia, where the Communist system seems to involve violence and infringement on personal liberties as did the Czarist system, a “Communist” system in Cuba would probably include any existing defects of the Cuban character. In general, it seems likely that a new economic or political system will adjust to

⁴⁴ For documentation on the consideration of this issue in the United Nations, see vol. VII, pp. 289 ff.

the national and racial characteristics and traditions of the people more than the people will adjust to the system.)

It should be remembered that the Cuban political party that was most successful at the polls on June 1, 1944 (President Grau's Partido Revolucionario Cubano (Auténtico)), received 771,599 votes or more than six times the votes of the Communists—and that the 151,000 "affiliates" of the PSP are still only one-fifth of that 771,599. And the Communists concede that President Grau's party has now won 51 percent (!) more adherents through its position of influence. Moreover, the Liberals polled 332,649 votes in 1944, the Demócrata Party 324,410 and the Republicans 270,223. The Communists, therefore, still have formidable numerical competition. The present, and possible future, circumstances that might contribute to eventual dominance of the Communist Party in the Cuban Government are:

1) The standard of living which seems to be just high enough to inspire demands for more. (It is of interest to note that Cuban exports, per capita, are much higher than those of any other Latin American country except Venezuela, and that Cuban imports, per capita, are higher than those of any other Latin American country except Panama. Although this wealth does not affect the standard of living of everyone in Cuba, it would nevertheless seem to point to the possibility that more interest in Communism may develop in the other American Republics as they approach the economic level of Cuba—that until peoples have at least moderate economic attainments they are too primitive to find appeal in the persuasion of Marxism.);

2) The contrasting wealth of a few people in Cuba whose purchasing power has been enough to raise considerably the prices of foods and other commodities;

3) The fundamental weaknesses of other political parties in Cuba—which seem to lack, as parties, any real objective other than winning and holding profitable public offices—as contrasted with the zeal, the specific party program, and the seeming unity and freedom from personal venality of the Communists (the other political parties could not be counted on to combine against a powerful Communist Party, but would probably stay divided as they have in France);

4) The possibility that the PSP political leaders might be astute enough to align themselves with the winning Presidential candidate in 1948—and again in 1952;

5) The possibility of a decrease in the sum total prosperity of the Cuban economy as soon as former sugar-supplying countries that were war-ridden become re-established as suppliers;

6) The irresponsibility, inefficiency and venality of many Cuban officials which afford the Communists an opportunity to shine by contrast (for example, they have been exerting special effort to obtain increasing numbers of subordinate positions for their members in the Ministry of Education, with considerable success, and these positions are strategic from the viewpoint of recruiting new affiliates through the educational system);

7) The growth of the prestige and power of the U.S.S.R. because of its external success;

8) The possibility that Soviet productivity may develop to the point where it actually provides the consumers' goods which, in the minds of the Cuban Communists, are a very important element in the appeal of theoretical Marxism or State Capitalism; and

9) The tendency of small countries that are very near large countries to develop special friendship with a distant great power as a form of insurance (e.g. Uruguay and the United States).

Factors that might tend to discourage the increasing strength of Communism in Cuba are:

(1) A continuing market at remunerative prices for a large Cuban sugar crop with its influence in continuing Cuban comparative prosperity;

2) The proximity of the United States and resulting multitudinous relationship;

3) A continuing development of the United States economy at a rate superior to that in the U.S.S.R., which would not only indicate the advantages of a system of private enterprise but would contribute to maintaining a large sugar market in the United States;

4) The individual Cuban citizens who have established proprietary interests in the public services and industries which the Communists may wish to nationalize;

5) A deep under-current of admiration for the economic and political development of the United States, some vestiges of sentimental feeling with respect to United States aid in the Cuban War of Independence, and several decades of acquaintance which have shown few instances of intentional or accidental suffering inflicted by Americans;

6) The Catholic Church; which, however, has probably lost enough popularity in Cuba so that its anti-Communist efforts are considerably vitiated.

e) At the risk of presuming to make comments in a field of policy beyond the scope of one Embassy, it is the Embassy's impression that the largest factors which will advance or handicap the cause of private capitalism and private enterprise in Cuba, as opposed to Communism or State Capitalism, can be little affected by our policies in direct relations with Cuba. In other words, it would seem that the single most important factor influencing this situation will be the comparison between sociological and economic developments in the United States and the U.S.S.R. Perhaps equal importance lies in the development of our own direct relations with the U.S.S.R. and in the development of the UNO as an effective instrument for international security and justice (and for economic and sociological development). A strong mechanism and tradition of inter-American cooperation and solidarity will probably also be of great importance as a deterrent to the weakening of our relationship with individual American Republics such as Cuba.

The possibilities of discouraging the growth of Communism in Cuba, by any mechanism in our direct relations with Cuba, do not seem promising. While we may consider it prudent to provide enough economic aid so that the Cubans will not be inspired to turn elsewhere for such assistance, it does not seem likely that our Congress would authorize economic "cooperation" on a large enough scale to have a widespread and impressive effect on living standards. Even if such benefits could be realized, the Communists would label them puny and unworthy of consideration in comparison with the benefits they imagine that Marxism would bring them.

While our publicity program may tell the Cubans about the advantages of the system in the United States, it does not transfer those advantages to Cuba. Moreover, while we are telling them about cultural and scientific advances, an overwhelming multitude of other publicity channels is giving a picture of a cross-section of our daily life which provides the Communists with ample opportunity for depreciatory interpretations and misinterpretations. (Cuba, for example, is already much freer from racial prejudice than the United States, and might easily find more affinity in this respect for the U.S.S.R. than for the United States.)

The use of the United States sugar market as a political weapon would be entirely foreign to our well-established policies. Any threat to withhold the market (when we have the security of other ample sources of supply)—or to withhold United States products from Cuba—in order to influence Cuban politics, would probably be very short-sighted and would only create resentment and lower our prestige—without detracting from the basic appeal of "the Communist idea".

With all the disposition of President Grau to accept the "collaboration" of the Communists because he covets their votes and finds a certain area of compatibility between their social objectives and his own crusading instincts, there are definite indications that he regards them somewhat charily. He condones repeated public attacks against the ideas of Communism by the Vice President, Raúl de Cárdenas; he maintains in office the Minister of State, Alberto Inocente Alvarez, despite acrid Communist criticism; and very recently Government spokesmen have emphatically denied Moscow press reports that Cuba would take the Military Base "question" to the UNO, indicating a certain impatience—either real or predetermined—with the turn given to this publicity by the Communist press in Cuba and Moscow. Moreover, it seems likely that the strength of the *Auténtico* Party and the Grau Administration during the remainder of the President's term

may be sufficient, on the whole, so that the strength of the Communists will not show any marked proportional increase. Any specific increase in the strength of the Communist Party, in fact, may be rendered less conspicuous by a relatively greater increase in Auténtico numerical strength at the coming elections. If this occurs—and if larger circumstances such as Soviet prestige and a contrasting economic decline in Cuba favor the Communists—the Communist Party may suddenly come to the public attention as a surprisingly strong and persisting force if the Auténtico party goes the way of other temporary Cuban political combinations in 1948.

Respectfully yours,

R. HENRY NORWEB

**NEGOTIATIONS TO STABILIZE POSTWAR RECONVERSION POLICIES
ON TRADE, TRANSPORT, AND COMMUNICATIONS**

811.79637/1-2546

The Cuban Ambassador (Belt) to the Acting Secretary of State

[Translation]

WASHINGTON, January 25, 1946.

EXCELLENCY: I have the honor to refer to notes Nos. 399 and 411 of August 2nd and 8th, 1945,⁴⁵ respectively, which I addressed to Your Excellency, with respect to the desires expressed by my Government that, should it be possible, the establishment of new airlines for the transportation of persons, cargo and mail between Cuba and the United States be authorized.

Tourist trade, which has at previous times been a large source of income for the Cuban Treasury, and which is developing in an extraordinary manner in this post war period, finds my country in a disadvantageous position to enjoy its benefits fully, due principally to the lack of communications and suitable transportation.

Just as before the war there was regular steamship service that converged in Habana from New York, Miami, New Orleans, San Francisco and other American ports, which facilitated access to Cuba for the tourist current, the fact is that now there is no means of communication other than air transportation between Habana and Camagüey and Miami, which is manifestly insufficient, despite the number of additional flights with which the service has been increased in order to satisfy in a minimum proportion the demand for passage to Cuba.

On the other hand my Government is interested in obtaining for Cuba—at this time when Civil Aviation is organizing and extending

⁴⁵ Neither printed.

its lines to all the countries of this hemisphere and of the whole world—the position which is due it among the most advanced nations because of its geographic location and its economic capacity.

Direct air service between the large centers of population located in the East and the Middle West of the United States and Cuba would bring noticeable advantages for the development of business and commercial exchange between our countries, since it would shorten the flight distance to a few hours, avoiding the delays and inconveniences of transfers in Miami. I understand that some of the pending applications submitted by aviation companies include the establishment of such services.

It is for the reasons which I have just set forth that I take the liberty of repeating to Your Excellency the pleasure with which my Government would regard the favorable decision in the near future by the pertinent authorities on the applications which some aviation companies have pending for the authorization to establish new lines between the United States and Cuba.⁴⁶

I avail myself [etc.]

GMO. BELT

576 Washington/5-1646

Mr. E. K. Jett, Chairman of the United States Delegation, Second North American Regional Broadcasting Conference, to the Secretary of State

[Extracts]

[WASHINGTON,] May 16, 1946.

MY DEAR MR. SECRETARY: Pursuant to your letter, File 1C, of January 31, 1946,⁴⁷ designating me as Chairman of the United States Delegation to the Conference, there follows below a report on the principal activities and accomplishments of the Second North American Regional Broadcasting Conference which was held in Washington from February 4 to 25, 1946.

BACKGROUND

On December 13, 1937 there was signed at Havana, Cuba, a North American Regional Broadcasting Agreement, Treaty Series No. 962, between the United States, Canada, Cuba, the Dominican Republic, Haiti and Mexico, for the purpose of regulating and establishing principles governing the use of the standard broadcast band (550-1600 kc)

⁴⁶ The Secretary of State informed Ambassador Belt, in a note of April 10, 1946, that Foreign Air Carrier Permits, effective April 8, 1946, had been issued by the Civil Aeronautics Board to *Compañía Cubana de Aviación, S.A.* and *Expreso Aereo Inter-Americano, S.A.*, authorizing the two Cuban companies to conduct air transportation of persons, property, and mail between Havana and Miami (811-79637/4-1046).

⁴⁷ Not printed.

in the North American region so that each country could make the most effective use thereof with the minimum technical interference between broadcast stations. The Agreement was subsequently adhered to by Newfoundland and the Bahama Islands.

. . . The North American Regional Broadcasting Agreement and its supplementary document went into effect at 3:00 a. m. Eastern Standard Time, March 29, 1941 and by its terms will expire at the conclusion of five years from that date.

. . . throughout the five years' duration of the North American Regional Broadcasting Agreement, the Government of Cuba has constantly caused interference, frequently of a serious nature, by reason of its operating broadcasting stations in violation of the Agreement on numerous Class I-A clear channels assigned to the United States, its explanation being its desire to find some means of meeting its requirements which it claimed were not satisfactorily met by the Agreements to which it was a party.

WORK OF THE CONFERENCE

It is clear from the background given in the first part of this report that had it not been for the insistence of Cuba at the Rio Inter-American Radio Conference⁴⁸ to obtain additional privileges on frequencies below 1000 kilocycles the present conference would not have been necessary. All of the other governments were prepared both at the time of the Rio Conference in September 1945 and at the convening of the Washington Conference on February 4, 1946 to agree to abide by the provisions of the Havana Treaty for a period of two years after its expiration on March 29, 1946. In short, it can be said that the Washington Conference was held almost entirely for the benefit of Cuba. This, however, came as no surprise since it was agreed at the Rio Inter-American Radio Conference that such a conference would be held in order that Cuba might obtain action on her proposals. This agreement was concurred in by all the countries.

Notwithstanding the position of Cuba our Delegation made every effort to obtain an agreement to maintain the *status quo* for another two years. Indeed, the United States Delegation submitted such a proposal on the opening day of the Conference (Document 2—Appen-

⁴⁸ The Third Inter-American Radio Conference, held at Rio de Janeiro, September 3-27, 1945. For an article on the accomplishments of the Conference, see Department of State *Bulletin*, November 4, 1945, p. 735.

dix IV ⁴⁹) but it soon became apparent that Cuba was determined to obtain certain concessions not consistent with the Agreement.

It was, and still is, believed by the Delegation that to have failed to obtain an Agreement ⁵⁰ participated in by Cuba would have been to result in serious interference to United States and other broadcasting stations in the standard band with the great possibility of eventual chaos to the widespread disadvantage of the United States broadcasting industry and to the listening public throughout this country. The Delegation could not lightly disregard the wide-spread interests in the United States which would thus be seriously and adversely affected.

Respectfully,

E. K. JETT

611.3731/6-1246

The Secretary of State to the Cuban Ambassador (Belt) ⁵¹

AIDE-MÉMOIRE

As His Excellency, the Ambassador of Cuba, is aware, Cuba and the United States have had mutually beneficial results from the trade agreement between the two countries which has been in effect since September 3, 1934,⁵² and during this period of nearly twelve years comparatively few questions have arisen with regard to the operation of the agreement. However, during the past few years the American Embassy at Habana has discussed with the Cuban Government a number of instances in which Cuban laws or decrees contain provisions that are contrary to the provisions of certain articles of the trade agreement, and despite repeated requests by the Embassy for a settlement of these problems, the Cuban Government has taken no action to bring such conflicting provisions into conformity with the terms of the trade agreement.

The Government of the United States believes that the Cuban Government shares its desire to have all pending matters of this kind satisfactorily adjusted before negotiations are undertaken in anticipation of the proposed International Conference on Trade and Employment.

⁴⁹ Not printed.

⁵⁰ For text of interim agreement signed February 25, 1946, see Department of State Treaties and Other International Acts Series No. 1553, or 60 Stat. (pt. 2) 1862. For summary statement on the Conference, see Department of State *Bulletin*, March 10, 1946, p. 376; for address by the Chief of the Telecommunications Division (De Wolf) before the closing session of the Conference, see *ibid.*, p. 379.

⁵¹ Handed to the Cuban Ambassador on June 13.

⁵² Signed at Washington, August 24, 1934; for text, see *Foreign Relations*, 1934, vol. v, p. 169, Executive Agreement Series No. 67, or 49 Stat. (pt. 2) 3559.

It is requested, therefore, that the Ambassador of Cuba bring to the attention of his Government the strong hope of the United States Government that there may be definitive discussions at an early date between the Ministry of State and the American Embassy at Habana with a view to a settlement of all these outstanding questions.

There is given below a list of the pending trade-agreement matters.

1. Import Package Tax established by Cuban Civil Retirement Law of May 18, 1939, as amended by the Law of November 12, 1942.
2. Increases in the Export Tax on Money by Cuban Law no. 1 of December 31, 1941 and Law no. 7 of April 6, 1943.
3. Discrimination against imports in exemption of Cuban raw materials used by new industries from certain taxes under the provisions of Cuban decree no. 2144 of August 7, 1945.
4. Failure to extend to imports from the United States exemptions from consular invoice fees, custom duties, et cetera which Cuban Decree no. 2620 of September 17, 1945 grants to books imported from Mexico.⁵³
5. Discrimination against imports in suspension of tax on the refining of crude petroleum produced in Cuba. (The tax was established by Cuban Decree Law no. 14 of February 6, 1942.)
6. Discrimination against imports in 20-percent reduction in the gross sales tax in the case of Cuban goods and in exemption from tax for Cuban commercial samples in certain provisions of Cuban Decree no. 643 of March 27, 1946.

WASHINGTON, June 12, 1946.

[The Department's *aide-mémoire* of June 12, 1946, was acknowledged by Ambassador Belt in an *aide-mémoire* of August 13, not printed. The pending trade-agreement matters, he reported, were "opportunistically brought to the attention of the Cuban Government, and are being submitted to special study and consideration by technical officials and experts of the Ministry of State and the Ministry of Finance." (611.3731/8-1346)]

Ambassador Norweb reported in despatch 2131, September 5, that he had transmitted a note to the Cuban Foreign Office requesting that steps be taken to remedy the apparent discrimination in favor of domestic products as regards the application of the consumption tax of 2 centavos per gallon on gasoline and gasoline substitutes of United States origin, which conflicts with provisions of article VIII of the Reciprocal Trade Agreement. Only a tentative reply had been received to the Embassy's note of August 30 on this subject, and, further, no indication had been given by the Ministry of State as to its readiness to discuss settlement of trade agreement problems listed in this *aide-mémoire* of June 12. (611.3731/9-546)]

⁵³ According to despatch 1916, July 22, 1946, from Havana, this fourth violation by Cuba of the Reciprocal Trade Agreement had since been eliminated (611-3731/7-2246).

711.372/8-146 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Norweb)

RESTRICTED

WASHINGTON, August 1, 1946—6 p. m.

534. Copy article 1 draft treaty of Friendship, Commerce and Navigation which it is planned to propose to Cuban Government and negotiate in Habana was presented to Belt today.⁵⁴ In discussing matter Braden referred to his conversation with Grau of December 1944 and latter's suggestion labor clause be taken up with Belt. While Belt remarked that article in general appeared satisfactory, he expressed view that provisions of constitution and existing labor laws might conflict with paragraph 3 of draft which reads as follows:

"No limitation shall be imposed on the basis of nationality by either High Contracting Party upon the employment within its jurisdiction of nationals of the other High Contracting Party, greater than that in effect on the date of signature of this Treaty. Moreover, the nationals, corporations and associations of either High Contracting Party doing business, owning property, or rendering service within the territories of the other High Contracting Party, shall be permitted to employ a reasonable number of employees of their own nationality necessary for efficient management, administration, technical and export servicing."

Belt said he would study draft and present his views to Department next week.⁵⁵ Copy Article 1 being forwarded Embassy by airmail.

ACHESON

⁵⁴ In a memorandum of July 1, 1946, Mr. Joseph T. Keating of the Division of Commercial Policy explained this rather unusual procedure as follows:

"For some time discussions have taken place between officials of our Embassy in Cuba and this Department on the effect a proposed treaty of Friendship, Commerce and Navigation would have on the labor laws of Cuba. These laws have grown extremely nationalistic in Cuba based in part, upon the Cuban constitutional provisions. The Cuban laws have almost reached the point of making it impossible for our business men and professional people to operate in Cuba. This is one of the most important problems which the proposed treaty will attempt to solve—by providing treaty guarantees for us that the situation will not worsen. Provisions in Article I of the proposed treaty will limit the discriminatory labor laws in Cuba as they would apply to our nationals. That is the reason why it has been suggested that we consult with Ambassador Belt on the proposed provisions of Article I before sending the entire treaty draft to be officially presented to the Cuban Government for negotiation." (711.372/7-146)

⁵⁵ Ambassador Belt had not presented his views to the Department by the end of 1946. In ambassador Norweb was informed in instruction 1216, January 3, 1947, that in view of the increasing representations made by American citizens having substantial investments in Cuba, the Department had decided to urge upon the Cuban Government the negotiation of a broad, long-range treaty. A draft treaty of friendship, commerce and navigation with Cuba was enclosed for presentation officially to the Cuban Government as a basis of negotiation. (711.372/8-1946)

811.79637/8-2046

*The American Embassy to the Cuban Ministry of State*⁵⁶

No. 568

The Embassy of the United States of America presents its compliments to the Ministry of State of the Republic of Cuba and has the honor to refer to its note number 522 dated July 26, 1946,⁵⁷ in which the Government of Cuba was informed that the Government of the United States on July 25, 1946 had given notice of its denunciation of the International Air Transport Agreement.⁵⁸

The Embassy also wishes to call to the attention of the Ministry of State its note number 395 dated June 3, 1946,⁵⁹ with which was forwarded Docket Number 525 et al of the Civil Aeronautics Board, outlining their decision of May 17, 1946 (Latin American Decision), as a part of which National Airlines, Chicago and Southern Air Lines, and Braniff Airways were certificated for operations to and through Cuba. It was stated in that note that the Government of the United States believed that the working out of a definite agreement for the operation of these additional air services should be the subject of inter-governmental discussions, which the United States was desirous of undertaking in the near future.

The Civil Aeronautics Board has now, however, decided to reopen this Latin American decision in so far as services between the United States and the Canal Zone are concerned, and this makes it desirable to defer the conclusion of a permanent agreement between the Governments of the United States and Cuba until after the case is finally decided.

The Embassy has been requested, therefore, to endeavor to conclude with the Cuban Government, through an exchange of notes if possible, an interim agreement to cover operations by the United States airlines certificated under the Civil Aeronautics Board's decision of May 17, 1946, in order to obtain for duly authorized United States airlines rights of transit and non-traffic stop in the territory of Cuba, as well as the right to pick up and discharge international traffic in pas-

⁵⁶ Copy transmitted to the Department in despatch 2054, August 20; received August 21. This note was presented to the Cuban Government in response to the Department's instruction (airgram 1009, August 7, 811.79637/7-2246) that the Embassy endeavor to effect an interim arrangement, by an exchange of notes, pending the conclusion of a bilateral aviation agreement between the United States and Cuba, to cover operations by United States airlines certificated under the Civil Aeronautics Board decision of May 17, 1946, referred to in the note here printed.

⁵⁷ Not printed.

⁵⁸ The international air transport agreement of December 7, 1944 (Department of State Executive Agreement Series No. 488), provided for the grant by each contracting state to other contracting states of the "five freedoms" of the air in respect of scheduled international air services.

⁵⁹ Not printed.

sengers, cargo and mail at the indicated Cuban points on the following routes:

1. Miami to Camagüey and Santiago, thence to South America via intermediate points in the Caribbean, in both directions, and to render non-stop services between any of the points not consecutively named in the description of this route. (This route is at present operated by Pan American Airways).
2. Miami to Habana and thence to Mérida, Mexico and beyond; in both directions. (This route is at present operated by Pan American).
3. Miami to Cienfuegos and thence via intermediate points to the Panama Canal Zone and beyond; in both directions. (This route is at present operated by Pan American Airways).
4. The co-terminals Tampa and Miami to Habana; in both directions. (This route is to be operated by National Airlines).
5. The co-terminals Houston and New Orleans to Habana and thence (a) to Camagüey and via intermediate points to Puerto Rico, and (b) to Venezuela via intermediate points; in both directions. (This route is to be operated by Chicago and Southern Airlines).
6. Houston to Habana, thence to the Panama Canal Zone and beyond to points in South America; in both directions. (This route is to be operated by Braniff Airways).

As indicated, the Government of the United States is of the opinion that acceptance by the Cuban Government of the above proposals would constitute a satisfactory temporary agreement which would cover the operations in question pending the conclusion of a formal bilateral air transport agreement, and the Embassy therefore expresses the hope that such an acceptance may be received.⁶⁰

The Embassy of the United States of America avails itself of this opportunity to renew to the Ministry of State the assurance of its highest consideration.

HABANA, August 14, 1946.

560.AL/8-2146

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

SECRET
No. 2065

HABANA, August 21, 1946.
[Received August 23.]

SIR: I have the honor to refer to the Department's secret instruction no. 951 of August 15, 1946,⁶¹ regarding our Government's inten-

⁶⁰ In despatch 2205, September 24, 1946, Ambassador Norweb pointed out that the Cuban aviation authorities were not favorably disposed to enter into such an interim arrangement which would constitute a blanket permit for the lines recently certificated by the Board to operate to Cuba, because such a blanket permit could not be made binding upon the Cuban Government without Congressional authority. They therefore proposed that these newly certificated airlines continue the existing practice of obtaining individual Cuban Government permits pending the conclusion of a formal bilateral agreement. (811.79637/9-2446)

⁶¹ Not printed.

tion to terminate the Commercial Convention of 1902⁶² as an initial step towards removing the obstacles which stand in the way of the eventual elimination of tariff preferences, in keeping with the recommendations made in our *Proposals for Expansion of World Trade and Employment*.⁶³

The Embassy notes that it is the Department's understanding that Cuba has accepted, at least in principle, the idea of modifications in the United States-Cuban preferential trade arrangements and that it is desirous that notice of termination of the Convention be made in such a way as to prevent its being interpreted by the Cuban Government as an unfriendly act. The Embassy is therefore requested to suggest to the Cuban Government the possibility of handling this matter by an exchange of more or less identical notes, to be supplemented by press releases to be issued simultaneously in Washington and Habana. In view of the possible reaction of the Cuban Government to the proposed denunciation of the 1902 Convention, the Department suggests that the Embassy may consider it advisable not to broach the question separately but to include it in the commercial policy discussions which Mr. Harry R. Turkel, Assistant Chief, Commercial Policy Division, expects to hold with Cuban officials within the next few weeks.⁶⁴

In respect of the foregoing the Embassy respectfully submits the following comments: While the Cubans are thoroughly familiar with our *Proposals*, including the recommendation for the eventual elimination of all trade preferences, which has received wide publicity here, the Embassy is not at all sure that they have become reconciled to the latter possibility. The matter is still the subject of considerable press comment and only during the last few days both the *Diario de la Marina* and *Siempre* (which is considered the organ of the Auténtico Party) carried editorials opposing the elimination of Cuba's preferential trading position with the United States. It is true that at the Round Table discussions of our *Proposals* conducted last Feb-

⁶² For text of commercial convention between the United States and Cuba, signed at Havana, December 11, 1902, see *Foreign Relations*, 1903, p. 375, or Department of State Treaty Series No. 427, or 33 Stat. 2136.

⁶³ Department of State publication No. 2411, November 1945; reference is to chapter III, section B of the *Proposals*.

⁶⁴ The Department informed Ambassador Norweb in telegram 539, August 5, 1946, of the forthcoming visit of Mr. Turkel to Havana, in anticipation of the first meeting of the United Nations Preparatory Committee on Trade and Employment to be held in London beginning October 15, 1946, and stressed the importance of the proposed Cuban discussions to the success of the London meeting; a thorough exchange of views with the Cuban Government on subjects to be discussed in London was termed "essential." (560.AL/8-546) The United States had invited 17 members of the United Nations, including Cuba, Chile, and Brazil, to enter into negotiations for the reduction of tariffs and other barriers to trade; and, on initiative of this Government, the United Nations set up the Preparatory Committee and agreed to call an International Conference on Trade and Employment.

ruary by the Cuban Board of Economic Warfare a resolution was adopted with regard to tariff preferences which recommended their gradual reduction provided Cuba received adequate compensating concessions in return (see Embassy's airmail despatch no. 1247 of March 11, 1946, file no. 631⁶⁵), but the Round Table's resolutions do not represent the official views of the Cuban Government, which is in no way committed thereby. Moreover, although the Cuban Government accepted our invitation to attend the Preliminary Meeting, the Embassy does not recall that it accepted at any time, even in principle, the idea of modifications in the United States-Cuban preferential trading arrangement except in so far as its failure specifically to mention the question of preferences in its several notes relating to our *Proposals* may be construed as an implied acceptance.

In view of all the foregoing, the Embassy fears that our decision to terminate the Convention will come as a shock to the Cubans no matter how tactfully it is brought to their attention or how carefully our approach may be timed. It seems very unlikely, therefore, that the Cuban Government will be disposed to accept any suggestions we might make towards simultaneous action along the lines indicated in the Department's instruction, unless we make it abundantly clear that if such simultaneous action is not taken the United States will have no recourse but to denounce the Convention unilaterally.

The Embassy has therefore arrived at the conclusion that rather than to inform the Cuban Government at this time to terminate the Convention it would, as the Department itself suggests, be preferable for Mr. Turkel to do so at an opportune moment in the course of his forthcoming visit. To bring it to the Cuban Government's attention now might well endanger the success of Mr. Turkel's mission and it would, in fact, seem advisable for him to defer mention of this particular subject until his discussions with the Cuban officials are well advanced.⁶⁶

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy
for Economic Affairs*

⁶⁵ Not printed.

⁶⁶ A report on the visit of Mr. Turkel and his discussions with Cuban officials, September 4-12, 1946, transmitted to the Department in despatch 2166, September 12, noted that the Technical Committee of the Cuban War Economy Board voiced strong objection to the denunciation of the 1902 Convention on economic and political grounds and argued that the Convention was not basically in conflict with the Suggested Charter for an International Trade Organization, which the United States had circulated to other members of the United Nations Committee.

711.37/9-1246

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

[Extracts]

SECRET

HABANA, September 12, 1946.

No. 2160

[Received September 20.]

SIR: I have the honor to set forth below a summary of my impressions of the evolution of our relations with Cuba during my first year as Ambassador—a year which, as it happens, corresponds almost exactly with the first year of peace following World War II. This circumstance has had a marked bearing both on the nature of the problems arising between our two countries and on our respective attitudes towards such problems. By and large both sides have tended to become more demanding, to raise the ante, as it were, on the issues at stake. Also by and large, to pursue this analogy, the chips have been with the Cubans, but on the whole have not over played their hand too much.

American Claims and Property Rights

Perhaps the sorest point of our current relations, and certainly the one fraught with the most irritating repudiations of specific official promises, is the question of claims arising from inter-governmental commodity contracts (peanut seed), compensation for squatter-infested American property (Stowers case)⁶⁷ and the wide range of substantiated private claims of American nationals dating back to the turn of the century. This whole mass of aggravation, with Lend-Lease thrown in, could be eliminated by a ten or twelve million dollar appropriation by a Government which is now receiving, over and above record normal revenues, some \$20,000,000 from the proceeds of sugar crop sales in the open market and is contemplating seizure of many more millions which would accrue to the sugar industry from price increases resulting from rises in our cost-of-living or foodstuffs price indices. But instead of a comprehensive and equitable solution involving little strain on the Cuban fiscal position, we seem destined to an endless case by case bickering with corresponding decline in political and commercial confidence and adverse side effects. The American business community here is seriously concerned over both the claims and squatter issues, and if the coming session of a Congress now completely under Administration control does nothing towards a solution, there will be unpleasant repercussions. I feel that in the

⁶⁷ Property evaluated at \$50,000 belonging to John L. Stowers, American citizen, had been occupied by squatters.

matter of justifiable private claims, such as those of the Isle of Pines Company,⁶⁸ and elementary property rights, such as Stowers', we shall gain no compensatory goodwill by displaying magnanimity or tolerance in the face of delays and false promises by the Cuban authorities. If there is a place for hard bargaining based upon a really workable and specific *quid pro quo*, this is it, rather than the Lend-Lease issue.⁶⁹

Commercial Policy and Business Relations

However we may sugar-coat it, the pill of our prospective reduction or complete elimination of the bilateral tariff preferences is going to be a bitter one for Cuba to swallow. Of course, if our Congress next year should by any chance take action towards increasing the Cuban share in the United States sugar market, much of the adverse effect would be offset, but even so there would still remain many problems of adjustment. The successful outcome of the forthcoming Preliminary Trade Meeting is therefore of great importance to Cuba, but even more important from our viewpoint is the task of educating the Cubans away from their current narrow economic nationalism, which has resulted in ever-increasing violations of the letter and spirit of the present Trade Agreement. This process has now been ably begun by a special mission from the Department aided by the Embassy's economic staff, and it is to be hoped that by the time the multilateral conferences of major trading nations are held Cuba will understand that her own best long-range interests lie in full cooperation with our proposals for liberalizing the whole concept of world trade.

The American business community, too, is having to adjust itself in this postwar reconversion period to a new concept of Cuba as an independent economic partner rather than a protected dependency. As in the case of other long-entrenched special privileged groups, the transition will not be an easy one, and there have been many headaches during the past year over the increasing inroads and demands of the Cuban Government and of newly organized labor. Where grievances have been legitimate, as in the case of certain claims and property rights mentioned above, or where intervention or harassment has occurred in disregard of Cuban law or in violation of treaty rights, the Embassy has firmly, if not always successfully, supported the American complainant. But little can be done constructively until a broad Treaty of Commerce and Navigation, backed by goodwill and mutual understanding of the changing relationships, has been negotiated.

⁶⁸ This company's claims against the Cuban Government for freight service between the Isle of Pines and Cuba totalled \$178,904.96.

⁶⁹ Marginal handwritten note by the Acting Chief of the Division of Caribbean and Central American Affairs (Barber): "Dept. is pressing for all issues but is at the moment emphasizing L Lease. W.F.B."

Much has been done during the past year in tripartite spadework by the Department, the Embassy and the American Chamber of Commerce in preparing a draft of such an agreement for submission to the Cuban Government.

Cooperation in World Policy

When President Grau (at the recent elaborate testimonial dinner tendered me as a tribute to the freeing of the Philippines) said that Cuba was devoutly thankful that the United States, rather than any other power, possessed the effective secret of atomic warfare, he gave voice to what I believe is the sincere feeling of the great majority of Cubans, as well as other Latin American, people. Coming from the Cubans, who know us so intimately, the tribute is all the more real, and the implied rebuke to the minority of Cubans who implacably hate us—the Communists—is very clear. This spirit of basic confidence, despite all our minor differences, has characterized Cuba's attitude during the past year in the whole broad range of our world and hemisphere policies.

We counted on, and received, Cuban support at Chapultepec and San Francisco;⁷⁰ Cuba has followed the Anglo-American policy on Franco Spain, despite great internal pressures to the contrary; and in the various new international organizations, such as UNRRA, the International Bank and Fund, and United Nations subsidiary organizations, Cuba has allied herself to our principles, with only such reservations as befit a very self-conscious "little" power. On the tortuous Argentine question Cuba was shrewdly non-committal, preferring, like many others, to suspend judgment, although with respect of the Larreta proposal⁷¹ Cuban reception was distinctly reserved. Only in the matter of our World Trade Proposal and in regional radio matters has there been any serious doubt as to the extent to which we may be able to rely on Cuban support in major current issues.

Meanwhile, Cuba has of her own accord intensified good neighborly relations in this hemisphere—notably with Canada, Mexico and Venezuela—and has expanded her foreign representation in general. This increasing maturity and interest in the international field helps to counteract the previously noted tendencies towards accelerating nationalism, and the Embassy has made every effort to foster such development despite a notable shortage of adequate personnel either in the Cuban Foreign Office or its representatives abroad. On the whole,

⁷⁰ For documentation on the Inter-American Conference on Problems of War and Peace, Mexico City, February 21–March 8, 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.; for documentation on the United Nations Conference on International Organization, San Francisco, April 25–June 26, 1945, see *ibid.*, vol. i, pp. 1 ff.

⁷¹ For documentation on the Uruguayan proposal with respect to intervention in the affairs of states through multilateral action, see *Foreign Relations*, 1945, vol. ix, pp. 185 ff.

we may be quite well satisfied with Cuba's progress as a partner in world affairs during the past year.

Conclusion

As I look back over developments of the past year, I have the feeling that relations between Cuba and the United States may only have been settling gradually to a basis different from that which existed prior to the abrogation of the Platt Amendment. As Cubans, generally, have become convinced that there is only a very remote possibility of the United States reverting to a frankly interventionist policy, they have had a natural tendency to flaunt their "independence" in small ways—much as a puppy might yelp bravely at a mastiff behind a fence. The "fence" is our own determination that we will not again be lured into "landing the Marines".

The exhilaration of the "independent" attitude of Cubans now appears to be subsiding and I believe we may expect that the relationship between our two countries will level off on a new plateau—with gradually increasing mutual respect which should mark the relations between neighbors who are "good" in the best sense of the word. This process will inevitably be slow but it can be hastened if we continue in our inclination not to provide gratuitous assistance—except, of course, succor for humanitarian needs—and instead to wait those manifestations of reciprocal cooperation, such as debt payments and other expressions of decent goodwill, which might normally be expected of any neighbor who wishes practical cooperation. The very recent indication that the Cuban Government may finally pay its Lend-Lease account, when faced with our reluctance to sell further war matériel until this payment is made, should encourage us to maintain this attitude in other matters. If we are firm but reasonable, I believe we may eventually expect results. And if we are reasonable, it seems very unlikely that Cuba will be tempted to look farther afield—to some other great Power—for the largesse that we may withhold.

Respectfully yours,

R. HENRY NORWEB

S37.796/10-2346

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

CONFIDENTIAL
No. 2327

HABANA, October 23, 1946.
[Received October 29.]

SIR: I have the honor to forward herewith copy of a memorandum prepared by Commercial Attaché Howard, in which is outlined the present policy and attitude of the Cuban Government authorities con-

cerned with civil aviation matters. The development of this policy has almost in its entirety taken place over the past year and a half and is motivated primarily by a desire to secure to Cuban companies reciprocal privileges from the countries of which foreign airlines operating into Cuba are nationals.

The data in the enclosed memorandum should be very useful to the Department in the event of bilateral aviation discussions with Cuba. Moreover, I believe that this resumé will be of great value to American companies who are considering operations to Cuba, but owing to its nature should be made available with discretion.

Respectfully yours,

R. HENRY NORWEB

[Enclosure]

Memorandum by the Commercial Attaché in Cuba (Howard)

HABANA, October 21, 1946.

Having no Cuban airlines in a position to handle but a small part of the international air traffic between Cuba and abroad, the Cuban Government is in a rather awkward position as regards civil aviation, and the gradual evolving of a policy has been a struggle between the desire to have excellent connections by air with foreign countries and at the same time preserve a trading position for Cuban operators.

Up until late 1945 Cuba was prepared to grant licenses to practically any company desiring to come in from any country, either as a scheduled or a chartered service, under fairly simple procedures and without demanding reciprocal treatment for its national companies. However, gaining impetus largely from pressure brought upon it by Pan American in connection with its desire to operate Habana-Mexico through its subsidiary Compañía Cubana de Aviación, as well as by Cubana and Expreso for accelerated CAB action on their applications to operate scheduled passenger and mail services between Habana and Miami, the Ministry of Communications, through the National Transportation Commission, began adopting a series of regulations aiming to establish for Cuban companies the right to demand reciprocal treatment, and to protect these companies in so far as possible on the routes which they were already operating or might later establish.

The first ruling was in respect to granting to foreign airlines permits for scheduled services, all of which from the end of April 1946 carried the proviso that applications by Cuban companies must be honored in reciprocity.

The second of the Government's pronouncements was that no permits would be given for charter operations except for a limited number of flights over a restricted period of time. This was modified,

in fact, by their action in granting, in cases of emergency, two fairly long-term permits, the first of which was to aid the moving of the heavy tourist traffic between Habana and Miami during the winter of 1945-1946, and the second the licensing of 421 flights to a United States charter operator to assist in moving the Cuban avocado crop in the summer of 1946.

The third was a regulation originating with the Minister of Communications that no further licenses to carry passengers, mail or freight between Habana and Miami would be granted to any foreign company, in the belief that existing services were entirely adequate to handle the ordinary traffic.

The fourth and latest evidence of the Government's rapidly developing nationalistic attitude came in October 1946 when instructions were given the Transportation Commission by the Minister of Communications that certain regulations with some real teeth be issued. These were to provide that no foreign operators could be given permits to operate as scheduled services into Cuba, unless they were duly certificated by their own national authorities to operate the route; that experimental flights should be limited to four per company; that the Commission has the right to fix specific conditions regarding capacity, frequencies, etc.; that the Commission shall determine whether or not the flights applied for are of public utility and convenience for Cuba, taking interests of Cuban air transportation companies into consideration, and that foreign companies already operating into Cuba under Cuban authorization must present documentary route authorizations from their own governments within 180 days of the promulgation of the regulations or have their permits suspended. These instructions were given in the form of a letter to the President of the National Transportation Commission, and a copy thereof, which was given confidentially by the Minister to the Commercial Attaché, is attached.⁷²

Regulations were likewise drawn up, but not as yet issued, by the Transportation Commission making procedure more complicated for individual charter cargo flights to obtain Cuban Government permits.

Unfortunately for the accomplishment of the intention of these existing and proposed rulings, Cuba has no company at present fully in a position to take advantage of the reciprocity demands; the only company identifiable as a truly Cuban company, namely Aerovías Q. is operating on a shoestring and, although it is under Government protection to an extent where it may be regarded as a subsidized line, is not expected to succeed; Expreso Aéreo, which was nearly identi-

⁷² Not printed.

fiable as a Cuban company, seems on the verge of bankruptcy; and Compañía Cubana, the majority of whose stock is owned outright by Pan American Airways, lacks equipment with which to undertake even its Mexican run, which has already been authorized by the Cuban government. Furthermore, in so far as demands for reciprocity are concerned, the Transportation Commission now regards both Cubana and Expreso as United States controlled entities.

This situation has led to some corner-cutting. For example, in order to act on the Miami-Habana application of National (which was recently CAB certificated for operations between Tampa and Habana and also between Miami and Habana), the Transportation Commission squared its action with its Miami-Habana ruling by giving the Cuban companies an opportunity to object to the granting of the license, and the American company an opportunity to rebut, with the final result that the operation was licensed.

In the case of Chicago and Southern this same practice was resorted to, even though no operation from Miami was contemplated, on the basis that the Cuban companies should have an opportunity to present their objections to the licensing of *any* new operation coming into Cuba which they felt would detract from the availability of passenger traffic from Miami. The attorneys for Chicago and Southern secured statements from Pan American, Compañía Cubana, and Expreso to the effect that they had no objection to this service, and presented these statements with their applications. However, last moment pressure now being brought by President Grau may make the issuance of this permit a matter involving reciprocal treatment to Aerovias Q.

This protective attitude of the Transportation Commission shows an intensive tightening up in its licensing program, for only three months ago Trans-Caribbean Air Cargo Lines and Air Cargo Transport Corporation were licensed to conduct scheduled operations between New York and Habana, despite the fact that they had not been certificated by CAB and were charter operators from the United States whose services paralleled the CAB certificated route of National Airlines.

If further illustration is needed, reference is made to the provisions of paragraph VII of the Minister of Communications' letter of instruction, dated October 9, to the Transportation Commission (see copy attached⁷³) which will, if enforced, oblige these two lines to produce CAB certificates for their operations or have their Cuban licenses revoked.

A considerable amount of pressure for the adoption of even stricter reciprocal regulations is being brought to bear on the Government,

⁷³ Not printed.

both by the Cuban operating companies and by persons in the Civil Aviation Committee, which acts as advisor to the National Transportation Commission. Formerly the Transportation Commission did not refer matters concerning issuance of licenses to the Civil Aviation Committee, which is not only composed in part of persons at present in the employ of various airlines, but is under the direction of Captain Torres Menier, long-time employee of Expreso (in whose interests he is said to be working) and who is allegedly extremely politically minded.

In particular this is being brought strongly by Aerovias Q through President Grau, under whose protection it is operating, and Torres Menier has likewise expressed himself as strongly in its favor. Their ideas go to the extent of establishing a definite percentage of passengers which can be carried by Cuban airlines and by foreign airlines between Cuba and the country involved. Today it does not seem to present an immediate threat for the reason that Cuba has not at present the airlines to render an important contribution to such services, but should a regulation of this kind be promulgated it would enable Aerovias Q, Expreso, as well as newer companies which have been formed and licensed for operation by the Cuban Government but which have as yet no equipment, to raise funds for a "sure thing" operation, which they cannot now raise on the basis of free competition with United States and other airlines.

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Briefly to summarize the present position, the Cuban Government, which formally adopted a *laissez faire* attitude regarding civil aviation, has begun to show during the past eighteen months a rapidly intensifying nationalistic attitude towards its future. This has been evidenced by an increasingly protective set of regulations in the interest of the development of Cuban civil aviation. They are badly handicapped in these efforts owing to the lack of a well developed Cuban industry, but it is believed that the favorable conditions which the Government is endeavoring to create through its regulatory devices will give to Cuban services an opportunity to expand.

Meanwhile although certain instances, such as the President's insistence noted in the case of Aerovias Q, may arise, it is believed that the direction of matters concerning civil aviation is in the hands of fair minded and competent people who desire to see Cuba well served by competent airlines and who will not take undue advantage of the regulatory provisions.

GEORGE C. HOWARD

800.8836/10-746

*The Secretary of State to the Ambassador in Cuba (Norweb)*RESTRICTED
No. 1146

WASHINGTON, November 15, 1946.

The Secretary of State refers to the Embassy's airgram No. A-1746 of October 7 and to the Embassy's despatch No. 1771 of June 20, 1946 regarding the difficulties which have arisen in connection with the operation of the Seatrain Lines.⁷⁴

The action taken by the Cuban Government in issuing Customs Order No. 1034 of June 8, 1946 constituted a definite threat to the continuance of service by the Seatrain Lines.⁷⁵ The Department has reason to believe that any new and similar regulations will constitute a similar threat to the continued operation of not only the Seatrain Lines but also other similar services which may now exist or be contemplated. In this connection, the Department fully shares the views which the Cuban Government expressed when military needs made it appear that the Seatrain *New Orleans* would have to be removed from service⁷⁶ and later when the same ship was not operating because of labor difficulties in the United States.⁷⁷

It appears to the Department that the method followed by the Cuban Government, that is, the issuance of customs regulations to adjust difficulties not directly concerned with matters ordinarily dealt with in customs regulations, is most undesirable from the standpoint of the objective of relaxing barriers to world trade. The Department has not been informed that the customs order mentioned was necessary for purely customs purposes.

The Department also takes the view that any regulation which would unnecessarily hinder the efficient operation of the Seatrain Lines or similar enterprises would constitute a barrier to the full development

⁷⁴ Neither printed. The Seatrain Lines, carrying freight cars in an ocean service, was one of the car ferry services operating between the United States and Cuba since 1914.

⁷⁵ This order, which required through freight upon arrival at Havana to be unloaded, warehoused, and reshipped, was suspended for 6 months but was to become effective again on January 2, 1947.

⁷⁶ Note of March 10, 1945, from the Cuban Under Secretary of State to Ambassador Braden, transmitted to the Department in despatch 1771, June 20, 1946, termed the retention of the Seatrain services "of outstanding importance for the normal conduct of Cuban economy" and "one more friendly gesture on the part of Your Excellency's Government." (800.8836/6-2046)

⁷⁷ In a note of April 26, 1946, Ambassador Belt requested the Department's assistance in effectuating resumption of the Seatrain services between the ports of New Orleans and Havana. Pointing out that this interruption was unfavorably affecting the economy of Cuba, he further stated that the unavailability of the Seatrain's service had aggravated the difficult situation already existing in the supply and distribution of such important commodities as lard and tallow which for reasons well known were generally imported into Cuba in tank cars. (800.8836/4-2646)

of trade between the two countries. The existence of such transportation services has proved to be of mutual benefit to both countries. It has been stated that the withdrawal of such services might make the exchange of certain products virtually impossible.

It is the view of the Department that every effort should be made to convince the Cuban Government of the harmful effects on both Cuban and American interests, which would follow if substantial alteration is required in the nature of the service which has in the past been offered by the Seatrain Lines and other similar operations. To assist the Embassy in the matter, Mr. L. James Falck, Assistant Chief and Mr. Charles P. Nolan, Assistant Adviser of the Shipping Division are proceeding to Habana within the next few days.⁷⁸ The Department is informed also that Mr. Graham M. Brush, President, and Mr. Joseph Hodgson, Vice-President, Seatrain Lines, Incorporated will arrive at Habana on Wednesday, November 20 to discuss this matter.⁷⁹

711.3727/11-2246 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Norweb)

CONFIDENTIAL

WASHINGTON, November 22, 1946—7 p. m.

730. CAB and Dept now consider it desirable to explore question holding discussions on bilateral air agreement in near future. Earliest possible date around first of year due to Canadian talks here. Embs

⁷⁸ A memorandum of December 10, 1946, by Messrs. Falck and Nolan, addressed to the Chief of the Shipping Division (Saugstad), stressed the fact that withdrawal of the Seatrain Line would not only be harmful to American interests but would result in damage to Cuban commerce and industry, and that the American Embassy and the Department had done everything possible to assist Seatrain. The Embassy had presented the case to the Cuban Government as well and forcefully as it could under the circumstances, but inasmuch as this Government had no treaty basis for protests and could not threaten retaliatory action, hence its only hope of success lay in persuading the Cuban Government that it was acting not only against American interests and trade but also against its own best interests. From observation and conversations, however, they concluded that apparently dock labor was able to get anything it wanted with the complete support of the Government, while the terminal operators and the shipping companies received little or no consideration. (800.8836/12-1046)

⁷⁹ In a letter of December 21, 1946, to the United States Maritime Commission, Mr. Brush reported that Seatrain service between the United States and Cuba had been suspended for the third time within 9 months due to Cuban regulations, and enclosed an announcement of the final suspension of service stating that these regulations appeared to be in conflict with various Cuban laws and were highly discriminatory and prejudicial against American ships and commerce. (800.-8836/12-2346)

Ambassador Norweb reported in airgram 2148, December 30, concerning a Habana press account for December 28 that the Cuban Cabinet had approved on December 27 draft decrees relative to labor conditions and to cargo-handling provisions affecting the operations of Seatrain and car ferry and that Seatrain would probably be dissatisfied with the new legislation to the point of maintaining its decision to suspend the service (800.8836/12-3046).

opinion on timing desired in view of Desp 2205 of September 24.⁸⁰ Howard's travel to Washington for consultation being requested prior his return Habana.⁸¹ Emb will be advised.⁸²

ACHESON

560.AL/12-1346

*Memorandum by the Second Secretary of Embassy in Cuba
(Norden)*⁸³

RESTRICTED

HABANA, December 12, 1946.

I lunched today with José Antonio Guerra, one of the Cuban delegates just returned from the London Preliminary Trade Conference. He monologued on the subject of the Conference for over two hours, discussing the positions of the various delegations in considerable detail. The main point of his story, however, was that he and the other Cuban delegates felt very satisfied with the outcome of the Conference; in the first place, because maintenance of Cuba's preferred position with respect to the United States had been virtually assured, and because the charter will provide Cuba with additional means of safeguarding her trade position and can serve as an instrument for presenting the Cuban case. He said that Cuba had achieved virtually everything she wanted with the exception of a clause guarantying fair prices to commodity producers and of an escape clause which she considered necessary for domestic political reasons. With regard to the last point, the Cuban delegation's impression is that some arrangement can still be arrived at.

Asked whether Cuba had represented Latin American interests other than her own, he said that the delegation had merely rendered lip-service to this principle and he thought that some of the most serious difficulties at the Geneva conference might come from other Latin American countries, envious of Cuba's special position vis-à-vis the United States.

Guerra mentioned that the Cuban delegation felt especially proud and reassured in having been able to play a substantial part at a conference where larger countries were primarily represented. He felt

⁸⁰ See footnote 60, p. 743.

⁸¹ The Commercial Attaché (Howard) was on vacation in Florida.

⁸² The Embassy was instructed in airgram 1440, December 6, 1946, to ask the Cuban Government officially whether it was agreeable to the opening of negotiations shortly after the first of the year (711.3727/11-2746).

⁸³ Addressed to Ambassador Norweb and the Counselor of Embassy for Economic Affairs (Nufer). Copy transmitted to the Department in despatch 2564, December 13, from Havana; received December 17.

the Cubans had repeatedly assisted in finding compromise formulas and had been of help to the United States' position.⁸⁴

CARL F. NORDEN

611.3731/12-1846

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

RESTRICTED
No. 2573

HABANA, December 18, 1946.
[Received December 20.]

SIR: I have the honor to refer to previous correspondence, and particularly to the Department's instruction no. 1164 of November 23, 1946 (file no. 611.3731/9-546),⁸⁵ on the subject of Cuban violations of the Reciprocal Trade Agreement between the United States and Cuba. The Embassy was gratified to learn that the Department was able to take up these matters in detail with the Cuban Minister of State and Dr. López-Fresquet prior to their departure for the London Preparatory Meeting, and appreciated receiving its summary of the discussions held.

With regard to the various points raised by the Department and/or Dr. López-Fresquet, the Embassy's comments are given below, in accordance with the Department's request:

1. *Import package tax.*

In stating that only the Cuban Congress could repeal this tax, but that it would be "suspended", Dr. López-Fresquet doubtless meant that while the tax was established by an Act of Congress and therefore could not be repealed by decree, it could be suspended by the President under the emergency powers granted him by Decree-Law no. 5 of January 20, 1942.

Article XIV of that decree-law authorizes the President, in his discretion, to suspend partially or totally "any tax which may affect

⁸⁴ A press statement by the Cuban Minister of State (Alvarez), transmitted in despatch 2595, December 23, was issued in response to protests in the local press to a State Department press announcement of December 19 that "This Government's negotiations next spring with 18 other countries for reciprocal reductions of tariff and other trade barriers will include negotiations directed toward elimination of tariff preferences now in effect between the United States and Cuba . . .". The Cuban Minister stated that no representations along those lines were expected, since the commercial relations between Cuba and the United States would henceforth be determined by the agreements reached in the London meeting, and the future of Cuba's trade preferences had become brighter as result of the resolutions adopted in London. He noted that the United States could, of course, denounce the Reciprocal Trade Agreement should Cuba refuse to agree to any modifications of its preferential trading position, but he did not believe that the United States had any such intention, or that there were any grounds for eliminating Cuba's tariff preferences unless Cuba were offered satisfactory compensatory concessions. (560.AL/12-2346)

⁸⁵ Not printed.

the development of national defense or supply", provided the proceeds therefrom are not pledged to the public debt service (see despatch no. 3315 of January 22, 1942, entitled "Cuban decree-law authorizes President to control production, distribution & other phases of Cuban economy"⁸⁶). These powers were invoked in Decree 2144 of August 7, 1945, granting certain tax exemptions to new industries (see despatch no. 116 of August 18, 1945, entitled "Cuban Government Enacts Additional Measure Designed to Encourage Cuba's Industrial Development"⁸⁶), and in several other tax exemption decrees on which the Embassy has reported to the Department.

With regard to López-Fresquet's statement that a decree suspending the package tax "might even have been issued while he was in Washington", it is probably hardly necessary to mention that no such decree has been promulgated and that there is no indication that such a measure is contemplated.

2. *Discrimination against imports in tax exemptions for new industries.*

It is noted that Dr. López-Fresquet is of the opinion that paragraphs I) and J), Article Second of Decree 2144 of August 7, 1945 (despatch no. 116 of August 18, 1945, mentioned above), refer only to *production* taxes, which are levied on domestic raw materials and not on imports, and that there is therefore no discrimination against United States raw materials.

It is the Embassy's opinion, and this has been confirmed by reliable local tax lawyers, that the exemption from specific taxes established by paragraph I) is not limited to production taxes, but covers all taxes specifically applicable to raw materials, such as the consumption taxes assessed on salt and gasoline, etc., to which both domestic and imported raw materials are subject. A definite conflict therefore does appear to exist between this particular provision of Decree 2144 and the letter of Article VIII of the Reciprocal Trade Agreement, and the protest which the Embassy made in the premises, pursuant to the Department's instruction no. 169 of October 23, 1945,⁸⁶ was consequently in order.

As regards paragraph J), this refers specifically to the tax on profits, and has no connection with any production tax. It is, as the Department agreed in its above mentioned instruction 169, contrary to the spirit of Article VIII of the Trade Agreement in that it exempts local industries from payment of the profits tax in direct proportion to the value of the Cuban raw materials consumed.

⁸⁶ Not printed.

3. *Discrimination against imports in suspension of tax on refining of crude petroleum.*

Contrary to what Dr. López-Fresquet told the Department, the $\frac{1}{4}$ centavo per gallon refining tax on crude petroleum, although applicable to both domestic and imported crude oil, is actually collected only on the imported product. Several weeks ago, possibly as a result of the Embassy's representations, the Ministry of Finance announced its intention of collecting the tax also on the crude oil produced and refined in the Jarahuca area of Cuba. When this became known, the Jarahuca producers registered a strong protest and the Jarahuca laborers threatened to go on strike. These protests and threats have apparently been successful, as the Embassy has learned from a reliable source that a decree has been drafted and is awaiting the President's signature which, if enacted, would specifically exempt Jarahuca crude oil from the refining tax for a five-year period. As the decree would not, however, according to the same source, make this exemption extensive to imported crude oil, it would officially confirm the existing violation of the Trade Agreement against which the Embassy has protested.

4. *Discrimination against imports in the Cuban consumption tax on gasoline.*

It is noted that the Cuban delegates agreed to recommend to the Cuban Government that the exemption from this tax on Cuban gasoline and substitutes be eliminated. As Dr. Alberto Inocente Alvarez, the Cuban Minister of State, has just returned from the inauguration of the new President of Mexico, this matter will be taken up with him as soon as a suitable opportunity presents itself.

5. *Discrimination against imports in the Cuban gross sales tax.*

a. *Cuban merchandise granted 20% reduction in tax.*

The argument submitted by Dr. López-Fresquet that the 20 percent reduction in the gross sales tax granted Cuban manufacturers under Decree 643 of March 27, 1946, is to cover their advertising expenses and is therefore not discriminatory, appears to be irrelevant. Cuban manufacturers pay the tax on their wholesale selling price; articles imported from the United States pay the tax on their cost delivered in Cuba, which includes not only the wholesale selling price of the articles in the United States, but also consular invoice fees, ocean freight, maritime insurance, import duties and the many other taxes collected in the Cuban customs. In addition, the importer of such articles, if he is to be able to compete in the Cuban market, must presumably also advertise.

Aside from all these factors, however, which seemingly make the discrimination even more onerous, the basic fact remains that local manufacturers pay a tax of only 7.2 percent, while the imported article pays a tax of 9 percent. If this situation is not remedied, the Cuban Government might conceivably reduce still further the tax on domestic products, or even eliminate it entirely, increasing it proportionately on the imported article. It will be recalled in this connection that serious consideration was given at one time to the suggestion that the tax be applied only to imported articles and not to articles manufactured in Cuba.

b. Exemption from tax of Cuban commercial sample.

Since it is noted that the Cuban delegates propose to request the Cuban Government to take action looking toward the elimination of this discrimination, the matter will be followed up with the Cuban Minister of State at an early opportunity.

c. Discrimination against imported salt.

Same remarks as for item *b*.

d. Discrimination against imported periodicals.

See the Embassy's despatch no. 2546 of December 9, 1946 (file no. 851.2 x 631), transmitting a copy of its note no. 827 of December 5, 1946,⁸⁷ following up its previous representations with regard to this matter.

6. Increases in export tax on money.

There is no basis for Dr. López-Fresquet's argument that the several increases which have been made in the export tax on money or its equivalent were designed to prevent the exportation of funds from Cuba to Spain. The tax was originally created as a $\frac{1}{4}$ of 1 percent tax by the so-called "Public Works Law" of July 15, 1925. It was increased from $\frac{1}{4}$ of 1 percent to 1 percent by Decree-Law no. 1 of December 31, 1941, and from 1 percent to 2 percent by Law no. 7 of April 5, 1943. At the time these increases were made, the exportation to Spain of means of payment of all kinds had already been prohibited by Decree 3366 of December 15, 1941. Neither does there appear to be any reason why the President, under the previously mentioned emergency powers conferred upon him by Decree-Law no. 5, could not, as suggested in the case of the import package tax, suspend the assessment of the export tax on money or its equivalent on all but the original $\frac{1}{4}$ of 1 percent, which is pledged to the service of Cuba's public debt.

As the Department is, of course, aware, the most objectionable feature of the export tax on money or its equivalent is that, in so far as imports are concerned, it amounts, in effect, to an additional ad

⁸⁷ Neither printed.

valorem import duty of 2 percent, thereby circumventing and impairing the pertinent provision of Article VIII of the Trade Agreement.

With regard to the Department's request for information on the tax referred to on page 34 of the enclosure to the Embassy's despatch no. 5735 of January 19, 1944, entitled "Transmitting Monograph on Cuba",⁸⁸ this is the same 2 percent export tax on money or its equivalent, as will be seen from the pertinent sections of Chapter XII of Law no. 7 of April 5, 1943, quoted below in translation:

"Article 66. An increase of one per centum (1%) is made in the tax on direct or indirect extraction of money or its equivalent, established by Article XVII of the Law of July 15, 1925, amended by Article I of Chapter IV of Resolution-Law no. 1, of December 31, 1941.

"Article 67. There are excepted from the increase of one per centum (1%) referred to in the preceding article, operations relative to exportations of merchandise, products, produce and securities, which will continue to be governed by the provisions of Article XVII of the Law of July 15, 1925, as amended by Resolution-Law no. 1, of December 31, 1941.

"Article 68. Notwithstanding the exception referred to in the preceding article, when the amounts obtained abroad as the result of the exportations to which it refers are spent, utilized or consumed abroad, they shall be taxed by the increase of one per centum (1%) to which Article 66 of this Law refers. It will be assumed that the total or partial proceeds of an exportation are spent, utilized or consumed abroad when the interested party cannot show their entry or reentry into Cuba in the time and manner that the regulations of the tax specify."

It will be noted from the above that while exporters are required to deposit, for the purposes of the tax, only 1 percent of the value of their shipments abroad, in actual practice they pay either 2 percent or nothing: If the returns from the exports under reference are received by the shippers within the prescribed time limit, their deposit is refunded; if not, they are required to pay the tax at the full rate of 2 percent. Moreover, the proceeds from exports, if kept abroad beyond the aforementioned time limit, and funds remitted abroad for investment or deposit, are liable, in addition to the 2 percent export tax, to the 0.15 percent monthly tax on Cuban capital held abroad (established by Chapter II of Law no. 7), which is assessed until the funds in question are repatriated.

With regard to the Department's interest in obtaining a rough estimate of the total value of the remittances to the United States which, in 1945 or any recent year, were subject to the 2 percent export tax, and its reference to an estimate made in 1943 by Mr. F. Adair

⁸⁸Not printed.

Monroe, former President of the American Chamber of Commerce of Cuba, which placed such remittances in 1942 at approximately \$150,000,000, the following information is submitted:

Inquiry reveals that Mr. Monroe's figure was arrived at by adding to the total value of general merchandise imports into Cuba from the United States during 1942, namely, \$123,000,000, an estimated \$27,000,000 representing interest payments, profits, insurance, ocean freight and other invisible items. The Embassy believes that his estimate is near enough for all practical purposes, especially as official data on invisible items entering into Cuba's balance of payments with the United States are not available. On the same basis, therefore, remittances to the United States subject to the tax during 1945 are estimated at not less than \$213,000,000, consisting of \$187,962,683 representing imports of general merchandise into Cuba from the United States and \$25,000,000 representing invisible items. This latter figure would, of course, be subject to considerable revision, either upward or downward, if detailed information on remittances of this kind were available. It is believed by banking contacts, however, to be fairly representative.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy
for Economic Affairs*

POLICIES OF THE UNITED STATES CONCERNING CUBAN FINANCIAL AID AND SETTLEMENT OF FINANCIAL OBLIGATIONS⁸⁹

837.51/1-446 : Telegram

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

RESTRICTED

WASHINGTON, January 4, 1946—8 p. m.

9. From Treasury. Please inform the Cuban Minister of the Treasury⁹⁰ that instructions were given on December 19, 1945 to the Federal Reserve Bank of New York, as fiscal agent of the United States, to earmark, pursuant to the agreement dated July 6, 1942,⁹¹ for the account of the Government of the Republic of Cuba an additional \$5,000,000 in gold. Federal Reserve Bank of New York will advise the

⁸⁹ For previous documentation on representations by the United States regarding Cuban delays in settlement of claims of American nationals and lend-lease obligations, see *Foreign Relations*, 1945, vol. ix, p. 956 ff.

⁹⁰ Manuel Fernández Supervielle.

⁹¹ For a press release on the gold purchase agreement with Cuba, designed to stabilize the Cuban peso-United States dollar rate of exchange, see telegram 418, July 3, 1942, midnight, to Havana, *Foreign Relations*, 1942, vol. vi, p. 295. Pursuant to this agreement, five additional allotments of \$5,000,000 each were earmarked for the account of the Cuban Government during 1946.

Cuban Minister of the Treasury of the earmarking of this gold and the total cost thereof to the Cuban Government. Upon receipt of such advice the Minister of the Treasury is authorized and requested to deposit to the credit of the Treasurer of the United States in a custody account at the Havana Branch of the National City Bank of New York in United States currency the amount of the cost of such gold. [Treasury.]

BYRNES

837.51/2-1946

*The Acting Chairman of the Export-Import Bank of Washington
(Gaston) to the Ambassador in Cuba (Norweb)*⁹²

CONFIDENTIAL

WASHINGTON, February 15, 1946.

DEAR MR. AMBASSADOR: As you no doubt are already aware, the procedure under which this Bank has administered the \$25,000,000 credit extended to the Comisión de Fomento Nacional in April, 1942,⁹³ has consisted of approving definitive projects of the Comisión's various programs and of allocating thereto the funds estimated as necessary for the completion of those projects. In following this procedure the Bank has been fully aware of the ever-present possibility that from time to time additional allocations for previously approved projects might be necessary because of the inadequacy of original estimates, changes in wage schedules and prices of materials and for other causes. For this reason, the Bank has consistently followed a policy of reserving a portion of the credit to meet such contingencies as might arise. The wisdom of this policy has been fully justified by actual experience during the past three years, as it has been found necessary in almost all instances to supplement the original allocations in order to provide for the completion of the works involved.

Shortly after the present Cuban Administration took office, we were requested by the Comisión to allocate funds for the construction of the first sections of three country roads forming part of a country road program which was deemed by President Grau San Martín to be of paramount importance. With some reluctance, we acceded to this request and early in 1945 allocations aggregating \$469,794.83 were approved for this purpose. Subsequently, the Comisión requested further allocations with which to carry out the second sections of these

⁹² Copy of letter transmitted to Habana in instruction 528, February 19; this instruction (not printed) requested the Embassy's comments and recommendations concerning the question of approval by the Export-Import Bank of the allocation of additional funds for Cuban road construction.

⁹³ With regard to the signing of the agreement for the \$25 million credit by the Export-Import Bank, see telegram 178, April 8, 1942, to Habana, *Foreign Relations*, 1942, vol. VI, p. 294.

same highways which were then estimated to cost \$666,325.74. In addition the Bank also gave its approval to the utilization of the credit for the purchase of equipment and materials for country road construction in an amount of \$685,876.35.

We have recently been advised by the Comisión that the original allocations of funds for the construction of the first sections of the three country roads have been entirely exhausted, and we have been requested to approve an additional allocation of \$790,139.46 to permit the completion of this work. Presumably, a similar situation exists with respect to the second sections of these same highways but we have not yet been informed by the Comisión as to what additional funds are estimated as necessary for the completion of these second sections.

The Bank is not unaware of the political importance of the country road program from the standpoint of the present administration in Cuba. On the other hand, it appears from the facts available to us that the money which is being expended on this work is not being spent wisely. Obviously, we are loath to be involved in the financing of uneconomic projects or of construction which is not being carried on in an efficient and economic manner. Were it not for the political considerations involved, our immediate reaction to the pending petition of the Comisión would be to deny its request. We feel, however, that such action on our part would be unwise until your Embassy has had the opportunity to explore fully this situation and to give us the benefit of its comments and advice. We hope, therefore, that you will discuss this matter with President Grau San Martín, the Comisión and its consulting engineers, the Frederick Snare Corporation and advise us as to your conclusions. Inasmuch as we understand that work is still proceeding on the country road construction, there is some urgency in reaching a decision as promptly as possible.

For your information, we are enclosing a copy of a staff memorandum of February 4⁹⁴ which sets out in more detail the country road situation as we understand it. It should also be pointed out that the present unallocated balance of the credit, according to the best information available to us at present, is about \$1,200,000. The exact amount is somewhat indefinite inasmuch as we have not yet received the Comisión's final estimates of the probable cost of completion of the various tributary road construction projects which it now has under way. There is also some possibility that a portion of the presently unallocated funds may be needed to defray overruns in the presently estimated costs of the construction of the Central Highway and of the sanitation programs in Santiago and Guantánamo.

If we can be of any assistance to you in furnishing further details concerning the status of the credit please do not hesitate to call on us.

⁹⁴ Not printed.

In the meantime, we trust that we will have your early advice with respect to the procedure which we should follow in connection with the country road program.⁹⁵

Very truly yours,

HERBERT E. GASTON

837.24/3-846

The Secretary of State to the Cuban Ambassador (Belt)

CONFIDENTIAL

WASHINGTON, March 8, 1946.

EXCELLENCY: I have the honor to transmit herewith two copies each of Statement LL-7 and supporting schedules⁹⁶ reporting charges made against Government of Cuba during the period from September 1, 1945 through November 30, 1945, covering defense matériel transferred in accordance with the terms of the Lend-Lease Agreement signed on November 7, 1941 by representatives of the Governments of the Republic of Cuba and the United States of America.⁹⁷

It will be noted that the amount of charges during the period under reference is \$103,188.33, and that charges through November 30, 1945 aggregate the grand total of \$4,114,804.07. Of this grand total the sum of \$2,400,000 represents the approximate appropriate percentage due on account from Your Excellency's Government under the terms specified in the Agreement.

In its note dated January 7, 1946⁹⁸ this Department requested the payment on account of \$2,339,000, the cumulative amount which was due and payable as of that date and payment of which is now in arrears. Similar requests for payment were submitted in notes dated June 26, 1944;⁹⁹ January 17, 1945, March 17, 1945, May 25, 1945, and August 25, 1945.¹ No payments have been received.

I bring this matter most earnestly to the attention of Your Excellency's Government in the hope that there may be received from the

⁹⁵ In response to the Department's instruction 528 of February 19, 1946, the Ambassador in Cuba reported in despatch 1180, February 28, as follows: "While the Embassy fully appreciates the misgivings of the Export-Import Bank and of the Department in connection with this country road program in view of the heavy additional request for funds, so far as it is possible to ascertain the work is being done efficiently and well, at costs which under existing circumstances cannot be materially reduced, and it believes that whatever funds are available from the Bank credit for this country road program will be well spent and to the decided advantage of the Cuban economy." (837.51/2-2846)

The Department informed Ambassador Norweb in telegram 187, March 21, 1946, 2 p. m., that the Bank's Board of Directors had approved the request of the Comisión de Fomento Nacional for additional allocation of \$790,139.46 for completion of the first sections of three country roads under construction (837.51/3-2146).

⁹⁶ Not printed.

⁹⁷ *Foreign Relations*, 1941, vol. VII, p. 122.

⁹⁸ Not printed.

⁹⁹ *Foreign Relations*, 1944, vol. VII, p. 908.

¹ None printed.

Government of Cuba a check in the amount of \$2,400,000, which would cover sums due including arrears. Such a check should be drawn to the order of the "Treasurer of the United States" and should be sent to this Department for appropriate disposition.

It is requested that the enclosed statement and supporting schedules be treated by Your Excellency's Government on a most confidential basis.²

Accept [etc.]

For the Secretary of State:
SPRUILLE BRADEN

837.51/5-1746

*The American Ambassador in Cuba (Norweb) to the Cuban Minister of State (Alvarez)*³

CONFIDENTIAL

HABANA, May 15, 1946.

No. 345

EXCELLENCY: I have the honor again to refer to Your Excellency's courteous note no. 335 of March 26, 1946,⁴ requesting the Embassy to obtain, if possible, the approval of the Export-Import Bank with respect to an increase in the revolving fund, established under the \$25,000,000 credit, to \$8,000,000, which amount it is estimated will remain unexpended on June 30, 1946, the expiration date fixed by Cuban Law no. 31 of November 22, 1941, for advances to the Cuban Government under the credit.

In this connection I am enclosing a letter dated May 7, 1946,⁴ addressed to Ingeniero Angel San Martín, President of the Comisión de

² In a memorandum of August 14, 1946, on the Cuban lend-lease debt, Mr. W. W. Walker, of the Division of Caribbean and Central American Affairs, informed Mr. John E. Peurifoy, Special Assistant to the Under Secretary of State, as follows:

"Ambassador Belt recently submitted a proposal that the lend lease debt be paid in four instalments over a period of four years. At the same time he proposed that military and naval equipment totalling approximately \$1,200,000 be made available to the Cuban Government. The Ambassador was informed that it would not be possible to grant an extension for the payment of the lend lease debt. He was also informed that in view of the present favorable financial condition of the Cuban Government, it was felt that the lend lease debt should be paid in full before any military or naval equipment is sold to Cuba." (837.24/8-1446)

Ambassador Norweb reported in telegram 680, September 11, 9 p. m., that the Cuban Minister of State (Alvarez) had just informed him that the Cabinet had that day authorized payment of 2.4 millions in one lump sum on the lend-lease account (837.24/9-1146).

In airgram 2157, December 31, 1946, from Habana, the Ambassador reported to the Department that despite this authorization, delay in actual payment of the lend-lease account, resulting from confusion in the detailed supporting documentation required by Cuban official accounting procedure, persisted to the end of the year (837.24/12-3146).

³ Copy transmitted to the Department in despatch 1598, May 17, 1946; received May 21.

⁴ Not printed.

Fomento Nacional, by Mr. William McC. Martin, Jr., Chairman of the Export-Import Bank, explaining that the Board of Directors of the Bank was unable to approve the utilization of the unexpended funds under the credit on hand on June 30, 1946, in the manner suggested by Your Excellency's Government as it was felt that their utilization would have to conform to the procedure established in the original loan agreement. This procedure has been followed by the Export-Import Bank in all of its credits of this nature.

Your Excellency will doubtless be gratified to learn, however, that the Bank voluntarily and on its own initiative passed a resolution on April 24, 1946, extending the expiry date of the credit for a period of two years from June 30, 1946, to June 30, 1948, although it will, of course, be necessary for the Cuban Congress to supplement the Bank's action by passing the appropriate enabling legislation.

The Bank expresses the hope, which I share, that the necessary action in this respect will be taken by the Cuban Congress so that the Comisión de Fomento Nacional may be able to use the remaining unexpended funds of the credit for the completion of the several public works projects for which those funds are intended.⁵

Please accept [etc.]

R. HENRY NORWEB

711.37/5-2046

Memorandum of Conversation, by the Director of the Office of American Republic Affairs (Briggs)

[WASHINGTON,] May 20, 1946.

Subject: Cuba's Irresponsibility with Respect to Debts; Conversation with Cuban Ambassador Belt on May 17.

Ambassador Belt called at my request. I told him that I wished to express my growing preoccupation over the obstacle to progress in Cuban-American matters represented by the existence of so many outstanding accounts and unpaid debts.⁶ I mentioned the Lend Lease

⁵ In despatch 1685, June 5, 1946, Ambassador Norweb reported that the day after President Grau received information as to the inability of the Bank to increase the revolving fund and the Bank's offer to extend for 2 years from June 30, 1946, the terms of the credit, he sent a message to Congress requesting it to ratify the extension. Congress, however, adjourned on May 28, 1946, without having taken action on the President's message. (837.51/6-546)

⁶ In telegram 418, June 14, noon, to Habana, Acting Secretary Acheson reported on the presentation of an *aide-memoire* of June 12 to Ambassador Belt (p. 739) and added:

"During conversation Belt was again reminded of Depts hope that Cuban Govt will soon take steps to effect settlement of US private and official claims. It was pointed out that Cuba's failure to liquidate these debts is an obstacle to full cooperation between the two countries. Cited as an example was our recent action in refusing to furnish Cuba with naval vessels and military equipment." (611.3731/4-2546)

See also comments by Ambassador Norweb on American claims and property rights in despatch 2160, September 12, p. 746.

account, the peanut seed bill, and the debts owing to private American interests. As illustrative of the problem created by Cuba's failure to take any action to effect settlement I recalled to Ambassador Belt that during the recent visit of the head of the Cuban Navy I had pointed out that while both Navy and State were desirous of collaborating and Navy was entirely willing to place the vessels desired at Cuba's disposal, the unpaid Lend Lease account was an obstacle to our doing so.⁷ I said that the situation was the more difficult for us to understand in view of the well-known prosperity of the Cuban economy.

Ambassador Belt made no defense of Cuba's record. He said that during his forthcoming visit to Habana (he expects to leave May 30 to be absent about 10 days) he hoped to be able to make some progress, mentioning the Stowers case⁸ and the debt of the Isle of Pines Steamship Company.⁹

My general impression is that Ambassador Belt is fully aware of all these matters but that until the Cubans are convinced that the United States will not collaborate, or will not grant favors, we can only expect minimum performance, reluctantly furnished.

ELLIS O. BRIGGS

837.51/7-246

The Chargé in Cuba (Woodward) to the Secretary of State

CONFIDENTIAL
No. 1822

HABANA, July 2, 1946.
[Received July 9.]

SIR: I have the honor to report that prior to their departure for the United States, Messrs. Ware and Fitch of the Export-Import Bank called on the Commercial Attaché accompanied by Mr. Manuel Gamba of the Frederick Snare Corporation.

Mr. Fitch had visited a number of the projects accomplished with Export-Import Bank funds, including a considerable portion of the Central Highway, some of the country roads, and also the project at Santiago de Cuba. He felt that what had been accomplished had been well done and seemed pleased with the progress which had been made to date.

Mr. Ware reported that they were leaving everything in excellent shape so far as the financial arrangements were concerned. The last promissory note of the Comisión de Fomento Nacional had been drawn up and been taken to Washington for final acceptance. The

⁷ For documentation on this subject, see pp. 702 ff.

⁸ Property evaluated at \$50,000 belonging to John L. Stowers, American citizen, had been occupied by squatters.

⁹ This company's claims against the Cuban Government for freight service between the Isle of Pines and Cuba totalled \$178,904.96.

Comisión as of June 30 was left with \$1,500,000 cash, all of which would be devoted to work on the Central Highway and will be expended in approximately five months from July 1, or by about the end of November. The Frederick Snare Corporation will continue in a supervisory capacity in so far as expenditures from this fund are concerned.

Both Mr. Fitch and Mr. Ware felt that there was not the slightest trace of resentment over the discontinuance of availability of Export-Import Bank funds so far as the Comisión or the other Government entities with whom they had come in contact were concerned and that the feeling seemed to be excellent.

Respectfully yours,

For the Chargé d'Affaires ad interim:

GEORGE C. HOWARD
Commercial Attaché

437.11/12-3046

The Secretary of State to the Cuban Ambassador (Belt)

WASHINGTON, December 30, 1946.

EXCELLENCY: I have the honor to refer to your conversation of May 17, 1946 with an officer of the Department,¹⁰ concerning the possible satisfaction of various claims of United States nationals against the Government of Cuba.

I am well aware of the friendly spirit in which your Government, during certain conversations held with President Grau in December of 1944, has expressed its sincere desire to dispose of recognized obligations owing to American nationals, and to submit to a Mixed Claims Commission such claims of American nationals as have not received the final approval of the Cuban Government.

I am therefore enclosing representative lists (A and B, attached)¹¹ of debts owed by the Cuban Government to American nationals, the validity of which is, so far as is known, not in dispute, having been confirmed, either in whole or in part, by decisions of the Cuban courts or by the acknowledgment of the appropriate administrative agencies of the Cuban Government.

As the nature of these recognized claims appears to be well-understood by both Governments, I am convinced that Your Excellency's Government will wish to take such steps as may be necessary to effect an early settlement.

¹⁰ See memorandum by the Director of the Office of American Republic Affairs, May 20, p. 767.

¹¹ Lists not printed. List A, claims of U.S. nationals sustained in whole or in part by Cuban courts, totalled \$1,338,798.52; list B, claims acknowledged in whole or in part by Cuban Government agencies, totalled \$5,168,592.97.

I have also enclosed a representative list of claims believed to be meritorious, although no evidence of supporting court decisions or administrative acknowledgment by the Cuban Government has been submitted.¹² I assume that it is with such claims as these that the proposed claims convention mentioned above would be concerned. The Department has prepared a suggested draft of such a convention, which I am transmitting herewith.¹³ I shall anticipate with interest the expression of your Government's views thereon.

In the enclosed lists it will be observed that charges for interest since the date of origin of each claim to the present date have not as yet been computed, and claims based solely upon interest allegedly owed American nationals have not been included.

It should be understood that there may be other outstanding claims which have not as yet been brought to the attention of the Department of State.

Accept [etc.]

For the Secretary of State:
SPRUILLE BRADEN

837.24/12-3046

*The Secretary of State to the Cuban Ambassador (Belt)*¹⁴

WASHINGTON, December 30, 1946.

EXCELLENCY: I have the honor to refer to Your Excellency's conversation of May 17¹⁵ with an officer of the Department concerning the balance due this Government for four million pounds of peanut seed, which were delivered to the Cuban Government in accordance with a contract of April 17, 1943, between the Commodity Credit Corporation of the United States and the Cuban Ministry of Agriculture.¹⁶

The balance now due the Commodity Credit Corporation on this account is \$1,03,488.94. As Your Excellency will recall, the debt as originally specified in the contract would have amounted to \$330,000.00, and the present lower figure has been arrived at not only as the result of certain payments made by the Cuban Government but also as the

¹² List C (not printed), claims concerning which no evidence of court decisions or administrative acknowledgment had been submitted, totalled \$2,654,240.12. Claims A, B, and C totalled \$9,161,631.61.

¹³ Not printed.

¹⁴ Handed to Ambassador Belt by Assistant Secretary Braden on December 30, 1946.

¹⁵ See memorandum by the Director of the Office of American Republic Affairs, May 20, p. 767.

¹⁶ For documentation on this subject, see *Foreign Relations*, 1943, vol. VI, pp. 223 ff.

result of certain very substantial reductions which have been allowed by the Government of the United States. This Government would therefore appreciate settlement in the amount of the indebtedness. Payment should be made in the form of a check payable to the "Treasurer of the Commodity Credit Corporation". This check should be forwarded to the Department of State for transmittal to the Commodity Credit Corporation.

Accept [etc.]

For the Secretary of State:
SPRUILLE BRADEN

837.613/12-3146

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

[Extract]

CONFIDENTIAL
No. 2614

HABANA, December 31, 1946.
[Received January 8.]

SIR: I have the honor to refer to this Embassy's telegram, No. 850, December 30, 1946, 9 p. m.,¹⁷ concerning the presentation to President Grau of copies of two notes delivered by the Department to Ambassador Belt on December 30, concerning the possible payment of long-standing debts owed by the Cuban Government to American citizens and organizations, and likewise to the possible settlement of a debt of \$103,488.94 representing the balance due for peanut seed that was supplied to the Cuban Government in 1943 by our Government. As reported in my telegram No. 850, President Grau appeared to be surprised that the debt for peanut seed should have been brought up at the same time as the large number of debts or claims of American citizens and organizations. I enclose a copy of a memorandum prepared by the Counselor of Embassy for Economic Affairs¹⁸ which may give a clue to the reason for the President's expressing this surprise.

The information reported in the enclosed memorandum was obtained confidentially by Mr. Nufer from a subordinate official of the Cuban Ministry of Agriculture. This information indicates that President Grau has opposed payment of this entirely legitimate debt each time that the matter has been mentioned in Cabinet meetings, and that the reason for his objection to payment is that the debt was incurred by the Batista Administration. This Embassy has no reason to doubt the accuracy of this information concerning President Grau's attitude, since other high-ranking officers of the Cuban Government have indi-

¹⁷ Not printed.

¹⁸ Memorandum by Counselor Albert F. Nufer, not printed.

cated in the past that this is a customary attitude with respect to governmental obligations. Ambassador Guillermo Belt, on one of his visits to Habana, mentioned to me with some pride that during his incumbency as Mayor of Habana, he had been successful in avoiding the payment of any debt incurred by his predecessor. The information obtained by Mr. Nufer leads naturally to the expectation President Grau will be equally opposed to any settlement of the long-standing debts and claims of American citizens and organizations, after he has given any real thought to this problem.

Respectfully yours,

R. HENRY NORWEB

**DISCUSSIONS AND AGREEMENTS RELATING TO THE 1946 AND 1947
CUBAN SUGAR CROPS¹⁹**

837.61351/1-246

*The Secretary of State to the Cuban Ambassador (Belt)*²⁰

WASHINGTON, January 4, 1946.

EXCELLENCY: With reference to the discussions which have been carried on at Habana and Washington in respect of the purchase of Cuban sugar during 1946, the Cuban group has requested the views of this Government concerning the future position of Cuban sugar in the United States market.

Of course, the final authority governing imports into the United States is vested by the Constitution in the Legislative Branch of this Government. The Congress has imposed quantitative limitations on the imports of sugar by the Sugar Act of 1937, and new legislation will be under consideration by the Congress late this year. The Executive is bound by this legislation and must administer it according to its terms.

As Your Excellency is aware, the United States pursues a policy of liberal trade practices. The base of this policy is constantly being broadened through the reciprocal trade-agreements program and in other ways. Several international conferences have been held with

¹⁹ For documentation concerning negotiations for the purchase of the 1946 Cuban sugar crop by the United States, see *Foreign Relations*, 1945, vol. ix, pp. 917 ff.

²⁰ Handed to Ambassador Belt by the Director of the Office of American Republic Affairs (Briggs) on January 4; this note had been prepared at the specific request of, and in the language suggested by the Department of Agriculture.

United States participation looking to sound trade relations and others are in immediate prospect.

It has been the constant purpose of my Government to provide for Cuba a fair and equitable market for its sugar. This desire springs, among other reasons, from the historical position of Cuban sugar in the United States and the problems growing out of expanded war production by Cuba for United Nations uses. It is the present policy of the Executive Branch of this Government to take such steps as may appear to it to be necessary or desirable to support the Cuban sugar position in the United States market, and best efforts will be used to give effect in practice to the policy under peacetime conditions.

Accept [etc.]

For the Secretary of State:

DEAN ACHESON

837.61351/2-2046 : Telegram

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

RESTRICTED

WASHINGTON, February 20, 1946—8 p. m.

U.S. URGENT

128. For Norregaard²¹ from Barnes.²² Please transmit in my behalf the following communication to Cuban Sugar Institute.²³

"Pursuant to agreements reached in discussions with Cuban Embassy and Combined Food Board, this Corporation agreeable to accepting interim deliveries of approximately 24,250,000 gallons of blackstrap molasses from the 1946 Cuban sugar crop in quantities equitably proportioned between deepwater ports and outports. . . .

It is understood that any deliveries made during the interim period shall be subject to the terms and conditions of the 1945 purchase contract with the exception of the sugar price escalator clause. Settlements shall be made on basis of 13.6 cents. Nevertheless, this interim arrangement shall be subject to the terms of a definitive 1946 contract now being negotiated.

It is important that considerable quantities be made available at deepwater ports at the earliest possible time. Vessels now available must be released within a few days to other services unless molasses cargoes are known to be available."

[Barnes]
BYRNES

²¹Nelson Norregaard, representative of the Commodity Credit Corporation, United States Department of Agriculture, in Cuba.

²²Stuart K. Barnes, Executive Director, Office of Defense Supplies, Reconstruction Finance Corporation.

²³Cuban Sugar Stabilization Institute, a government agency established to supervise the production and export of sugar.

837.61351/2-2646

*Memorandum of Conversation, by Mr. William W. Walker of the
Division of Caribbean and Central American Affairs*

CONFIDENTIAL

[WASHINGTON,] February 26, 1946.

Participants: Assistant Secretary Braden
 Mr. Briggs
 Mr. James H. Wright²⁴
 Mr. Earl B. Wilson, Department of Agriculture
 Mr. William W. Walker, CCA

Mr. Wright briefly referred to the meeting held yesterday in Secretary Anderson's²⁵ office and in particular to Mr. Anderson's statement that negotiations for the purchase of Cuban sugar must be brought to a satisfactory conclusion this week; and that if the Cubans, after receiving a fair offer, refused to sign an agreement, we will have no alternative but to discontinue supplying Cuba with flour, lard and other commodities. Such action, Mr. Wright added, would result in serious repercussions and should, if possible, be avoided. There has, however, been considerable criticism of the sugar negotiations and something must be done soon.

Mr. Braden stated that every effort should be made to reach an agreement and inquired of Mr. Wilson as to the principal points which the Cubans are holding out for. Mr. Wilson listed the following major points:

1. Sale of three crops;²⁶
2. Sale of 20 million gallons of alcohol at 65¢ per gallon.

He also referred to such minor problems as Cuba's request for stabilization of foodstuffs and for a guarantee that special benefits accorded to Puerto Rican sugar apply not only to a proportionate share of Cuban sugar on the same basis as Puerto Rico's crop but to the entire Cuban crop retroactive as of January 1, 1946. This would give Cuba preferential treatment over Puerto Rico and could not be considered under any circumstances.

Mr. Wilson expressed the opinion that the Cubans would probably be willing to conclude a contract provided we agree to purchase alcohol. He feels that the Cubans would probably accept an offer for eight or ten million gallons of alcohol but would insist upon last year's price of 65¢ a gallon. In this connection, he mentioned that Secretary

²⁴ Special Assistant to the Assistant Secretary of State for American Republic Affairs.

²⁵ Clinton P. Anderson, Secretary of Agriculture.

²⁶ Sugar, molasses, and alcohol.

Anderson had agreed to take such steps as may be necessary to provide him (Mr. Wilson) with the necessary authority to make such an offer.

It was agreed that it would be preferable to resume negotiations with Seiglie²⁷ and members of the Institute rather than bring Ambassador Belt into the matter.

837.61351/3-1546

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

RESTRICTED
No. 1288

HABANA, March 15, 1946.
[Received March 21.]

SIR: Supplementing previous correspondence regarding negotiations for the purchase of the 1946 Cuban sugar crop, I have the honor to enclose a copy and translation of the Cuban Government's note C-275 of March 14, 1946,²⁸ in reply to our Government's note of January 4, 1946, a copy of which was received by the Embassy under cover of the Department's secret instruction no. 390 of the same date (file no. 837.61351/1-246).²⁹

The Cuban note, after summarizing the contents of our note and referring to the exchange of notes annexed to the Supplementary Trade Agreement signed on December 23, 1941,³⁰ reviews Cuba's aspirations in respect of the future position of Cuban sugar in the United States market. It again calls attention to the large percentage of our sugar requirements which Cuba supplied during the war years and claims that it is a matter of vital interest to Cuba that its participation in our wartime sugar market be taken into consideration in any extension of the Sugar Act. It argues that it is essential to Cuba and in keeping with the spirit of the Reciprocal Trade Agreement³¹ that Cuba in future receive for its sugar a price proportionate to that paid our own producers and especially that paid producers in our insular possessions whose position, the note claims, is similar to that of Cuba.

The note further contends that the tariff preference which Cuban sugar enjoys in the United States does not constitute a trade barrier and should therefore be maintained, and expresses the Cuban Government's concern over the fact that the value of that preference has already been substantially reduced as a result of our Trade Agreement

²⁷ Oscar Seiglie, Chairman of the Cuban Sugar Commission.

²⁸ Not printed.

²⁹ See footnote 20, p. 772.

³⁰ For documentation on this subject, see *Foreign Relations, 1941*, vol. VII, pp. 196 ff.

³¹ For text of reciprocal trade agreement between the United States and Cuba, signed August 24, 1934, see *Foreign Relations, 1934*, vol. V, p. 169.

with Peru³² and the operation of our unconditional most-favored-nation policy. This concern, it adds, has become especially grave in view of the bills now before our Congress which, if enacted, would grant duty exemptions or substantial duty reductions to the Philippines, once those islands have acquired the status of an independent nation, and claims that Cuba should receive the benefits of any tariff concessions thus granted the Philippines, plus the tariff preferences to which it is entitled under the Trade Agreement.

The gist of the Cuban Government's note is contained in the penultimate paragraph, which states that in view of what is expressed in our note of January 4, the Cuban Government has decided to renew the negotiations for the sale of 1946 Cuban sugar, alcohol and molasses in the hope that the Executive Branch of the United States Government will support Cuba's future position as a supplier of sugar to the United States market within the principles set forth in the Cuban note which, it considers, afford a reasonable basis for the just and equitable treatment to which Cuba considers itself entitled.

The Embassy believes that the Department will find the Cuban note satisfactory, inasmuch as it appears to be merely a restatement of Cuba's position and of its arguments in favor of an increased participation in our sugar market without, however, making the successful conclusion of the forthcoming negotiations contingent on the prior receipt from us of any guarantees that it will receive such an increased participation. The Cubans have presumably realized that it is useless to insist on such guarantees at this time and that if it is possible to obtain them at all only Congress can grant them.

The Cuban commission, as mentioned in my telegram no. 202 of March 13, 6 p. m.,³³ will therefore expectedly concentrate on an attempt to obtain some substantial concession for Cuban alcohol and additional assistance in connection with Cuba's requirements of imported foodstuffs, notably rice, flour, lard and vegetable oils. It will, I believe, not only endeavor to secure increased allocations of these and other basic food products, but also some assurances with regard to the prices thereof, and will strongly play up the fact that Cuba is selling us its sugar at 3.675 cents per pound as against prices ranging from 6.5 to 7.5 cents per pound for sugars sold to other countries.³⁴ It will try to make it appear that the world market price is actually somewhere around the latter figure and that therefore the sale to us represents a great financial sacrifice to Cuban producers.

Dr. Seigle, the head of the Cuban commission, will, it is expected, leave for the United States on Monday, March 18, and Dr. Mañas in-

³² Signed May 7, 1942; for documentation, see *Foreign Relations*, 1942, vol. vi, pp. 674 ff.

³³ Not printed.

³⁴ These countries included Mexico, Chile, Argentina, Ecuador, Venezuela, and Panama.

tends to leave on the following day. No indication has been received as yet as to when the other members of the commission will leave, but it is assumed that they will all get away some time next week.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy
for Economic Affairs*

837.61351/3-2146

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

[Extract]

RESTRICTED
No. 1315

HABANA, March 21, 1946.
[Received March 26.]

SIR: I have the honor to refer to the Embassy's A-406, March 15, 1946,³⁵ reporting that a commission representing the Cuban Government and the food import trade is to accompany the Cuban sugar mission to Washington. According to Sr. San Martín, the commission is to act in an advisory capacity to the sugar mission and its discussions are to be a part of the negotiations for the sale of the 1946 Cuban sugar crop. The food commission is to consist of:

Manuel San Martín, Assistant Director of the Office of Price Regulation and Supply (ORPA)
José Manuel Alvarez de la Cruz, Chief of Price Division of the ORPA
Roberto Suero, for Habana Produce Exchange
Roberto Chacón, for Association of Foreign Trade Commission Agents
Rafael Ayala, for Santiago de Cuba Chamber of Commerce.

The date of departure for Washington is not yet determined pending arrangements for travel accommodations.³⁶

This is obviously one last attempt to obtain assurances for increased quantities of foodstuffs and other items by making this a condition and an integral part of the sugar negotiations, notwithstanding the repeated refusal of our Government to do so in the sugar discussions last June, October and December.

Sr. San Martín states the commission will try to obtain for Cuba additional quantities of scarce food items, including 100 million pounds of rice, 1.2 million bags of subsidized wheat flour, 20 million pounds of lard, 5 to 10 million pounds of vegetable oil and undeter-

³⁵ Not printed.

³⁶ Dr. Seigle announced at the second meeting of the Sugar Commission on March 28 that the Cuban Food Commission would arrive March 29; Mr. Wilson arranged for a meeting of the Commission with experts of the Department of Agriculture on March 29.

mined quantities of malt, high-protein feeds and fertilizers. Cuba's interest obviously is centered on obtaining additional quantities rather than on the subject of price; nevertheless, the commission asks that the subsidy on wheat flour be continued and the subsidy on soybean oil be restored. As previously stated, the Embassy strongly favors increased allocations, but does not recommend price guarantees that would involve subsidies.

The Embassy has not given the commission any encouragement whatever that their requests might be granted, but on the contrary, has pointed out repeatedly to the Government and the food trade the great need for foodstuffs to relieve the starvation in war-torn areas. Cuba's own agricultural production, moreover, is in a somewhat better position now than it was a year ago when a hurricane and a severe drought sharply reduced production of domestic crops.

On the other hand, as a result of the scarcities last year, Cuba entered the present allocation year with almost no carryover of stocks. Imports since then have been on a hand-to-mouth basis and critical scarcities are impending. These may have political repercussions and may well affect our future market in Cuba for export products.

[Here follows a résumé of Cuban proposals regarding supplies of rice, wheat flour, lard, vegetable oil, tallow, feed, malt, and fertilizer, and the Embassy's appraisal thereof in connection with the negotiations.]

Respectfully yours,

For the Ambassador:
PAUL G. MINNEMAN
Agricultural Attaché

837.61351/3-2246

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

[Extract]

RESTRICTED
No. 1324

HABANA, March 22, 1946.
[Received March 26.]

SIR: I have the honor to report that the outstanding recent developments in the Cuban sugar situation have been the announcement that crop sale negotiations are to be resumed, and an intensified dissatisfaction with the Cuban Government policy regarding the sugar industry.

Crop Sale Negotiations: Dr. Seiglie, head of the Cuban commission left Habana on March 21 for preliminary discussions in Washington pending the arrival on March 25 or 26 of Dr. Mañas and Sr. Santiesteban to resume the negotiations. Senator Casanova and Sr. Godoy will not arrive until several days later.

Upon leaving the Palace after receiving his final instructions, Dr. Seiglie reportedly stated that Cuba will receive 200 million dollars

less for its 1946 crop by selling at the price of 3.675 cents to the United States, and 6.95 cents to other countries, than it could have obtained at the world market price of 8 cents. Senator Casanova stated earlier that Cuba could have made 2 billion dollars more during the First and Second World Wars if it had sold its sugar at world market prices, but instead Cuba proved its great cooperation with the United States by foregoing handsome profits. He added that 50 percent of Cuba's sugar mills are now mortgaged by bonds, 30 percent are under the Moratorium Law and only 20 percent are free of debt. Eighty percent of the mills need modernization and repair which obviously should be done during prosperous times. (Cuba is making a great play of high "world market" prices which it helped to create recently by doling out limited quantities to South American countries, although this gives little indication as to what price could have been obtained had the entire crop been offered.)

Press comment states that the recent United States CPA order limiting the use of cane beverage alcohol will cost Cuba 10 million dollars.

The Cuban Government's recent sales of 250,000 tons to other countries are encouraging speculation on the possibility of forcing the United Kingdom to deal directly with Cuba rather than globally through the Commodity Credit Corporation. Manuel San Martín, Director of the Office of Price Regulation and Supply, confidentially stated to the Embassy that he is recommending to the President that the crop sale contract should prohibit the resale by CCC to other countries. The objective is to obtain concessions from the United Kingdom, not only in the purchase of Cuban cigars and alcohol, but also to obtain the release to Cuba of Brazilian rice allocated to the United Kingdom. The Embassy feels that this threat is not serious.

Respectfully yours,

For the Ambassador :
PAUL G. MINNEMAN
Agricultural Attaché

837.61351/4-546 : Airgram

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

CONFIDENTIAL

HABANA, April 5, 1946.

A-505. Quoted below is text of letter from Wilson to Seiglie presented at April 4 sugar meeting:³⁷

"Discussions between representatives of the United States and Cuba for the purchase of the 1946 Cuban sugar crop began in Havana in

³⁷ Other meetings of the Cuban Sugar Commission with the United States Commission were held at Washington on March 26 and 28, April 1, and May 24, 1946.

June 1945.³⁸ Since then numerous meetings have been held in Washington with the result that gradual progress has been made.

"During the past week the Cuban representatives have outlined to the United States representatives their ideas of what the final terms for a two-crop purchase, namely 1946 and 1947, should be.³⁹ The United States group has given thorough consideration to these ideas and is now prepared to submit a proposal which comes very close to meeting the views of the Cuban Commission.

"This proposal is now submitted as the maximum that the United States can offer. If it is rejected by Cuba, we see no alternative except a one-crop purchase and sale, and the United States can only consider in this connection the purchase of sugar and blackstrap, and assistance in the procurement by Cuba of agreed-upon quantities of certain foodstuffs.

"Crop Purchase:

"The United States offers to purchase, with the escalator clauses previously agreed upon during the present negotiations, the 1946 and 1947 Cuban sugar crops at a price of 3.675 cents per pound, with the following exceptions as to quantity:

| | | | |
|------------|---------|---------------|-------------------|
| 1946 crop— | 350,000 | long tons for | local consumption |
| | 250,000 | " " " | free export |
| | 20,000 | " " " | UNRRA |
| 1947 crop— | 350,000 | " " " | local consumption |
| | 300,000 | " " " | free export |

"Candy:

"The United States will permit entry of candy in the calendar year 1946 up to but not exceeding the equivalent of 30,000 short tons, raw value, of sugar, and not in excess of 75,000,000 pounds of candy.

"In 1947, the United States will permit the entry of candy of up to, but not exceeding, the equivalent of 40,000 short tons, raw value, of sugar, and not in excess of 100,000,000 pounds of candy.

"An appropriate clause to implement the foregoing will be included in the sugar contract.

"Cuban Refined Sugar:

"If the 1946 Cuban sugar crop exceeds 4,750,000 short tons, raw value, the United States agrees to buy up to 125,000 short tons, raw value, of the excess in the form of refined sugar, provided the Cuban refiners will refine at a differential not exceeding that of the United States refiners. If the 1946 crop exceeds 4,750,000 short tons, raw value, by more than 125,000 short tons, raw value, any additional excess will be purchased in the form of raw sugar.

"If the 1947 Cuban crop exceeds 5,600,000 short tons, raw value, the United States will purchase, under similar terms, up to 125,000 short tons, raw value, in the form of refined sugar and will purchase any additional excess in the form of raw sugar.

³⁸ Issues still pending when negotiations were suspended in 1945 included (a) food stabilization program; (b) refined sugar quota; (c) molasses; (d) alcohol; and (e) sugar for local consumption and free export.

³⁹ Cuban tentative proposal set forth at second meeting, March 28, 1946, not printed.

"The amount for Cuban direct-consumption sugar to the United States will remain 375,000 short tons, raw value.

"Alcohol:

"The United States will purchase 10,000,000 gallons of alcohol for delivery during 1946 under terms similar to the 1945 contract, at 65 cents per gallon, and will purchase 20,000,000 gallons for delivery during 1947 at the same price and terms, and an additional amount of 10,000,000 gallons for delivery during the first three months of 1948. Our offer to purchase the above-mentioned quantities of alcohol is conditional upon guaranteed delivery by Cuba of the quantities of blackstrap indicated below.

"Blackstrap:

"The United States will purchase for delivery this year 1946-crop blackstrap at 13.6 cents per gallon provided Cuba guarantees the delivery of not less than 115,000,000 gallons. Also, the United States will purchase the 1947-crop blackstrap at the same price and terms, provided Cuba guarantees the delivery of not less than 165,000,000 gallons.

"Fertilizer:

"No quantity or type can be guaranteed by the United States but, with the great need for sugar in the world, Cuba can be assured of the best efforts of the United States Government to assist it in meeting its fertilizer requirements.

"Food Stabilization:

"All prices for commodities obtained in the United States will be at the prevailing price at time of procurement. On such foodstuffs as are allocated to Cuba from United States sources, the United States agrees to assist Cuba, if necessary, in the procurement of the allocated quantities.

Flour: The United States is prepared to guarantee Cuba 2,000,000 bags (200 pounds each) for the year 1946 and a similar amount for the year 1947. United States regulations have just been amended to enable millers to produce export flour of 72 per cent extraction.

Rice: Cuba has received to February 28, 235,000,000 pounds of rice from the United States from the 1946 allocation period which began October 1, 1945, and runs to September 30, 1946. This includes a small amount of advanced licensing that was granted prior to October 1 against this year's allocation. It is estimated that Cuba received about 25,000,000 pounds during March, which would leave approximately 40,000,000 pounds to be exported to Cuba from April 1 to September 30 from the United States to make a total of 300,000,000 pounds, which was the amount guaranteed under the 1945 sugar purchase agreement.

For the six months beginning October 1, 1945, the Combined Food Board approved allocations from foreign sources to Cuba of 40,000,000 pounds. The 1945 allocation from foreign sources was 75,000,000 pounds. Therefore, if this same total is used, the allocation from April 1 to September 30 from foreign areas would be 35,000,000 pounds.

It is recognized that the 75,000,000 pounds unused total remainder referred to in the two previous paragraphs will be in-

sufficient to meet Cuba's needs until October 1, 1946. Therefore, the United States is prepared to guarantee that Cuba will receive an allocation from United States sources of 40,000,000 pounds for the April 1-June 30, 1946, quarter, and 30,000,000 pounds for the July 1-September 30, 1946, quarter. The United States will endeavor to assure an equal monthly availability of this last-named quarterly amount. The United States will also support Cuba's request to the Combined Food Board for allocations from areas other than the United States of 40,000,000 pounds for the April 1-June 30 quarter and 40,000,000 pounds in the July 1-September 30 quarter. This will give Cuba, if Cuba procures the amount allocated by the Combined Food Board, a total of 450,000,000 pounds of rice for this crop year.

From October 1, 1946, to September 30, 1947, the United States will support a request to the Combined Food Board by Cuba for 400,000,000 pounds of rice from United States sources and for not less than 50,000,000 pounds from other sources. If there is no Combined Food Board during this period, the United States will guarantee Cuba 400,000,000 pounds from United States sources. The United States will further assure Cuba that it will cooperate in an effort to enable Cuba to procure such amounts of rice as may be allocated to Cuba from other than United States sources.

Lard: Unfortunately, the lard situation, due to foreign relief programs and insufficient supplies, is so serious that the United States can only guarantee Cuba 60,000,000 pounds for the calendar year 1946. The United States will endeavor to assure this supply in approximately equal quarterly amounts. The United States is also prepared to guarantee Cuba this amount for 1947, but will meet with representatives of Cuba late in 1946 to discuss the prospects for 1947 and, if it is possible, will increase the amount for 1947.

Edible Oils: The United States will guarantee Cuba 10,000,000 pounds for the calendar year 1946 and it is contemplated this will be supplied by soybean oil. A like amount will be guaranteed as a minimum for 1947, but the situation will be reviewed at the end of 1946 as in the case of lard.

Tallow: This commodity is also seriously short and the United States can only guarantee such amounts as are allocated Cuba from United States by the Combined Food Board for the calendar years 1946 and 1947. At present this allocation is 13,664,000 pounds for 1946 from both United States and foreign sources. In case there is no Combined Food Board in 1947, the United States representatives will meet with representatives of Cuba and, in view of the situation then existing, will decide what can be provided Cuba during the year 1947.

Malt: This commodity is also in short supply and it will not be possible to guarantee Cuba more than 100,000 bushels for the current quarter and for each of the two-remaining quarters of 1946. The prospects for 1947 can be mutually reviewed late this year and attempts will be made to increase quarterly quantities for 1947."

[At the May 24 meeting, a Cuban draft of article 4 of the proposed sugar contract (submitted in a memorandum of May 20 by Chairman Seiglie) was discussed; the Cuban proposal provided for sale of the 1946 and 1947 crops, with the 1946 crop to be priced at 3.675 cents and the price of the 1947 crop to be determined by mutual agreement at a later date; included in the proposal was a cancellation clause which Cuba could invoke if any legislation was passed in the United States which was considered detrimental to Cuban sugar. Mr. Wilson suggested that in view of the Cuban position he was inclined to favor a one crop contract, and, further, that the United States could not consider any contract containing a cancellation clause. He presented to the Cubans a counter draft of article 4, which, among other things, provided that the price of the 1947 crop would be governed by the escalator clause tied in with the cost of indices. Drs. Seiglie and Mañas after briefly glancing at this draft stated categorically that it would not be acceptable. (Summary record of fifth meeting, May 24, and memorandum of overseas telephone conversation, May 24, not printed; 837.61351/5-2446.)]

837.61351/5-3146 : Telegram

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

CONFIDENTIAL
U.S. URGENT

WASHINGTON, May 31, 1946—6 p. m.

393. Last night Wilson presented to Seiglie and Mañas draft of proposed contract for purchase of alcohol, molasses and two sugar crops,⁴⁰ with provision that price of 1947 crop shall not exceed price paid Puerto Rico. He also presented letters⁴¹ reaffirming April 4 proposal concerning foodstuffs and expressing understanding that as in previous years there shall be no change in quota distribution system in Cuba for 1946 and 1947 crops. Copies forwarded by airmail today.

Seiglie and Mañas expressed opinion that contract would be unacceptable because of provision placing price of 1947 crop on parity with Puerto Rican price. Mañas whose attitude Wilson described as obstreperous demanded that arrangements be made immediately for

⁴⁰ A memorandum on a meeting of May 28 in Mr. Earl Wilson's office indicated that Secretary Anderson and Mr. Wilson had called upon the President that morning and discussed with him the question of alcohol and molasses purchases in connection with the purchase of two sugar crops. Mr. Wilson stated that the President had expressed the hope that negotiations for the purchase of two sugar crops could be concluded and that if it were necessary to purchase alcohol in order to get the sugar, alcohol purchases should be made (837.61351/5-2446).

⁴¹ Letter from Mr. Wilson to Dr. Seiglie, May 30, with draft letter to the Institute and draft purchase and sale contract for the 1946 and 1947 Cuban sugar crops attached, not printed.

financing 1946 crop. When Wilson stated that this could not be done until contract is signed, Mañas said no further sugar shipments will be made after June 1. At this point Wilson reminded Cubans that such drastic action might compel US to adopt similar position regarding shipment of foodstuffs to Cuba. After an overnight cooling off period Mañas informed Marshall ⁴² this morning that sugar shipments would not be stopped.

Seiglie left for Habana this morning and Mañas is expected to leave next week.

BYRNES

[The Department was informed in telegram 416, June 5, 3 p. m. from Habana, that Dr. Seiglie had visited President Grau the day before to discuss terms of the American counterdraft of article IV of the proposed sugar contract and President Grau had instructed him to send copies for study to *hacendados*, *colonos*, and sugar mill workers; as soon as views of these three sectors of sugar industry were known, the President would then decide what action should be taken (837-61351/6-546). The *hacendados*, *colonos*, and sugar mill workers all rejected the proposed article IV. (837.61351/6-2146)

The Cuban Sugar Institute sent to Mr. Marshall a *modus vivendi* of June 13, a copy of which was enclosed in despatch 1755, June 17, from Habana, covering the 1946 sugar crop, molasses and alcohol, stating in its covering letter that if the proposed *modus vivendi* were not established, it would have no legal means to continue shipments of sugar after July 1st; the *modus vivendi* would remain in force until the Cuban Commission and the United States Committee reached a definitive agreement (837.61351/6-1746).]

837.61351/6-2546

The Acting Secretary of State to the Chargé in Cuba (Woodward)

RESTRICTED
No. 826

WASHINGTON, June 25, 1946.

The Acting Secretary of State encloses for transmittal to Mr. Evaristo Sotolongo, Acting President of the Cuban Sugar Stabilization Institute, a letter dated June 25, 1946, together with a *modus vivendi* ⁴³ for the purchase of the 1946 sugar crop, from Mr. James H. Marshall, Director, Sugar Branch, Production and Marketing Administration, United States Department of Agriculture. There are also enclosed copies of these documents for the Embassy's files.

⁴² James A. Marshall, Director of the Sugar Branch, Department of Agriculture.

⁴³ *Modus vivendi* not printed.

[Enclosure]

The Director of the Sugar Branch of the Department of Agriculture (Marshall) to the Acting President of the Cuban Sugar Stabilization Institute (Sotolongo)

WASHINGTON, June 25, 1946.

DEAR MR. SOTOLONGO: Your letter of June 13 together with the enclosed copy of a "modus vivendi"⁴⁴ has received our most careful consideration.

We have been, and still are, desirous of arriving at an agreement, and to that end we have made substantial and repeated concessions to the wishes of your negotiating commission. Despite these concessions, we have not yet been able to meet on common ground.

Prior to the first meeting for the negotiation for the purchase of this crop in June 1945, your negotiating commission had steadily maintained the position that Cuba was entitled to equality of treatment with Puerto Rico except for the duty and Sugar Act payments. When our negotiators left for Havana in June 1945 the new Secretary of Agriculture, Clinton P. Anderson, had agreed to this request and our negotiators were so instructed. Early in the discussions in Havana this position was placed before your negotiators and a Puerto Rican equivalent price of 3.45 cents per pound was immediately offered for the 1946 crop. Between the June meetings and the resumption of meetings in October, the rate of payment under the Puerto Rican program was increased and with the arrival of your commission in Washington in the fall of 1945 to resume negotiations, they were immediately informed that the Cuban equivalent of the new Puerto Rican program was 3.675 cents per pound, f.o.b. Cuba. As a result, at no time in these negotiations has price been a problem. Your commission has repeatedly stated, both in meetings with the United States Committee and privately, that equality of treatment with Puerto Rica is all that Cuba expects.

The draft of your "modus vivendi" eliminates the Puerto Rican equivalent ceiling on the Cuban price and our interpretation of this is that you have in mind the possibility of obtaining a better price than is being paid Puerto Rico. The position of the United States negotiators is that Cuba is entitled to a Puerto Rican equivalent but is not entitled to anything more. This position is unchanged. The draft contract assures Cuba of such equality.

There is a great need for sugar to meet ration requirements in the United States, United Kingdom, Canada, and other allied and associated countries where consumption is far below the prewar levels.

⁴⁴ Copies transmitted to the Department in despatch 1755, June 17, from Habana, not printed.

Because of this great need, the United States negotiators have urged Cuba to hold to the lowest figure possible the amount of sugar set aside for local consumption and for free export. The figures first suggested by the United States negotiators were 250,000 short tons, raw value, for Cuban local consumption and 50,000 short tons for free export. Cuba's reply was that a total of 550,000 long tons, raw value, was needed for these two purposes. This figure was later increased to 600,000 tons because, as we were informed, it was necessary to return a total of 47,500 tons to us which had been borrowed by Cuba from our stocks in 1945. Later, an additional 20,000 tons was made as a contribution by Cuba to UNRRA but, instead of taking it out of Cuba's share for local consumption, it was taken from our prospective purchase. A Presidential Decree issued early this year provided for 350,000 long tons, raw value, for local consumption and 250,000 tons for free export. We now are informed that the 47,500 will be returned to us in sugar that would otherwise have been included in our purchase. The Institute has agreed to reimburse us for the difference between the 3.10 cents f.o.b. 1945 price and the 1946 price of 3.675 cents f.o.b. Based on earlier conversations, we expected, and still expect, that the 47,500 tons owed to us would be returned to us from the 350,000 tons.

The 250,000 tons for free export has been sold mostly to other American Republics where sugar consumption generally is at an all-time high. Although these countries were members of or sympathetic with the allied cause, nevertheless their sacrifices were far less than those borne by the countries now on short sugar ration.

Our negotiators have been told that it would not be practical to restrict the use of sugar in Cuba because of the fact that the production was so greatly in excess of local demand. We might point out that the United States has limited the consumption of foodstuffs produced within its borders in order that other nations could share in our supplies. In the case of Cuba, this includes lard which has been supplied Cuba when it has been on rigid rationing here in the United States. Also, the distribution of rice has been sharply curtailed in the United States in order to make more available to foreign claimants, including Cuba.

As you know, almost half of the sugar that will have been purchased by the United States from the 1946 Cuban crop will go to other than United States destinations. Much of it has been sold to other countries direct or through relief programs, but these sales have been largely financed by the United States.

Cuba has been anxious to develop new industries such as candy, industrial alcohol, beverage alcohol, fruit preserves, etc. However,

the great need in the countries now depending on Cuba for a portion of their sugar requirements is for a rationable product and not for the articles just enumerated.

Early in the negotiations, the Cuban Commission indicated that it would be agreeable to make allowances for the higher price being paid for sugar in arriving at the formula to be used in the cost-of-living escalator clause. In later discussions this position was revised. The increased price of sugar would not be used to offset the first increases in the food index and thereby delay the time when the index would require an increase in the contract price; instead the cost-of-food average of the last three months of the preceding year would be the basis for the quarterly price determination under this clause. In order to further the negotiations we finally accepted this change.

During previous negotiations when a cost-of-living index was first introduced, the Cuban Commission stated that it was not disturbed by minor fluctuations but felt that Cuba should have protection against major variations, particularly what might become runaway inflation in the United States. We felt that this position was reasonable and, as a result, the cost-of-living clauses have been incorporated in our contracts and proposals. You now suggest that the 4 percent be reduced to 1½ percent. We cannot accept this as we consider such variations of a minor nature and not indicative of inflation. We would like to point out that we have agreed if the variations amount to more than 4 percent that the full amount of the variation is applied to the price and not just that portion that is in excess of 4 percent.

The wording of your proposed "modus vivendi" regarding other sugar purchases, both raw and refined, by the United States Government or any agencies thereof is unacceptable. Our armed forces, our relief agencies, the War Shipping Administration, and other branches are constantly purchasing sugar at best prices obtainable in various portions of the world. It would be impossible for us to acknowledge that such purchases of comparatively small amounts would have a bearing on the price we pay Cuba for an entire crop. The clause included in our draft contract of May 30 affords Cuba complete protection and continues to be the extent of the concession that can be made on this issue.

We note in the "modus vivendi" that a new issue has been raised, namely, beverage alcohol. This has not been a subject of discussion heretofore in the 1946 negotiations and as it represents a withdrawal of much needed sugar or blackstrap supplies, it cannot be agreed to by the United States Committee.

In our submission of April 4 we offered to purchase industrial alcohol as a consideration for a two-year sugar contract. As your negotia-

tors were advised at the time, a one-year sugar purchase cannot include the purchase of any industrial alcohol.

We are prepared to purchase blackstrap under the terms of our previous offer, but if it is necessary to purchase industrial alcohol or admit into the United States beverage alcohol in order to secure further supplies of blackstrap, we are prepared to withdraw our offer for the blackstrap.

The United States Committee is still prepared to proceed along the lines of the draft contract submitted to your commission on May 30 or along the lines of the enclosed proposed "modus vivendi" for 1946. You will note that the enclosed proposed "modus vivendi" for 1946 is for sugar only as we are assuming that in view of your statements in your letter of June 13 and our reply herewith you do not wish to include the sale of blackstrap. In your letter of June 13, 1946, you mention that payment has not yet been made for the 60,000,000 gallons of blackstrap. We understand from the Reconstruction Finance Corporation that payment can now be made as soon as the necessary tax decree has been issued in Cuba. If no further purchases of blackstrap are made during these negotiations, a separate contract can be prepared covering blackstrap.

If a "modus vivendi" is finally agreed upon, the United States would admit the same amount of candy for the calendar year 1946 as was agreed to in 1945, namely, 20,000 short tons sugar equivalent or 50,000,000 pounds of hard candy.

The foodstuff program for 1946 outlined in our proposal of April 4 would be included.

We will be prepared to make the 90 percent advances on sugar as soon as an agreement has been reached and the proper tax decree issued in Cuba.

Very truly yours,

JAMES H. MARSHALL

837.61351/6-2746

The Chargé in Cuba (Woodward) to the Secretary of State

CONFIDENTIAL
No. 1802

HABANA, June 27, 1946.
[Received June 28.]

SIR: Supplementing the Embassy's airmail despatch No. 1790 of June 25, 1946 (File No. 861.35)⁴⁵ and previous correspondence regarding the negotiations for the purchase of the 1946 and 1947 Cuban sugar crops, I have the honor to enclose a copy and translation of the Cuban Government's note No. C-679 of June 26, 1946,⁴⁵ which has just been received and which in effect rejects the counter offer which our negotiators submitted to the Cubans on May 30, 1946.

⁴⁵ Not printed.

In its note the Cuban Government again expresses concern over the action of the Senate Finance Committee in approving a three-year extension of the 1937 Sugar Act, although admitting that it would accept, albeit reluctantly, an extension of only one year should such a measure be found necessary for "political reasons". The Cuban offer to sell the 1947 Cuban sugar crop was, the note states, based on two basic principles: (1) that in arriving at the final price to be paid for the 1947 crop the size of the crop and Cuba's "future possibilities in the market of the continental United States be taken into account" and that Cuba be given full protection against any undue increases in the price of foodstuffs and other products of prime necessity which Cuba must import from the United States, and (2) that the sale of the crop be subject to the condition that no sugar legislation be adopted in the United States contrary to Cuba's best interests or that fails to take into consideration Cuba's historical position as a supplier of sugar to the United States market and its contribution to the war effort.

Our rejection of those two basic principles, the note adds, has caused the *hacendados*, *colonos* and sugar workers to reject our counterproposal and the Government has no moral or legal grounds for forcing its acceptance now that the war emergency, during which Cuba so unstintedly cooperated with our Government, is over. The Cuban Government therefore arrives at the conclusion that our acceptance of the two basic principles under reference is indispensable if the negotiations for the 1947 sugar crop are to be brought to a successful conclusion.

The note concludes with the usual assurances of the Cuban Government's desire to continue to cooperate with us in supplying us with much needed sugar and with an expression of the hope that the negotiations may soon be resumed and that the two parties through cooperation and the exercise of good will may reach a meeting of the minds.

Respectfully yours,

For the Chargé d'Affaires a.i.:

ALBERT F. NUFER
*Counselor of Embassy
 for Economic Affairs.*

837.61351/6-2846

The Chargé in Cuba (Woodward) to the Secretary of State

RESTRICTED

No. 1809

HABANA, June 28, 1946.

[Received July 2.]

SIR: I have the honor to refer to the Department's restricted air-mail instruction no. 826 of June 25, 1946, enclosing for transmission to Mr. Evaristo Sotolongo, the Acting President of the Cuban Sugar Stabilization Institute, a letter dated June 25, 1946, from Mr. James

H. Marshall, Director, Sugar Branch, Production and Marketing Administration, Department of Agriculture, together with a suggested *modus vivendi* for the purchase of the 1946 Cuban sugar crop. The letter and *modus vivendi* are in reply to a communication addressed to Mr. Marshall by Mr. Sotolongo on June 13, 1946, with which he transmitted a copy of a *modus vivendi* drafted by the Sugar Institute.

Mr. Marshall's letter and its enclosure were delivered to the Executive Committee of the Sugar Institute yesterday by Mr. Nelson Norregaard, representative here of the Commodity Credit Corporation, and the Committee's reactions thereto are set forth in Mr. Norregaard's enclosed memorandum of June 27. It will be noted that the possibility that Mr. Marshall's letter be withdrawn was suggested to Mr. Norregaard, who, however, informed the Committee that he had no authority to do so. It will also be noted that the Committee was of the opinion that it would be extremely difficult to accede to the changes suggested by Mr. Marshall and that in view thereof, Mr. Norregaard was informed that Cuba would discontinue loading sugar for the United States after July 1, except in the case of vessels already assigned.

The Committee indicated that it would recommend that additional sales of sugar be made to other countries and that the difference in price between the sugars thus sold and the United States price be used to finance sugars remaining unshipped as a result of the suspension of shipments to the United States. Whether the Cuban Government will actually adopt so drastic a measure remains to be seen but the possibility that this may be merely a threat designed to force our hand cannot be entirely disregarded.

It is of interest in connection with the foregoing that 1946 crop sugar shipments to the United States up to June 15 have, according to Mr. Norregaard, totalled 1,507,000 short tons of raw and about 150,000 short tons of direct consumption sugar. Additional quantities have, of course, been shipped since that date and, as of today, there are 25 vessels assigned to load sugar here *after* July 1. Of these, 5 are scheduled to lift sugar for foreign claimants while 20 will lift sugar for the United States. The total amount of sugar that these vessels will load is estimated at 155,000 short tons.

The Sugar Institute, as mentioned in the last paragraph of Mr. Norregaard's memorandum, proposes to reply officially to Mr. Marshall's letter and a copy of that reply, when received, will be forwarded to the Department immediately.

Respectfully yours,

For the Chargé d'Affaires, a.i.:

ALBERT F. NUFER
*Counselor of Embassy
for Economic Affairs*

[Enclosure]

Memorandum by the Representative of the Commodity Credit Corporation in Cuba (Norregaard)

[HABANA,] June 27, 1946.

The counter *modus vivendi*, and Mr. James H. Marshall's letter in reply to the Sugar Institute, was delivered this morning to the Executive Committee of the Institute. Those attending were Messrs. Casanova, Mañas, Puyans, and Rasco. After the letter was read by the Executive Committee, Dr. Mañas stated that he wished that the letter could be withdrawn. However, I told him that I was sure that was the way our Committee felt about the situation and I had no authority to withdraw it.

Dr. Mañas and Senator Casanova explained at length the difficulty that had been experienced in obtaining the agreement of the *Hacendados, Colonos, Labor* and the Cuban Government to the *modus vivendi*, suggested by the Institute on June 13, 1946. They stated that it would be virtually impossible to now obtain their agreement to any further changes therein.

They pointed out that the Institute, in suggesting this *modus vivendi*, was a body entirely apart from the Cuban Commission which was recently negotiating the sale of the crop in Washington and that the Institute had no legal right to compromise the Industry as a whole. They also pointed out that the figure of 4% increase in the cost of living index, as suggested by Mr. Marshall, would not be accepted by Cuban Labor inasmuch as this particular question was one of the important points in obtaining the approval of Cuban Labor to this *modus vivendi*. They stated that any increase would have to begin at 1½% in order to reflect any increase in cost of living, and not at 4% which would be a protection against a general inflation. The 4% figure was accepted by them last year because they had protection on the cost of commodities sold by the U.S. to Cuba, but inasmuch as they no longer have such protection, this clause is definitely meant to reflect any increase in the cost of living.

Concerning candy, the Institute claims to have no control as this is purely a matter that would have to be decided between the two Governments.

The question of molasses and alcohol, they claim, is one of most importance and that they could not consider any contract that did not provide for the U.S. buying Cuban alcohol. The fact that the U.S. seemed to have little interest in further deliveries of molasses appeared to disturb them greatly. They also stated that the President of the Republic, in every conference concerning the sale of the crop, has repeatedly insisted on protection of the distillery and candy industries.

Senator Casanova explained the tremendous difficulties that they faced in acting as leaders of the industry and it has only been with the utmost effort that they have been able to propose their *modus vivendi*.

The result of the above conference was that Cuba would discontinue loading sugar for the U.S. after July 1st, with the exception of those vessels already assigned. They stated that they would have to recommend to the Government that they make sales of sugar to other countries in excess of the 250,000 tons and that the excess price obtained from such sales would be ample to finance sugars remaining in warehouse in Cuba.

Concerning the 47,500 ton loan of 1945 crop sugar, they also stated that this matter as well as the candy and alcohol was one that would have to be settled between the two Governments as the Institute had already made definite recommendations for the return of this sugar out of the local consumption quota and also for the Government to provide the funds with which to repay the Commodity Credit Corporation for the difference in price.

The Executive Committee advised that Mr. Marshall's letter would be officially answered; however, they felt that they could not deviate from the position taken in their conversation as set forth above.

NELSON NORREGAARD

837.61351/7-346

The Chargé in Cuba (Woodward) to the Secretary of State

CONFIDENTIAL
No. 1842

HABANA, July 3, 1946.
[Received July 9.]

SIR: Supplementing the Embassy's telegram no. 491 of July 2, 1946, 11 a. m.,⁴⁶ and previous correspondence regarding the decision of the Cuban Sugar Institute to suspend shipments of 1946 crop sugar to the United States pending the conclusion of negotiations for a satisfactory *modus vivendi* or definite sugar contract, I have the honor to report the following subsequent developments:

On the morning of July 2 I called on the Minister of State,⁴⁷ accompanied by the Economic Counselor, and informed him of the action taken pursuant to President Grau's request that our Government take such steps as might be possible to prevent a three-year extension of the 1937 Sugar Act (see my telegram no. 469 of June 21, 7 p. m.⁴⁶). I told the Minister that both Undersecretary Acheson and Assistant Secretary Braden had given this matter their attention and that it

⁴⁶ Not printed.

⁴⁷ Alberto Inocente Alvarez.

now appeared probable that any extension of the Sugar Act would not be for more than one year.⁴⁸ The Minister expressed his appreciation of the efforts that were being made on Cuba's behalf and I took the opportunity of pointing out that under the circumstances it seemed especially unfortunate that the Sugar Institute, because of the seeming impasse that had been reached in arriving at an agreement with regard to the *modus vivendi*, should have decided to suspend sugar shipments to the United States. I expressed the opinion that no useful purpose would be served by the adoption of so drastic a measure, which could not but cause unfavorable comment both here and in the United States, and that, on the contrary, there was every reason to expect that the Institute's action, if persisted in, would obstruct rather than facilitate the final outcome of the sugar negotiations. The Minister appeared to be wholly in agreement with these views and said that he had had no previous knowledge of the action taken by the Institute, which he said was so important that he would bring it at once to President Grau's attention.

This morning Dr. Seiglie telephoned to say that the Minister of State had discussed the matter with the President and that Dr. Grau had also received a communication from Ambassador Belt expressing his grave concern over the turn of events. As a result, Dr. Seiglie said, the President yesterday evening summoned him to the Palace, together with Dr. Mañas and Senator Casanova, and that it had been decided at that meeting to resume sugar shipments forthwith, without prejudice to Cuba's position. Although Dr. Seiglie did not so state, it seems highly probable that President Grau was responsible for this decision and that the President was impressed by the arguments of the Minister of State and (probably to an even greater extent) by the communication which he received from Ambassador Belt which the Ambassador presumably sent him following his conversation with the Secretary of Agriculture summarized in the Department's telegram no. 470 of July 2, 8 p. m.⁴⁹ In any event, it is assumed that the prob-

⁴⁸ Protocol to prolong the sugar agreement of May 6, 1937, for one year after August 31, 1946, was signed at London August 30, 1946, effective September 1, 1946. For text, see Department of State, Treaties and Other International Acts Series No. 1614, or 61 Stat. (pt. 2) 1236.

⁴⁹ Not printed; in this telegram Acting Secretary Acheson reported that Secretary Anderson in conversation with Ambassador Belt on that date had expressed disappointment and concern over the recent decision of the Sugar Institute to withhold shipments of sugar to the United States and stated that if the decision were not rescinded, he would have no alternative but to suspend food shipments to Cuba; further, he pointed out that Cuba would have little chance to sell her sugar to other countries, inasmuch as the United States was able to exercise influence over those countries because of our supplies of wheat and other vital foodstuffs.

Ambassador Belt suggested that if Secretary Anderson and President Grau could get together they could probably settle without too much difficulty all of the existing issues and arrive at some satisfactory agreement. Secretary Anderson accepted his invitation to hold such a meeting. (837.61351/7-246)

lem has been solved, at least for the time being, and that there will therefore be no letup in shipments, as the vessels now loading or assigned to Cuba will presumably be able to keep sufficient sugar moving until additional vessels can be assigned here.

The meeting of the Executive Committee of the *Hacendados'* Association to discuss this matter, announced in the Embassy's telegram no. 491, was held yesterday. In accordance with press reports, confirmed by Dr. Seiglie, the Committee resolved to maintain the basic price for 1946 crop sugar of 3.675 cents per pound f.o.b. in the hope that an early agreement with the Commodity Credit Corporation can be reached and provided prices of raw materials, foodstuffs and other basic commodities which Cuba imports from the United States are not substantially increased and that actual conditions in the United States sugar market are not changed by the action taken by any other sugar supply areas. In adopting this resolution, however, the Committee went on record to the effect that Cuba should receive adequate protection against the dangers of inflation in the United States and that the degree of protection which the Committee sought would not be afforded by the establishment of a ceiling price for Cuban sugar equal to the price paid our possessions in the Caribbean area should prices of products which Cuba imports from the United States increase substantially. The Committee agreed to support the Sugar Institute in requesting the Commodity Credit Corporation not to assign any more vessels to Cuba until a definite agreement had been reached in respect of the sale of the 1946 Cuban sugar crop. Pending a mutually satisfactory solution of this problem, the Committee resolved to study the possibility of continuing to supply the United States with sugar on a provisional basis and for that purpose agreed to convene a general assembly of the members of the *Hacendados'* Association to adopt whatever resolutions might be deemed pertinent with respect to the *modus vivendi* suggested by the Commodity Credit Corporation.

While the *Hacendados'* decision to support the Sugar Institute in its refusal to accept the assignment of any more vessels to load 1946 crop sugar is presumably now only of academic interest, in view of President Grau's decision in favor of the immediate resumption of sugar shipments, their resolution to maintain the 3.675 cent per pound basic price, provided prices of the basic commodities Cuba imports from the United States can be maintained at present levels, is doubtless encouraging. Significant is their statement that parity with our Caribbean possessions would in itself not afford Cuba adequate guarantee against possible inflation in the United States. Dr. Seiglie explained to the Embassy this morning that it was gen-

erally agreed at yesterday's meeting that the clause in the Commodity Credit Corporation's suggested *modus vivendi*, limiting the price to be paid Cuba for its 1946 crop to the Puerto Rican price regardless of the extent of any increase in the cost of living index prepared by the Bureau of Labor, was entirely unacceptable.

There is enclosed a clipping⁵⁰ from today's issue of *El Mundo* which contains a detailed description of what transpired at the meeting under reference.

Respectfully yours,

For the Chargé d'Affaires, a.i.:

ALBERT F. NUFER
Counselor of Embassy
for Economic Affairs

837.61351/7-1246

The Chargé in Cuba (Woodward) to the Secretary of State

RESTRICTED
No. 1881

HABANA, July 12, 1946.
[Received July 15.]

SIR: I have the honor to report that the negotiations by Secretary Anderson⁵¹ for the purchase of Cuba's 1946 and 1947 crop sugar, molasses and alcohol have been successfully concluded. Attached is a memorandum prepared by the Agricultural Attaché concerning the progress of the negotiations. There are also transmitted copies in English and Spanish of (a) an agreement signed on July 11 as a basis for the contract; (b) the revised sugar price clause (Article Four) of the contract; and (c) a press release issued on the evening of July 11.⁵² Mr. Marshall, Director of the Sugar Division, telephoned the text of the press release to the Department of Agriculture on the afternoon of July 11 and requested that a copy be transmitted immediately to the Department of State.

Negotiations for the purchase of the 1946 crop have now been in progress about 13 months. Before the arrival of Secretary Anderson, Ambassador Belt reportedly had obtained assurances from President Grau that Cuba would be ready to complete the sale of the 1946 crop. The limited number of points of disagreement with respect to the 1947 crop, however, made it highly desirable, the Embassy felt, to try to reach an agreement on both crops at the same time.

Prior to the arrival of Secretary Anderson, there was considerable opposition in Cuban sugar circles to completing a contract covering

⁵⁰ Not printed.

⁵¹ According to telegram 474, July 3, 8 p. m., to Habana, Secretary Anderson went to Habana July 8, at the suggestion of Ambassador Belt, to confer with President Grau in an effort to reach agreement regarding sugar purchases (837.61351/7-346).

⁵² Enclosures (a), (b), and (c) not printed.

the 1947 crop. Resulting publicity was generally adverse to the best relations between the two countries. As an illustration, the leftist newspaper *Hoy* on July 5 carried a cartoon showing a large, fat man, labeled "North American Imperialism" holding a small Cuban by the neck and trying to force him to sign a paper labeled "Conditions for the sugar crop sale" with the words "You take it or leave it". In contrast, there is now a general (although, of course, not universal) feeling of relief and satisfaction not only in the sugar circles, but from the public as well. Yesterday's newspaper headline was "Cuba and the United States Reach Complete Agreement on Sugar". In this connection it is pertinent that the vote of the General Assembly of *Hacendados* was 119 in favor of the 2-year contract and 7 against it.

Credit for the success of the negotiations is due primarily to Secretary Anderson, whose tactful and frank presentations left an excellent and friendly impression in Government and trade circles.

With the exception of Secretary Anderson's personal calls on the President on the evening of July 8 and the afternoon of July 11, the Economic Counselor and the Agricultural Attaché were present during all of the negotiations, and I attended the more important meetings.

The final drafts of the contract in English and Spanish are now being reviewed by lawyers and it is anticipated that Secretary Anderson will sign the contract in Habana on July 16.

Respectfully yours,

For the Chargé d'Affaires ad interim:

PAUL G. MINNEMAN
Agricultural Attaché

[Enclosure]

*Memorandum by the Agricultural Attaché (Minneman) Regarding
Sugar Negotiations in Habana*

HABANA, July 11, 1946.

Secretary Anderson and James Marshall, accompanied by Ambassador Belt, arrived in Habana on the evening of July 8. Ambassador Belt took them the same evening to call on President Grau.

The next morning, July 9, negotiations began with a meeting in President Grau's office attended by the Cuban sugar mission (Dr. Seiglie, Senator Casanova, Arturo Mañas, Santiesteban and Godoy), the Prime Minister,⁵³ Minister of State, Minister of Agriculture, Sr.

⁵³ Carlos Prío Socarrás.

Torro (Juan de Peso) representing the Sugar Labor Federation, and, of course, representatives of the Embassy. Secretary Anderson stated that he was anxious to close the negotiations which had already continued more than a year, and was prepared to see that Cuba received fair treatment. He pointed out that the delay in the negotiations was being used by certain interests in the United States as an argument for increasing our domestic sugar production. He indicated that he was prepared to discuss the 1946 crop involving sugar only, but that since Cuba and the United States appeared to be so nearly in agreement with respect to the 1947 crop, it would obviously be highly desirable to cover both at the same time if that were possible. Dr. Seiglie, for the Cubans, reviewed the principal points of difference and asked the opinion of the *Hacendados* as to including the 1947 crop. The reaction to this was generally negative and skeptical. Mañas stated that the *Hacendados*, *Colonos* and laborers felt that the situation had changed considerably since our former offer, and it would be necessary to take any 2-year offer up again with the General Assemblies of the respective Associations, and implied that it would be a difficult struggle to obtain agreement. It was stated that the *Hacendados* did not want to specify any price for 1947 because they feared (a) increased wages and other costs in Cuba, (b) increased prices in the United States resulting from OPA suspension, and (c) possible unfavorable United States sugar legislation (other than one year's extension of the 1937 Sugar Act). Mañas also stated that he did not know whether the *Hacendados* would be willing to sign a contract for 1947 without prior agreement with labor concerning wages. The *Colonos* added that laborers were now asking for 25 to 30 percent increase in dead season wages and that the costs (contract labor) for one cultivation of cane had already increased from \$80 or \$90 per caballería (33.16 acres) in 1945 to \$250 in 1946. The meeting at the Palace adjourned.

That afternoon the meeting was resumed at the Ministry of Agriculture; President Grau, the Prime Minister and the Minister of State were absent. At this meeting detailed provisions of the price clause were considered and afterwards the United States representatives drafted changes in this clause and submitted it to the Cubans that night.

The evening meeting was at the Palace with President Grau and other Cabinet Ministers attending. After hasty examination of the modified price proposal, the Cubans stated that they were in general agreement, although minor points still should be ironed out. They

added that it would be necessary to submit the new proposal to the General Assemblies of the Associations, but that this could probably be done promptly. Mañas requested a new proviso in the preamble of the contract to the effect that the Cubans were entering into the contract with the understanding that in future legislation they would receive an increased share of the United States market. Secretary Anderson pointed out that such a proviso would be impossible and would certainly have an adverse effect upon the United States Congress. The Cubans saw the point and agreed to drop this request. The Cubans also requested that a cancellation clause be inserted to the effect that Cuba reserved the right to cancel the contract in the event of United States sugar legislation detrimental to Cuba (other than a one-year extension of the Sugar Act). It was also suggested that this might be done through an exchange of notes. This matter was not raised subsequently by the Cubans and therefore has been dropped.⁵⁴ The meeting adjourned with the understanding that the Cubans were to discuss the details with the Board of Directors of their respective Associations and would redraft the payment clause.

At a meeting on the afternoon of July 10, Seiglie reported that the Board of Directors of *Hacendados*, *Colonos* and laborers had agreed to the 2-year proposal and the *Hacendados* General Assembly was called for the morning of July 11. (Jesus Menéndez, Secretary-General of the Federation of Sugar Workers, in addition to Torro, attended the meeting.) The Cuban price draft was examined in detail and certain changes were agreed to, including removal of the Cuban suggestion that one of the factors for determining the 1947 price should be the cost of production. Reference to cost of production, however, remains as one of the grounds upon which the Cubans may request reexamination. The Cubans insisted that several other state-

⁵⁴ The proposed text of a cancellation clause, which had been submitted to the Cuban Sugar Mission, was transmitted to the Department in telegram 511, July 10, noon (837.6135/7-1046). In reply, Acting Secretary Acheson sent the following message to Secretary Anderson in telegram 489, July 11, 2 p. m.:

"I have just discussed the proposed cancellation clause with the President. The President agrees to your including the proposed clause in the contract if the Cubans continue to insist. He believes that a clause of this consequence should not be dealt with by an exchange of notes outside the contract since, if it were invoked, there would be charges of secret agreements, etc. He recognized that some persons might charge that inclusion in the contract was an attempt by the Cubans to prejudice Congressional action, but concluded that this would not be a reasonable view and could be explained better than a secret provision." (837.61351/7-1046)

The Chargé in Cuba reported in telegram 525, July 16, 3 p. m., that the cancellation clause had been included in the purchase-sale agreement at the Cubans' renewed insistence, and that related matters, such as foodstuffs supplies, candy shipments, and maintenance of existing sugar legislation, were to be covered by an exchange of notes (837.61351/7-1646).

ments that appeared to us as being undesirable in the Cuban draft were merely platitudes intended for moral support to sell the contract to the Cuban industry and laborers.

The Cubans also asked that they have the right to sell an additional 7.5 million gallons of industrial alcohol to the United States if this quantity could not be sold as beverage alcohol. To this Secretary Anderson replied that he could not possibly increase the purchase of industrial alcohol, and hoped that the Cubans would make this available as additional blackstrap molasses to the United States in 1946 when it was urgently needed for feed. The Secretary expressed the hope that 50 million gallons of additional blackstrap molasses would be made available for 1946, but Mañas replied that part of the molasses already supplied was being used for distilling in the the United States and Europe and that it was Cuba's declared policy that raw materials should be processed in Cuba. After consultation among themselves, however, the Cubans stated that they would ship to us any remaining quantity of blackstrap molasses (above that needed for the 7.5 million gallons of beverage alcohol) and estimated that some 15 to 20 million gallons might be available, in addition to the 115 for 1946 specified in the contract.

The labor delegates inquired particularly as to whether the food allocation commitments would stand as stated in Mr. Wilson's letter of April 4, and were informed that this was the case.

P[AUL] G. M[INNEMAN]

837.61351/7-1746

The Chargé in Cuba (Woodward) to the Secretary of State

RESTRICTED
No. 1898

HABANA, July 17, 1946.
[Received July 19.]

SIR: I have the honor to report that the contract for the purchase of Cuba's 1946 and 1947 crop sugar, molasses and alcohol was signed at the Palace on the evening of July 16.⁵⁵ One unsigned copy of the English text and one of the Spanish text of the contract are transmitted herewith for use of the Department.⁵⁶ One original signed copy of the contract in English and one in Spanish are being transmitted to the Commodity Credit Corporation under separate despatch.

⁵⁵ Copies of Cuban Government Decree No. 1615, July 16 (published in *Official Gazette* No. 164, July 17) were transmitted to the Department with despatch 1910, July 18, not printed.

⁵⁶ Not printed.

There is also transmitted herewith a copy of a note from the Embassy to the Foreign Office concerning Cuban domestic consumption sugar, exports of candy, continuation of Cuban sugar production control legislation, and United States allocations of food products. This note is based on Mr. Wilson's letter of April 4 to the Cuban commission.

The contract was signed for Commodity Credit Corporation by Mr. Clinton P. Anderson, Secretary of Agriculture; and James A. Marshall, Director of the Sugar Branch. For the Cubans it was signed by Carlos Prio Socarrás, the Prime Minister; Dr. Oscar Seiglie, the President of the Cuban sugar mission; Tomás Puyans, President of the Institute; and Senator José M. Casanova, member of the Institute's General Assembly.

Sugar, molasses and alcohol are all covered in one contract. It provides for purchase of all exportable surplus of sugar of the 1946 and 1947 crops, with the exception of 250,000 Spanish long tons for free export and 20,000 tons for UNRRA from the 1946 crop and 300,000 long tons from the 1947 crop. The price is 3.675 cents per pound of raw sugar, f.o.b. Cuban port, subject to escalator clauses, the principal one of which provides for a price increase if the Bureau of Labor Statistics cost of living or food price indices rise more than 2 percent above those for the last quarter of 1945.

The purchase includes a minimum of 115 million gallons of blackstrap molasses from the 1946 crop and a total of 165 million gallons from the 1947 crop at a price of 13.6 cents per gallon, f.o.b. Cuban port. A total of 40 million gallons of industrial alcohol is to be purchased under the two-year contract at a price of 65 cents per gallon.

This contract completes the negotiations that have been in process for more than a year and for the first time covers two crops in one contract. Conclusion of these negotiations should go a long way toward guaranteeing supplies of sugar to the United States and other claimants, particularly since a large crop is anticipated in 1947. The total value of three products covered by the contract for the two years represents an estimated 750 million dollars, and if the operation of the escalator clause results in appreciable price increases, it might approach a billion dollars. As a part of the negotiations, the United States Government has made certain specific commitments to provide minimum quantities of rice, wheat flour, lard and vegetable oils to Cuba.

Respectfully yours,

For the Chargé d'Affaires ad interim:

PAUL G. MINNEMAN
Agricultural Attaché

[Enclosure]

*The American Chargé (Woodward) to the Cuban Minister of State
(Alvarez)*⁵⁷

No. 494

HABANA, July 16, 1946.

EXCELLENCY: I have the honor to refer to the negotiations, now happily concluded, as a result of which an agreement was reached by representatives of the Cuban Government and the Government of the United States for the sale to Commodity Credit Corporation of a portion of Cuba's 1946 and 1947 sugar and blackstrap molasses production and a quantity of Cuba's production of industrial alcohol during 1946, 1947 and the first six months of 1948. As in previous years during which similar agreements have been reached, the discussions relating to the purchases included various matters over which the Cuban Government and the Government of the United States maintain control. I am pleased to record in the succeeding paragraphs the agreements which the United States Government understands have been concluded in this connection.

Sugar Legislation

The statements of the representatives of Your Excellency's Government that no change should be made in the sugar legislation from the existing sugar legislation in Cuba for the 1946 and 1947 crops and that the distribution of sugar production should be based on the existing system of quota allocations have been noted with satisfaction by my Government.

Cuban Local Consumption Sugar Quota

It was agreed that the institute will reserve for local consumption in Cuba 350,000 long tons of sugar each of the 1946 and 1947 crops and that any proportion of this sugar not used for local consumption will be released by the Institute for shipment to the Commodity Credit Corporation, provided the Cuban Government's authorization to

⁵⁷ A copy of the Cuban Government's reply (note no. 794 of July 22) to this note was transmitted to the Department with despatch 1956, July 29 (837-61351/7-2946). According to the despatch, the Cuban note followed closely the text of this note except in respect of the paragraph on sugar legislation where the Cuban Government's reply, in translation, read as follows:

"Following the rule of not changing the sugar regulations with respect to the 1946 crop, especially as regards the distribution of quotas, my Government acted in anticipation of the sales agreement that was being planned regarding the 1946 crop by promulgating Decree no. 325 of February 15, 1946, in article 2 of which it is provided that the distribution of the 1946 crop shall be made in accordance with Decree-Law no. 522 of January 18, 1936, as it is in force under the terms of Law no. 20 of March 21, 1941, the Sugar Coordination Law and other legislation in effect. The regulations as regards the 1947 crop my Government hopes to be able to promulgate as soon as possible and in accordance with the same principles, should there be no provision of law that is in conflict therewith."

effect such shipments is obtained. In accordance with the Cuban Government's Decree no. 325 of February 15, 1946, the abovementioned sugar quota is destined to satisfy consumption requirements in Cuba, including the requirements of industries which use sugar for the production of manufactured articles, whether for internal consumption or for export.

In view of the critical need for sugar in the United States and those other nations which look to the United States for their sugar supplies, the Government of the United States is confident that, should the occasion arise, the Cuban Government will be disposed promptly to authorize the release for shipment to the Commodity Credit Corporation of any sugar reserved for Cuban domestic consumption that is not used for that purpose. For the same reason, the United States Government ventures to express the hope that the Cuban Government will be good enough to take such steps as may be necessary to prevent the exportation, aside from the foregoing, of any part of Cuba's local consumption sugar quotas to any destination in the form of sugar, liquid sugar, molasses or syrups. Such a divergence of these local consumption sugar quotas, while reducing the amount of the sugar which might otherwise become available to the Commodity Credit Corporation at a time when it is desperately needed, makes little if any definite contribution to Cuba's overall economy, contrary to what is the case in respect to candy, confectionery and other similar manufactured articles which involve further manufacturing processes and which afford additional employment to Cuban labor.

Candy

It was agreed that:

1) For 1946, within the quantity of local consumption sugar of 350,000 long tons, raw value, a quantity not to exceed 30,000 short tons of sugar equivalent may be set aside during the calendar year 1946 to cover the needs of the confectionery industry of Cuba for export to the United States; that candy and other confectioneries composed of 20 percent or more of sugar by weight may be exported from Cuba to the United States only upon issuance by the Cuban Government of an export license; and that export licenses will not be issued for such candy during 1946 in excess of 30,000 tons of sugar equivalent and not in excess of 75 million pounds of candy.

2) For 1947, within the quantity of local consumption sugar of 350,000 long tons, raw value, a quantity not to exceed 40,000 short tons of sugar equivalent may be set aside during the calendar year 1947 to cover the needs of the confectionery industry of Cuba for export to the United States; that candy and other confectioneries composed of 20 percent or more of sugar by weight may be exported

from Cuba to the United States only upon issuance by the Cuban Government of an export license; and that export licenses will not be issued for such candy during 1947 in excess of 40,000 tons of sugar equivalent and not in excess of 100 million pounds of candy.

3) Any import control will be administered by the United States Department of Agriculture on the basis established in (1) and (2).

4) The Ministry of Commerce of Cuba will endeavor to spread the issuance of export licenses over the year, as far as possible, in order to avoid concentration of shipments in the early part of the year and early exhaustion of the quota.

Food Supply

The United States has agreed to assist Cuba, if necessary, in the procurement of such foodstuffs as are allocated to Cuba from United States sources, it being understood that all prices for commodities obtained in the United States will be at the prevailing prices for such commodities at the time of procurement.

Flour: The United States guarantees Cuba 2,000,000 bags (200 pounds each) of wheat flour for the year 1946 and a similar amount for the year 1947. United States regulations have been amended to enable millers to produce export flour of 72 percent extraction.

Rice: The United States guarantees that Cuba will receive an allocation of rice from United States sources of 70 million pounds for the six-months period April 1 to September 30, 1946. The United States will also support Cuba's request to the International Emergency Food Council (successor to the Combined Food Board) for allocations from areas other than the United States of 80 million pounds of rice for the same period. This will give Cuba, if Cuba procures the amount allocated by the International Emergency Food Council, a total of 450,000,000 pounds of rice for the rice crop year which began on October 1, 1945 and runs to September 30, 1946, including a small amount of rice of advanced licensing that was granted prior to October 1, 1945.

From October 1, 1946, to September 30, 1947, the United States will support a request to the International Emergency Food Council by Cuba for 400,000,000 pounds of rice from United States sources and for not less than 50,000,000 pounds from other sources. If there is no International Emergency Food Council during this period, the United States will guarantee Cuba 400,000,000 pounds from United States sources. The United States will further assure Cuba that it will cooperate in an effort to enable Cuba to procure such amounts of rice as may be allocated to Cuba from other than United States sources.

Lard: Unfortunately, the lard situation, due to foreign relief programs and insufficient supplies, is so serious that the United States can only guarantee Cuba 60,000,000 pounds for the calendar year 1946.

The United States will endeavor to assure this supply in approximately equal quarterly amounts. The United States also guarantees Cuba this amount for 1947, but will meet with representatives of Cuba late in 1946 to discuss the prospects for 1947, and, if it is possible, will increase the amount for 1947.

Edible Oils: The United States guarantees Cuba 10,000,000 pounds for the calendar year 1946 and it is contemplated this will be supplied by soybean oil. A like amount is guaranteed as a minimum for 1947, but the situation will be reviewed at the end of 1946 as in the case of lard.

Tallow: This commodity is also seriously short and the United States can only guarantee such amounts as are allocated Cuba from the United States by the International Emergency Food Council for the calendar years 1946 and 1947. At present this allocation is 13,664,000 pounds for 1946 from both United States and foreign sources. In case there is no International Emergency Food Council in 1947, the United States representatives will meet with representatives of Cuba and, in the light of the situation then existing, will decide the amount of tallow that can be provided Cuba during the year 1947.

Malt: This commodity is also in short supply and the United States Government is unable to guarantee Cuba more than 100,000 bushels for each of the second, third, and fourth quarters of 1946. The prospects for 1947 can be mutually reviewed late this year and attempts will be made to increase quarterly quantities for 1947.

Fertilizer: No quantity or type of fertilizer can be guaranteed by the United States, but, with the great need for sugar in the world, Cuba can be assured of the best efforts of the United States Government to assist it in meeting its fertilizer requirements.

I should appreciate receiving from Your Excellency a reply indicating that the understandings set forth in this note are shared by Your Excellency's Government.

Please accept [etc.]

[File copy not signed]
Chargé d'Affaires ad interim

DOMINICAN REPUBLIC

DELINEATION OF POLICIES FOR GUIDANCE IN CONDUCT OF GENERAL RELATIONS OF THE UNITED STATES WITH THE DOMINICAN REPUBLIC¹

711.39/10-3046

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

CONFIDENTIAL

CIUDAD TRUJILLO, October 30, 1946.

No. 148

[Received November 6.]

SIR: Referring to my telegram no. 353 of October 30, 1946,² I have the honor to report in more detail regarding my conversation with President Trujillo on the evening of October 29. The Secretary of State for Foreign Affairs,³ who had arranged the meeting at my request, was the only other one present during the interview.

I opened the conversation by thanking the President for giving me an opportunity to see him and I said that I had no request to make, other than that we have a frank exchange of views which I could report to the Department. I told him that I especially wanted to avoid any misunderstanding about our respective positions, since that was more serious than inevitable differences of opinion. The President nodded and suggested that I go ahead so that he would be able to comment on whatever I wished to say.

I then told him that when I had seen President Truman just prior to leaving Washington, the latter had stated that if the Dominican Government sought the objectives outlined in President Truman's Pan-American Day speech,⁴ I was to cooperate to the full extent toward that end. I observed that President Truman was aware of the material progress which has been made in the Dominican Republic during recent years. I then recalled to President Trujillo and to the Minister for Foreign Affairs the Department's public statement that the Government and people of the United States have a more friendly feeling toward and a greater desire to cooperate with governments which rest upon the freely expressed concern of the governed.

¹ For previous documentation on policy of the United States to avoid action which would constitute an endorsement of the Trujillo administration, see *Foreign Relations*, 1945, vol. ix, pp. 974 ff.

² Not printed.

³ Manuel Arturo Peña Batlle.

⁴ Department of State *Bulletin*, April 28, 1946, p. 720.

When I had finished, President Trujillo, showing strong feeling, sat forward on the edge of his chair and stated that he and his Government are deeply hurt by the treatment they have been receiving from the United States. He spoke highly of President Roosevelt and Mr. Cordell Hull.⁵ He referred to his own 100% cooperation with the United States during the war. He claimed that now he is treated like a Hitler or a Mussolini. He said that Mr. Sumner Welles,⁶ who had been close to President Vásquez,⁷ had treated him very harshly. He then cited the memorandum of last December⁸ as an evidence of the unfair criticism of him and his administration by the Department since Mr. Braden assumed office as Assistant Secretary.

After the President had finished, I observed that his criticism seemed strong and not entirely justified. I stated that Mr. Braden is a personal friend whose views I respect and share. I said that there is no discriminatory policy toward the Dominican Republic by the United States but only the application of general policy. I said that I was sure Mr. Braden was acting upon conviction and not prejudice and that he was convinced that there must be deeds in order to make the Inter-American system work on democratic principles approved by all twenty-one republics. I cited the recent case of relations between Haiti and the Dominican Republic as an example of the fact that our attitude toward the Dominican Government is based upon the merits of each case. I reminded the President that the Department, in reply⁹ to the inquiry I made at the request of the Dominican Minister for Foreign Affairs, had stated that it viewed with sympathy President Trujillo's initiative to improve relations between the Dominican Republic and Haiti and that the Department was prepared to consider any specific suggestions regarding U.S.-Dominican cooperation to strengthen Haitian economy in accord with the Inter-American principles.

There was a slight pause at this point and the conversation was resumed in a calmer manner. I next reiterated to the President my determination to have the Embassy follow very strictly the United States policy of non-intervention in the internal political affairs of the other American republics. I told him that the coming Dominican elections were the concern of the Dominican Government and people and that the Embassy would take absolutely no sides either for or against him. President Trujillo made no comment and did not

⁵ Former Secretary of State.

⁶ Former Under Secretary of State.

⁷ Horacio Vásquez; for documentation on the overthrow of the Vásquez government in 1930, see *Foreign Relations*, 1930, vol. II, pp. 699 ff.

⁸ For the Department's *aide-mémoire*, December 28, 1945, see *Foreign Relations*, 1945, vol. IX, p. 994.

⁹ Telegram 257, October 5, 3 p. m. to Ciudad Trujillo, not printed.

seem enthusiastic about my statement. He probably realizes that if the nonintervention policy is applied both ways and applied strictly he has more to lose than to gain. This assumption seems justified in view of the constant effort made by the Trujillo government to give the impression that it has the support of the United States.

The Minister for Foreign Affairs handed President Trujillo a copy of the Pan-American Union bulletin which contains the Spanish text of President Truman's Pan-American Day address, and also gave him a copy of the Dominican Constitution. President Trujillo then proceeded to compare the points made by President Truman with similar provisions in the Dominican Constitution. His conclusion was that his government is working toward the type of democracy which President Truman outlined as the basis for the inter-American system. Both the President and the Foreign Minister then proceeded to comment on the improved standard of living in the Dominican Republic, on freedom of meeting (citing the government permission for the recent Communist meeting), freedom of worship, and the great progress made in education. The President claimed that there were no political prisoners and that the police had not pursued or persecuted the Saturday evening demonstrators as a Habana news despatch quoted a State Department spokesman as having charged. I told the President that I had not seen the Habana news despatch, that I had made no mention of the police in any of my reports, but that I had telegraphed *en clair* a denial of the exaggerated reports in the *Miami Herald*. I said that so far as I had been able to determine there had been no violence or forced entry to my Embassy, that there had been no attacks on United States citizens or their property.

President Trujillo then asked if I had personally seen any examples of the abuses attributed to him and his administration. (I had discussed this with Mr. Scherer¹⁰ before my interview with the President and we had decided that it would be unwise for me to mention any names since that probably would only mean more trouble for the individuals concerned. Neither did I wish to compromise the position of the Mexican Ambassador in any way by mentioning the situation reported in my telegram no. 352 of October 29, 5 p.m.¹¹) I told the President that I had been here such a short time that I did not feel qualified as yet to comment on the situation. He then said that if at any time abuses did come to my attention I should come directly to him. He said: "I am a responsible man and I accept responsibility."

There was further discussion of the inter-American system, during which I expressed the opinion that while the many resolutions, declara-

¹⁰ George F. Scherer, Chargé in the Dominican Republic prior to the arrival of Ambassador Butler.

¹¹ Not printed.

tions and conventions embodied sound principles, the important thing now is to make those principles effective through deeds. President Trujillo observed that it would be better to stop signing agreements and concentrate on action. He then cited the case of the Department's refusal to approve of the sale of a landing barge to the Dominican Republic as another example of the Department's stated lack of interest in cooperating with his government. I replied that the question of furnishing arms to the other American republics is a very serious one for my government. I stated that an undue strengthening of armed forces might well have the result of retarding progress toward popular, civilian and democratic government. I told the President that very substantial elements of public opinion in the United States are concerned about this problem. I expressed the opinion that what the government of the United States and the governments of all of the American republics need most is genuine popular support rather than excessive armed forces. The President observed that all countries needed armed forces to preserve order and for national defense. However, he stated that there should be an inter-American agreement regarding armed forces and regarding limitation of armaments so that more national revenue could be devoted to the economic development of countries. During the conversation about armed forces, President Trujillo made the remark that governments do represent their people. This perhaps is an unconscious association in his mind that the armed forces mean government. In concluding this part of the conversation I said that while governments change, the people always remain and that in my opinion the government of the United States felt that it must win the support of peoples everywhere so that they would have confidence in the good faith and in the democracy of the United States.

Toward the end of the conversation, President Trujillo and the Foreign Minister pointed out that the former had done much to create a pro-United States feeling among the Dominican people. They said that due to the occupation Dominican public opinion had been traditionally anti-United States.

Finally, I told the President that one of the things that interested me personally was what progress could be made to avoid a reversion to the disorder and confusion which unfortunately had marked Dominican political history. I expressed the personal opinion that it is necessary in many of the American republics to build up a substantial group of public-spirited people who would be independent enough politically and economically to provide the nucleus for democratic and orderly government. I said that I had put the same question to Mr. Homer Cummings in New York, and asked President Trujillo point-blank what would happen when he withdrew from the

political scene. The President replied that he thought there were several men in the Dominican Republic who would be able to take his place. He claimed that he refused re-election in 1938 but that he had been recalled to occupy the presidency again during the war period. The Foreign Minister observed that education, improved living conditions, and material progress under President Trujillo eventually will make possible orderly and democratic government, although he admitted that the problem is a very difficult one.

In concluding the interview President Trujillo claimed to be in complete accord with President Truman's views and said, with a faint smile, "We still are your friends, even though your 'mistreated friends' ". I told the President that I hoped to take advantage of his offer to discuss specific problems as they arise.

Respectfully yours,

GEORGE H. BUTLER

839.00/11-1846

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

[Extract]

SECRET
No. 199

CIUDAD TRUJILLO, November 18, 1946.

[Received November 21.]

SIR: I have the honor to refer to the Department's secret instruction no. 41, dated October 31, 1946,¹² to the effect that the views set forth in the Embassy's secret despatch no. 609 dated January 3, 1945,¹³ may be taken as constituting the terms of reference with respect to relations with the Dominican Republic, pending the receipt of recommendations based upon my evaluation of the Dominican situation.

The basic views expressed in despatch no. 609 are, in my opinion, sound and valid guides for the conduct of our relations with the Dominican Republic. As I interpret the policy outlined in despatch no. 609, we should insist upon fair and honest terms and upon reciprocal integrity in all dealings with the Dominican Government, we should seek respect from, rather than appeasement of, the Dominican Government, and we should avoid giving the false impression that our relations with President Trujillo are cordial. I have no recommendations for any fundamental change in this policy, and I believe that the suggestions made in the following paragraphs are consistent with it.

There has been little change in the nature of the Trujillo Government since despatch no. 609 was written. It is a regime based on fear

¹² Not printed.

¹³ *Foreign Relations*, 1945, vol. ix, p. 974.

and on the suppression of fundamental civil liberties. It is efficient, it does maintain law and order, and it has brought about material progress; but the price is too high from the point of view that democracy can and must work if world peace and security are to be attained. The situation in the Dominican Republic is not a direct threat to world peace; but the cumulative effect of the undermining of democratic principles in many parts of the world does seem to be a serious threat to the national interests and security of the United States.

Personal relationships with Dominican officials also present problems. An American Ambassador does have to have working relationships with high government officials if he hopes to accomplish anything. Several of those relationships under present conditions in the Dominican Republic are personally very disagreeable. Even though an effort is made to be only courteous and correct, every action is exploited for political purposes. Officers of the Embassy are trying to maintain necessary official contacts in a natural manner, while exercising due caution to prevent as far as possible any misinterpretation of what they may say or do. There is no doubt about the fact that if President Trujillo's personal displeasure is aroused the functioning of the Embassy is handicapped through all kinds of obstacles.

If such a situation develops to an unreasonable extent, one solution might be to have a Chargé d'Affaires instead of an Ambassador as chief of mission.

I feel certain that President Trujillo could not make any substantial concessions to our concept of democracy and still retain power. There is little evidence of any inclination on his part to relinquish power. In spite of these facts, I believe that efforts to implement our policies should be continued along the following lines:

(1) Strict adherence to the non-intervention policy, making it clear that in a political sense we neither support nor oppose the Trujillo government; that United States democracy is opposed to extremes of either the right or the left; that we insist upon mutual honesty and compliance in relations between our two governments; and that we are ready to cooperate to achieve, through deeds rather than words, the objectives agreed upon by the twenty-one American republics in their efforts to build a strong democratic system.

(2) As long as Trujillo remains in power every assistance that we may extend to the Dominican Republic necessarily will be of at least indirect benefit to him. However, I believe that each case should be decided on its own merits, and that we should cooperate whenever there is a reasonable chance that the people and country will benefit.

Examples are the various cooperative projects in the fields of public health and education; the establishment of a Dominican—United States Cultural Center; the furnishing of technical experts in many fields; and even the extension of the United States Naval Mission contract which, in spite of the obvious military disadvantages, is providing the basis for a satisfactory commercial aviation service of benefit to the country and to United States interests.

(3) Continue to avoid any impression of cordial relations with or support of President Trujillo. We can honestly acknowledge Dominican cooperation during the war, emphasizing that it was of mutual advantage and not a favor extended by the Dominican Republic to the United States. We can try to make clear that the post-war period has brought new conditions and new problems; that we are ready for genuine cooperation based on accepted inter-American principles, but that we ourselves are going to make an honest effort to apply those principles. There will be no discrimination against countries and individuals as such, but only the natural difference in treatment accorded to governments and individuals in the light of their support of or failure to comply with inter-American principles and obligations.

(4) Minimize to the greatest extent possible the element of personal likes and dislikes. This is no easy task in the Dominican Republic. While proof which would stand up in court always is difficult to come by, we do have to deal with people against whom the record seems so clear that a self-respecting person finds any association repugnant. However, we do have to deal to some extent even with this type under conditions such as those existing in the Dominican Republic.

In summary, my opinion is that the Department's secret instruction no. 41 should govern our relations with the Dominican Republic; that it should apply equally to all countries where similar conditions exist. If we treat with the Dominican Government within the framework of firm general policies, we are on solid ground. I think that it is important that we be able to effectively refute charges of discrimination and of personal animosity as concerns our relations with President Trujillo and his government.

Respectfully yours,

GEORGE H. BUTLER

839.00/12-2446

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

[Extract]

SECRET
No. 306

CIUDAD TRUJILLO, December 24, 1946.
[Received December 27.]

SIR: Referring to this Embassy's secret despatch no. 199, dated November 18, 1946, regarding relations between the United States and the Dominican Republic, I have the honor to report further on this and related subjects.

As background for the comment contained in this despatch, the following brief summary of information and views previously reported to the Department may be a convenient reference:

1. The Trujillo Government, in the opinion of Chiefs of Mission and other officers of the Embassy who have served here during the past two years, governs by fear and by the suppression of civil liberties and individual rights.

2. It probably is impossible for Trujillo to make any substantial change in his present methods and still retain power. There is no evidence that he intends to relinquish power in the near future.

3. Unless the army withdraws support from or turns against President Trujillo—a most unlikely development—there is no evidence of Dominican opposition within the country or abroad that is strong enough to overthrow him.

4. It is not the responsibility of the United States Government to change the government of the Dominican Republic. Any unilateral action on our part would be contrary to our declared foreign policies. However, the suppression of civil rights and individual liberties, and other anti-democratic practices, in the Dominican Republic and in other parts of the world are threats to our national interests and to our form of government.

5. Some sort of multilateral action to bring the force of public opinion to bear in an effort to remedy these situations seems to offer the best immediate course of action.

6. The Trujillo Government is seeking to establish cooperation with the Government of the United States to combat the alleged danger of Communist activities in the country. Since there is little evidence of such danger, the logical conclusion is that another effort is being made to bring about a situation which will enable Trujillo to give the impression that the Government of the United States is supporting him.

7. Effective action in dealing with governments such as that of President Trujillo must be based, in my opinion, on publicly stated policies of our government which are applied impartially to all governments which are in the same category. An effort to deal with such governments on a country-by-country basis, as critical situations arise, and at different times, inevitably will involve us in arguments about intervention, discrimination and personal prejudices.

Conversations which I have had during the past few weeks confirm former reports (for example despatches no. 223 of November 22, 1946, no. 251 of December 4, 1946, and no. 282 of December 16, 1946¹⁴) regarding the ruthless methods used by Trujillo against any opposition. One very reliable and reputable Dominican said to me that the dictatorship here is not 90%, but 100%; that he doubts if even Hitler exercised the complete and ruthless internal control in Germany that Trujillo does here. He said that Dominicans may be divided into four classes: (1) those who are closely associated with Trujillo

¹⁴ None printed.

through personal choice; (2) those who go along with the Trujillo Government because it pays to be on the side of the strong battalions and because of the success Trujillo has had; (3) those who try to lead their own lives in the country, without participating in government but also without attacking or opposing the Trujillo regime in any way; and (4) those who openly oppose the government and who, consequently, either have to leave the country or have the courage to risk their lives by remaining here.

A remark by an ordinary Dominican laborer suggests the existence of a fifth class. I would pay little attention to this incident were it not for the example of President Perón and his Argentine "descamisados".¹⁵ The laborer said, in effect, that the "descamisados" in the Dominican Republic know the bad things that Trujillo does (he pointed to a picture of Trujillo and said "he", instead of mentioning the name), but they are for him because Trujillo recognized their existence, has given them roads and better houses; while before they were treated like animals, if they were noticed at all. This class, of course, has little conception of or experience with democracy and civil liberties; and probably has been sold on the story that all sorts of exploiters of the people—foreign and domestic—are responsible for high living costs and miserable standards suffered by the "descamisados".¹⁶ There is a possibility that Trujillo's methods have been so successful (see also despatch no. 280 of December 14, 1946¹⁷) that he would triumph in free elections unless they were held after a long period of free press, free speech and free assembly, and under effective international supervision.

The prospect is not an encouraging one. It is another proof of the great need for the United States to demonstrate that democracy can work; and then to find some means of bringing that concrete evidence to the attention of all peoples, everywhere. The problem of Communism further complicates the situation.

The best information that I have been able to obtain leads me to believe that the following conclusions are justified:

1. President Trujillo, probably for a number of involved reasons, encouraged a Communist-type opposition, found that it was getting out of hand, and now is going to the opposite extreme of inventing a Communist peril that should be overcome with the cooperation of the United States.

¹⁵ The common people.

¹⁶ A pencilled marginal note on the original reads: "This is an argument in favor of the thesis that if we want democracy in the D.R. we must do what we can to raise the standards of living & education of the rank & file Dominicans. L[ouis] J. H[alle]"; Mr. Halle was Acting Assistant Chief of the Division of Special Inter-American Affairs (IA).

¹⁷ Not printed.

2. There are some Communist leaders (although there is little, if any, proof that they take orders from Moscow), and a young group of Marxian ideology, who do form an open opposition to the Trujillo Government. They do so at great personal risk.

3. It is doubtful if the Partido Socialista Popular is properly a Communist party, although it may be dominated by a minority element of Communists or Communist sympathizers.

4. Non-communist opponents of Trujillo probably rally around the groups mentioned in 2. and 3. because there is no other organized opposition in the country.

5. It is the present practice of the Trujillo Government to label as Communists all those who oppose Trujillo and his regime. The Partido Socialista Popular always is referred to as the Communist Party. Juventud Democrática is referred to as a Communist group. Its published principles and statements give no ground for such a charge. The group probably is the successor of the youth group of the former Unión Popular Revolucionaria which, to the best of my knowledge, was in no way a Communist organization.

6. Either support of Trujillo against an alleged Communist movement (re: Embassy telegram 397, December 18, 4 p. m.¹⁸) or support of an opposition which, if successful, might be taken over by Communist or other anti-democratic elements would be undesirable from the point of view of the interests and policies of the United States.

Again, hope seems to lie in multilateral action based on democratic principles which have been proclaimed, if not observed, by all of the American Republics. If the American Republics wish to handle their affairs under a mutually satisfactory arrangement with the United Nations, then they must make the inter-American system a live force devoted to the attainment of the general welfare, peace and security of the peoples of the Americas. Problems of armament and hemisphere defense, of the duties as well as the rights of states, of the protection of individual rights and civil liberties, and of real freedom of information in all countries must be faced and workable solutions found which will be genuinely supported by a substantial majority of the American nations.

Members of the Dominican opposition have stated to me that they cannot understand why we oppose dictators in Europe and fail to do anything about them in the Americas. As concerns Trujillo, there unfortunately have been United States elements, official and private, whose actions and public statements have given just reason for the charge that the United States has supported him.

Addresses and statements by the President of the United States, the Secretary of State, and other responsible officers of the Department furnish the basis for refutation of this and similar criticisms of our

¹⁸ *Post*, p. 833.

foreign policy. It would be extremely helpful in dealing with the Trujillo Government, and I believe this would apply in other Latin American countries, if the Department could issue and give wide publicity to a press release on the subject. The release might be a policy statement approved by the President and the Secretary of State, and directly related, by specific reference, to some of the major problems in inter-American relations today.

[Here follows outline of proposed press release.]

Respectfully yours,

GEORGE H. BUTLER

839.00/11-1846

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

SECRET

WASHINGTON, December 26, 1946.

No. 96

SIR: Reference is made to your despatch no. 199 of November 18, 1946 concerning relations between the United States and the Dominican Republic.

Your interpretation of the general lines of policy set forth in the Embassy's secret despatch no. 609 of January 3, 1945,¹⁹ is accurate. Since you do not recommend any fundamental change in this policy, you should continue to regard the above-mentioned despatch as constituting your terms of reference as stated by the Department's secret instruction no. 41 of October 31, 1946.¹⁹ The Department endorses your views regarding the most effective means of implementing this policy.

The Department has noted with particular interest your suggestion that in the event President Trujillo's personal displeasure impedes the effective functioning of the Embassy, it might perhaps be advisable to have a Chargé d'Affaires instead of an Ambassador as Chief of Mission. In explanation of this suggestion, you expressed the view that "in small countries such as the Dominican Republic, which suffer from anti-democratic dictatorships, our interests need not suffer under a competent Chargé d'Affaires."

Should the relationship between the Embassy and President Trujillo develop in such a way that you feel the conduct of Embassy business is being severely hindered, you might consider the formulation of a specific recommendation in the above sense.

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

¹⁹ Not printed.

UNITED STATES REJECTION OF DOMINICAN REQUESTS FOR
MILITARY AID

839.24/1-846

*The Dominican Embassy to the Department of State*²⁰

[Translation—Extracts]

AIDE-MÉMOIRE

The Government of the Dominican Republic has received with profound surprise the *aide-mémoire* which accompanied the note handed to Ambassador García Godoy by His Excellency Spruille Braden on December 28 last,²¹ relative to the request for an export license made by the Dominican Embassy at Washington for a certain quantity of ammunition which our Government wished to acquire from the Winchester Repeating Arms Company.

After studying conscientiously and carefully the reasons set forth in the document under reference for justifying the refusal of the license requested, the Dominican Government considers it to be its duty not to accept the reasons adduced and even to express the displeasure with which it has received them and its desire to refute and contradict them in order duly to clarify a situation which in any case, involves an irritating attitude of prepossession and prejudice against the aims and purposes which this Government has for the public welfare.

I

It was stated that “most of the ammunition sought by the Dominican Government could be used solely for two purposes: either against a neighbor republic or against the people of the Dominican Republic”.

The Dominican Republic at present maintains excellent relations of friendship with all the republics of the continent, with the exception of a single one . . .

If, contrary to what the facts indicate, the expression “neighbor republic” specifically refers to Haiti, to impute to this Government designs of attacking our adjacent neighbor, then the prejudice is all the more unjust and gratuitous because no indication—absolutely none—of an objective nature on the part of the Dominican Government could justify it.

[Here follows denial of Dominican aims of territorial conquest in Haiti, and a detailed account of Dominican-Haitian relations.]

²⁰ Handed to the Assistant Secretary of State (Braden) by the Dominican Ambassador (García Godoy) on January 14, 1946. Copy transmitted to Ciudad Trujillo in instruction 500, January 25.

²¹ *Foreign Relations*, 1945, vol. ix, p. 993.

II

The document to which the present reply is being made presupposes that the ammunition requested by this Government might be used against the people of the Dominican Republic.

The history of the Dominican Republic does not record the existence of a single Government that has placed at the service of its people the interest and zeal which President Trujillo's Government has done. How is it possible to think that the latter may arm itself against its own people? To insinuate such folly is equivalent to denying in the Dominican people all its chivalrous virtues. In the Dominican Republic there exists at present a close and unbreakable bond of solidarity between the people and the Government; not for simple sentimental reasons, but for more profound reasons of advantage and satisfaction for the masses.

The surest and most evident demonstration of solidarity with their Government was given by the Dominican people during the war. The spirit of discipline and sacrifice with which this country placed itself at the side of the United States from the very day of Pearl Harbor ²² and which was maintained without change and without faltering up to the last minute of the war is a palpable and indisputable result of the bonds of understanding which unite the Dominican Government and people.

[Here follows an account of the advantages to the Dominican people derived from the political influence of President Trujillo.]

III

"The Government and people of the United States necessarily have warmer sentiments for those Governments which rest upon the consent of the governed expressed periodically and freely. This Government has during recent years observed the situation of the Dominican Republic and has not been able to perceive that democratic principles have been followed there either in theory or in practice. The present conclusion is based on the lack of freedom of speech, freedom of the press and freedom of assembly, as well as on the suppression of all political opposition and on the existence of a single party. To furnish a large quantity of ammunition in view of such a situation might be construed as constituting intervention in the internal affairs of the Dominican Republic and as an endorsement of the said practices." *

The first impression that is obtained from a reading of the paragraph of the *aide-mémoire* transcribed above is that the said docu-

²² December 7, 1941.

*The English text of the *aide-mémoire* was not available to the translator when this translation was made.—TC [Footnote in the file translation.]

ment does not take into account the fact that the Dominican Republic is a member of the United Nations and that, as such, has fulfilled and is fulfilling all its duties and obligations and therefore deserves respect and consideration on the part of its friends and allies.

The present Dominican Government was freely elected by constitutional methods, in the month of May 1942, with the circumstance that this election had more ballots cast than any other in our history. On that occasion there occurred a normal change of government in the Dominican Republic in virtue of the rule of rotation of power.

The affirmation that during recent years it has not been possible to perceive that democratic principles have been observed in the Dominican Republic—either in theory or in practice—is altogether inexact.

[Here follows a laudatory account of the Dominican Party and its accomplishments.]

IV

The Government of the Dominican Republic has laid great stress on keeping in harmony with that of the United States of America with respect to its needs for military and strategic supplies. This determination was considerably strengthened and increased after the United States entered the war and, with that country, the Dominican Republic.

In this connection it may be asserted that the Washington Government knows for certain and with all exactitude the military possibilities of this country and is perfectly aware of the fact that we cannot get along with the arms which we now possess.

. . . the armament possessed by the Dominican Army is inadequate and even insufficient for the internal security of the country; it is absolutely impossible for the Dominican Government to cooperate in the defense of the Hemisphere with the war matériel which it now possesses.

The export license requested by the Dominican Ambassador and discussed in the *aide-mémoire* handed by His Excellency the Assistant Secretary of State refers to ammunition—supplementary matériel—the acquisition of which will not in any way be able to change the present status of our armament, because it is not substantial matériel. This ammunition is intended to keep at a minimum of defensive efficiency the national forces, declared inadequate by American experts.

CIUDAD TRUJILLO, January 8, 1946.

839.248/1-1946

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

SECRET

CIUDAD TRUJILLO, January 19, 1946.

No. 629

[Received January 28.]

SIR: I have the honor to refer to the Embassy's confidential telegram no. 14 of January 14, 4 p. m.²³ relative to the sudden interest of President Trujillo in procuring additional aircraft from the Army and Navy Liquidation Board in Florida and to the despatching for that purpose of a two-man mission consisting of Captain George C. Stamets, United States Naval Mission, and Major Fernando M. Castillo, Dominican Air Corps. The mission actually left Ciudad Trujillo on January 15.

On a recent trip to Ciudad Trujillo from Habana, Lieutenant Colonel Orin H. Rigley, Jr., Military Attaché for Air, was approached by Dominican officials in connection with the possible purchase of twelve primary trainers, four basic trainers and six advanced trainers, allegedly to be used only for training purposes. If the United States will not make the aircraft available, then the Dominican Government will reportedly seek them from another source, Canada having been specifically mentioned. The following extract from Colonel Rigley's report to the War Department, No. R-57-45 of December 28, 1945, gives a summary of his views:

"MAA Comment: The M.A.A. discussed the acquisition of the new equipment with the U.S. Embassy and was informed that the United States Government did not favor the present government and the State Department policy was not to help nor appear to help the present government stay in power. The U.S. Embassy stated that it would approve Dominican purchase of United States aviation surplus property in amounts sufficient to replace losses Dominicans suffered to their lend-lease equipment and a reasonable excess to furnish spare parts to keep the maximum number under lend-lease flying. The Embassy stated that this did not mean that the State Department would approve the purchases.

"The Dominican flying equipment is in deplorable condition and all equipment will be grounded in the near future for lack of spare parts.

"The Dominican Aviation Company (military) would like very much to have combat aircraft but will be satisfied with training aircraft. They have the money to purchase aircraft and show a desire to purchase equipment wherever possible if the United States Government will not sell to them.

"Whatever number the Dominicans are able to acquire, they will attempt to keep the maximum number in commission and will only use those absolutely necessary for spare parts."

²³ Not printed.

The position of the Embassy, which was explained in detail to Colonel Rigley and which resulted from conversations of the Embassy staff before the departure of Ambassador McGurk during November, is that it would be inclined to recommend to the Department that sufficient replacement equipment and aircraft be made available to the Dominican Government to maintain the Dominican Air Corps in the same condition, with respect to number of aircraft and other features, as contemplated when the agreement of January 25, 1943, covering the United States Naval Mission, went into effect.²⁴ Substantially all of the equipment was originally acquired under lend-lease, although now the Dominican Government is prepared to purchase supplies for cash.

The Embassy received yesterday (unaccompanied by an Instruction) a copy of the Department's Secret letter of January 9, 1946 to the Acting Secretary of War²⁵ calling attention to an Interim Program concerning the furnishing of military aircraft to other American Republics. It is noted that the Department approves of the Program provided that no aircraft are made available for the present to the Dominican Republic among certain other countries. If the United States Government has decided not to provide flying equipment to maintain the Dominican Air Corps at the above mentioned strength, it appears to me that we will not be fulfilling the purpose of the agreement and it should be abrogated. Article 4 provides for termination of the agreement by three months notice on the part of either government without explanation.²⁶

Respectfully yours,

GEORGE F. SCHERER

839.24/1-3046 : Telegram

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

SECRET

WASHINGTON, February 5, 1946—1 p. m.

178. Reference Ciudad Trujillo's telegram 37 Jan 30 4 pm repeated to you; copy of Caracas' despatch 8303 Jan 17 sent you; and urtel 3285 Oct 31, 1945 11 am.²⁷ Please investigate discreetly reports Do-

²⁴ Department of State Executive Agreement Series No. 312; 57 Stat. 910.

²⁵ *Ante*, p. 88.

²⁶ Telegram 30, January 29, 1946, 11 a. m., to Ciudad Trujillo, indicated that the Department had informed Captain Stamets and Major Castillo that it was prepared to grant export licenses for shipment of 16 PT's, 3 BT's, and one C-45 aircraft to the Dominican Government for use of the United States Naval Mission, but that no AT's would be available; and that certain AT's were regarded by the Department as tactical planes and as such subject to present restrictions on shipment of military equipment to the Dominican Republic (839.248/1-1446).

²⁷ None printed.

minican Govt has obtained or may endeavor through Dominican delegation at Dutra inauguration²⁸ to obtain arms from Brazil, perhaps as result of alleged contribution by Trujillo to Dutra's campaign fund. Should reports appear correct, you may in your discretion, inform appropriate Brazilian officials confidentially that Dominican Govt recently requested large amount of arms and ammunition from this country and that these requests were rejected because of our policy not to furnish munitions to Dominican Govt at present time since in our estimation they could be used only in conflict with Haiti or against Dominican people.²⁹ It would be desirable if Brazil could follow same course of action.

Please report simultaneously to Dept and AmEmb, Ciudad Trujillo.

BYRNES

839.24/3-1846 : Telegram

The Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, March 20, 1946—7 p. m.

394. Reurtel 537 Mar 18.³⁰ You should have a frank and confidential talk with the FonMin expressing this Govts concern on learning of possibility Brazilian Govt might be disposed to sell arms to Trujillo.

FonMin will doubtless remember that only a few years ago several thousand Haitians were massacred by Dominican troops. Accordingly, when Dominican Govt requested arms of us in Nov, we declined to supply them and stated the reasons therefor, commenting that since the munitions could be used only against a neighboring country or against the people of the Dominican Republic, compliance with the request would not contribute to cause of peace on Island of Hispaniola. We furthermore pointed out that it did not appear that supplying these arms was necessary to the defense of the hemisphere. We have

²⁸ Eurico Gaspar Dutra was inaugurated President of Brazil, January 31, 1946.

²⁹ Telegram 223, February 15, 8 p. m., to Rio de Janeiro, referred to continuing rumors that Dominicans were endeavoring to obtain rifles and ammunition from the Brazilian Government, and the Ambassador was instructed as follows: "Unless therefore you perceive some reason to contrary it is suggested that you mention the matter in confidence to appropriate Brazilian officials along the lines of Deptel 178, Feb 5, 1 p. m." (839.24/2-846).

³⁰ Not printed; the Chargé in Brazil reported that Brazilian officials had confirmed reports that Dominicans were about to purchase arms and munitions from the Brazilian Ministry of War, and, in response to the request of the Chargé, they consented to postpone consummation of deal pending further consultation concerning question of political complications and misunderstandings (839.24/3-1846).

since had discussions with the British, whom Trujillo also approached, and that Govt agreed with our attitude and is supporting it. Please state to ForMin that we are confident that Brazil will do likewise.

For your confidential information Dept is puzzled at apparent inconsistency of Brazil's undertaking to supply arms to Trujillo when it is seeking further supplies thereof from the US. It is also suggested that you examine possibility that arms which Brazil contemplates furnishing Trujillo might be Lend-Lease material supplied by US. If this is case, first paragraph Article 6 of agreement Oct 1, 1941³¹ would prohibit re-transfer without consent President US.

Repeated to Ciudad Trujillo.

BYRNES

839.24/3-2646 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Daniels)

SECRET

WASHINGTON, March 27, 1946—8 p. m.

425. Embtel 576 Mar 26.³² Please call at once on FonOff and explain that this Govt's attitude concerning Dominican arms shipment seems to have been misunderstood. In conversation Mar 25³³ at which this subject was discussed, Braden began by saying that he wanted to make it clear to Ambassador Martins in first place that US Govt of course did not wish to impose on Braz Govt any course of action that would be embarrassing to it. He went on, however, to set forth very strong reasons why this Govt felt that proposed sale should not take place (Deptel 394 Mar 20) and concluded by expressing hope that Braz Govt might find it possible to withdraw from this deal.

You should emphasize that far from agreeing that sale is unimportant this Govt views it as fraught with grave possibilities and Dept feels you would be justified in discussing situation direct

³¹ For text of Lend-Lease Agreement between the United States and Brazil, see *Foreign Relations*, 1941, vol. vi, p. 538.

³² Not printed; the Chargé in Brazil reported that the Secretary General of the Brazilian Foreign Office (Gracie) informed him of Brazilian Ambassador Martins' report, after consulting Department, as follows: "He said that Martins had reported that Department had expressed some objections to proposed deal as those I had brought to his attention earlier; but that if negotiations had advanced so far that to cancel them would be awkward and embarrassing, Department would reluctantly accept the outcome. Gracie again stressed unimportance of deal and this time gave the impression that Brazil, feeling bound by previous commitments made under previous government, would feel obliged to go through with deal." (839.24/3-2646)

³³ Memorandum of conversation of March 25, not printed.

with Neves da Fontura.³⁴ Amounts of arms involved are very large indeed in comparison with size of Dominican Army and population of country (two rifles per soldier and three times as many cartridges as there are people). Regardless of size of shipment, US and Great Britain were unwilling to take the responsibility of supplying such munitions, which are not required for hemisphere defense and which can only be used either against Haiti or the Dominican people.

You should comment that as early as Feb 18 (urtel 351 Feb 18³⁵) Berle expressed to Gracie this Govts interest in rumors that Dominican representatives would attempt to obtain arms in Brazil and that Gracie replied that he was quite sure there was no foundation to such rumors insofar as Brazil was concerned. The concern expressed by you to Gracie on Mar 18 at information that proposed sale was about to be consummated could not therefore have come as any surprise to Braz Govt, nor could suggestion of Military Attaché to Minister of War for temporary suspension of sale.

Decision is of course one for Braz Govt to make but it should be made clear that US Govt would view with anxiety purchase of these arms and ammunition by Dominican Republic. Repeated to Ciudad Trujillo.

ACHESON

839.113/5-3146 : Airgram

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

CONFIDENTIAL

WASHINGTON, May 31, 1946.

A-537. Reference is made to telegram 195 of May 27 from the Embassy at Ciudad Trujillo, repeated to you,³⁵ reporting the departure for Buenos Aires of Major Salvador Cobian Parra and other Dominican delegates to Perón's inauguration. The Embassy suggests that Cobian may have a supplementary mission of endeavoring to

³⁴ The Chargé reported in telegram 589, March 28, 6 p. m., on his conversation that afternoon with Foreign Minister Neves da Fontoura who said that refusal to go through with the deal would put his Government in a position of failing to live up to its commitments, which it felt a certain obligation to do, but he mentioned possibility of perhaps scaling down somewhat total amounts of rifles and ammunition (839.24/3-2846).

In telegram 610, April 1, 9 p. m., the Chargé reported that the Foreign Minister had told him that afternoon that Dominican arms sale had been reduced from 10,000 to 6,000 rifles, and from 5 million to 3 million cartridges (839.24/4-146).

³⁵ Not printed.

obtain arms for Trujillo in Argentina. Reference is also made to a report dated March 26 from the Legal Attaché at Buenos Aires to the FBI³⁷ regarding the activities of Colonel Rodolfo Bosch Pearson of the Dominican army in connection with his alleged efforts to obtain arms for Trujillo in Argentina and Brazil early this year.

For your confidential information, this Government's policy is to approve no shipments of arms from the United States to the Dominican Republic. In conformity with this policy, this Government in December rejected a Dominican request for a large quantity of ammunition, informing the Dominicans: (1) that since the ammunition could be used only against a neighboring country or the people of the Dominican Republic, granting the request would not further the cause of peace on the Island of Hispaniola; and (2) that furnishing this ammunition did not appear necessary for the defense of the hemisphere. The British and Canadians have conformed their respective policies to ours in this respect and have refused similar arms requests from Trujillo.

You are also informed confidentially that the Brazilian Government recently supplied Trujillo with a sizeable shipment of arms and ammunition despite this Government's energetic representations to the Brazilian foreign office. These arms were transported to the Dominican Republic from Brazil in the Dominican corvette *Colón* which the Embassy at Ciudad Trujillo understands may shortly make another extended cruise to an unannounced destination, perhaps for the purpose of picking up arms.

On the receipt of recent information that Trujillo might be attempting to secure arms from Chile, the Embassy at Santiago was requested to investigate and, if the report appeared well founded, to set forth to the Chilean foreign office this Government's concern at Trujillo's receiving arms from any source.³⁸ The Embassy was also authorized to inform the Chilean Government of this Government's rejection of the Dominican arms request. No reply has as yet been received.

³⁷ Report of March 26, 1946, not printed. In a memorandum of April 2, the Legal Attaché (McMahon) reported that according to information received by the offices of the Legal Attaché, the Argentine Foreign Minister had advised Colonel Bosch and the Dominican Ambassador that the Argentine Government was not ready to dispose of any of her arms or ships (839.24/4-1046).

In airgram 219, June 6, 1946, to Ciudad Trujillo, the Secretary of State referred to a report of April 30 from the Military Attaché at Ciudad Trujillo. The final sentence of this report, "Arms Purchase from Brazil", reads as follows: "However, it can be undeniably said that some Lend-Lease ordnance equipment has been sold by the Brazilian government to the Dominican Government." (839-113/6-646)

³⁸ In a communication of September 4, 1946, from the Federal Bureau of Investigation, it was reported that the Chilean Foreign Office had denied that the Dominican Republic had made any such approach to Chile on this subject (839.113/9-446).

Despite this Government's deep concern regarding possible further deliveries of arms to Trujillo, the Department is inclined to feel that in the present state of relations between Argentina and the United States, it would be useless, if not unwise, to suggest to the Argentine Government that it withhold arms from the Dominican Republic should it appear that Argentina is seriously considering a Dominican arms request. The Department would appreciate receiving your views on this subject, as well as any information you may obtain regarding Dominican attempts to obtain arms in Argentina and Major Cobian Parra's connections therewith.

BYRNES

839.30 Missions/9-446

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

CONFIDENTIAL

CIUDAD TRUJILLO, September 4, 1946.

No. 1228

[Received September 13.]

SIR: I have the honor to acknowledge the Department's confidential instruction no. 700 of August 22, 1946 (file no. 839.30 Missions/6-2446)³⁹ in connection with the possible renewal of the Agreement of January 25, 1943 for a United States Naval Mission in this Republic. It is noted that Ambassador García Godoy proposed a renewal for an additional period of four years in note no. 1827 of June 24, 1946.³⁹ The Department mentions that Ambassador Butler will study the question after his arrival here and will make recommendations.

In view of the United States Government's basic policy toward the Trujillo regime of aloof and correct conduct, avoiding undue cordiality, and of the probable belief of the Dominican people that a United States Naval Mission here constitutes a measure of American support of President Trujillo, it would be desirable, if practicable, to permit the Agreement of January 25, 1943 to expire without renewal. One of the factors which make us appear to support Trujillo is the need, once a Mission is established, to keep it functioning; among other things, by providing planes and equipment.

Although it may appear desirable to discontinue the Mission here, it may not be practicable to do so since the field would then be left open for missions from other countries, an eventuality that would be most unfortunate. It is the Embassy's opinion that Trujillo would be inclined to make prompt efforts to obtain a military or air mission from another country if he were rebuffed in his attempt to renew the

³⁹ Not printed.

existing agreement. The removal of the United States Marines, for whom in general he has respect and even affection, might well prove a bitter blow, which he would attempt to remedy by the importation of another foreign mission.⁴⁰

Respectfully yours,

GEORGE F. SCHERER

839.24/12-546

*The Acting Secretary of State to the Dominican Ambassador
(García Godoy)*

CONFIDENTIAL

WASHINGTON, December 5, 1946.

EXCELLENCY: I have the honor to transmit herewith two copies each of Statement LL-9 and supporting schedules⁴¹ reporting charges made against Your Excellency's Government during the period from March 1, 1946 through May 31, 1946, covering defense matériel transferred in accordance with the terms of the Lend-Lease Agreement signed on August 2, 1941 by representatives of the Dominican Republic and the United States of America.

It will be noted that charges during the period under reference are counterbalanced by credits to a net sum of \$6,852.59 credit. Charges through May 31, 1946 aggregate the grand total of \$980,994.69. Of this grand total the sum of \$551,000 represents the approximate appropriate percentage due on account from Your Excellency's Government. Since reimbursement payment amounting to \$442,000 has already been received, the balance now due is \$109,000. It would be appreciated by this Government if payment of the sum of \$109,000 could now be made by the Government of the Dominican Republic in the form of a check payable to the order of the "Treasurer of the United States". Such a check should be sent to this Department for appropriate disposition.

⁴⁰ A note of December 18, 1946, to the Dominican Ambassador, read in part: "I regret to inform you that this Government deems it inadvisable to extend beyond the present termination date of January 25, 1947 the Agreement of January 25, 1943 . . ." (839.30 Missions/6-2446)

Ambassador Butler was informed of this action in instruction 91, December 18, 1946, which stated:

"In the event that any issue of alleged discrimination should be raised by Dominican officials, you may at your discretion state that the action of this Government in not renewing the Naval Mission Agreement is based on considerations of general policy toward regimes which do not derive their authority from the freely expressed consent of the governed." (839.30 Missions/11-2746)

⁴¹ None printed. Statements LL-6, LL-7, and LL-8, were transmitted by the Department to the Dominican Embassy on January 2, April 26, and September 27, respectively, showing charges made against the Dominican Republic during the period June 1, 1945, through February 28, 1946, for defense matériel. A payment of \$129,000 was due on January 2, \$120,000 on April 26, and \$113,000 on September 27.

It is requested that the enclosed statement and supporting schedules be treated by Your Excellency's Government on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

**ATTITUDE OF THE UNITED STATES WITH RESPECT TO COMMUNIST
ACTIVITIES IN THE DOMINICAN REPUBLIC**

839.00/4-3046

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

[Extracts]

CONFIDENTIAL
No. 896

CIUDAD TRUJILLO, April 30, 1946.

SIR: I have the honor to inform the Department that the Dominican Government has during the last few months displayed an increasing concern about the possible penetration of Communist influence into the labor elements in the Dominican Republic and that the Dominican Government has also recently realized the remarkable value of the term "Communist" for application against all elements believed to oppose the Trujillo⁴² dictatorship. The Government's concern over Communism is rather particular in that it is doubtful that there is another country in the world in which the Communists have made so little progress. According to recent estimates made by the Legal Attaché to the Embassy, there are only about twenty Spanish Communists (Third International) and four native Communist sympathizers in the Dominican Republic. The Spanish Communists are the remnants of a much larger group of Spanish Republicans who obtained refuge in this country, the great majority having since departed to Mexico and Venezuela, in part because they found the local political atmosphere uncongenial and in part because of the urging of the Dominican Government. While the primarily agricultural character of the Dominican economy is not conducive to the reception of Communistic ideas, the primary reason for the lack of progress made by the Communist Party in the Dominican Republic is the absolute control of all political activity by the present Government.

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The Government's further concern over Communists has been reflected in several articles appearing in the local press. On March 24

⁴² President Rafael Leonidas Trujillo Molina.

there appeared on the front page of the newspaper *La Nación* of Ciudad Trujillo a repudiation of Communism signed by the Dominican Confederation of Labor which is the only labor organization in the Dominican Republic and is controlled by the Government. On March 26 the same newspaper gave equal prominence to a declaration by the Roman Catholic Archbishop of Santo Domingo⁴³ that the Dominican church is strongly opposed to Communism. The leader of the Dominican Confederation of Labor⁴⁴ expressed grave concern about the possibility of Communists seeking to enter the Dominican labor field and general concern over the dominance of the CTAL by Communists and fellow travelers. He was particularly interested in seeing the American Federation of Labor become active in the Latin American field. (See Embassy's despatch no. 874 of April 22, 1946.⁴⁵)

On April 10, 1946, the Dominican Department for Foreign Affairs addressed a note to the Embassy informing it that two American citizens, Raul S. Chardón and Julio Court were at the writing participating in Communist activities. The Embassy replied to this note requesting any details "which the Dominican Government may have regarding the membership of these individuals in the Communist Party or of their activities in assisting that party" but, although the Embassy's request for details was again brought to the attention of the Department of Foreign Affairs on April 29, no reply has yet been received. This case was discussed in the Embassy's despatch no. 864 of April 17, 1946.⁴⁵ Chardón has since determined to depart from the Dominican Republic and has been given an exit permit valid for ten days for departure by boat from La Romana although there are no boats traveling from there to Puerto Rico in that time. This exit permit bears the notation "Communist Agitator". The case of Chardón has been complicated by his participation in Dominican political affairs by writing letters to the newspapers endorsing the re-election of President Trujillo.

Although the Dominican Government established a Legation in Moscow in 1945 no hint of any immediate intention on the part of the Russian Government to reciprocate has been received. The Russian Government did, of course, send a representative to the Centennial Celebration of Dominican Independence in 1944.

⁴³ Archbishop Ricardo Pittini.

⁴⁴ Francisco Prats Ramírez.

⁴⁵ Not printed.

The present administration by its oppressive measures may be expected to keep the Dominican Republic free of any significant Communist penetration. However, the real danger from Communism in the Dominican Republic will materialize when President Trujillo falls from power. As the whole political life of the country is centered in the Dominican Party and as that party has no basic program other than the maintenance of Trujillo in power, his fall will probably bring about that political vacuum which is so favorable to the rapid growth of the Communist Party.

Respectfully yours,

GEORGE F. SCHERER

839.00/9-1846

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

CONFIDENTIAL
No. 1269

CIUDAD TRUJILLO, September 18, 1946.
[Received September 25.]

SIR: I have the honor to inform the Department that the Partido Socialista Popular held its first public meeting in Ciudad Trujillo on the evening of September 14, 1946. This party is avowedly a Communist organization, and was organized by Cuban and Dominican Communists. (See the Embassy's despatch no. 1214 of August 28, 1946 regarding the formation of the Party.⁴⁶) The meeting on September 14 was historic in the Dominican Republic in that it was the first meeting of an openly organized political party opposing the present regime since President Trujillo came into power in 1930.

[Here follows a report on speakers and reactions of the audience.]

Apparently most of the officials of the Dominican Government believe that a mistake has been made in bringing the Communists into the Dominican labor movement and feel that the Undersecretary of Labor, Ramón Marrero Aristy, is the person who sold President Trujillo the idea. The motives behind the organization of this Communist Party have become somewhat clearer. Apparently President Trujillo has decided that he must have political opposition in the Dominican Republic and that the previous attempts at a controlled opposition have been unconvincing. Therefore, the President is permitting a considerable freedom to a genuine opposition. He has chosen to give this freedom to the Communists since, to the outside world, the formation of a Communist Party will possibly appear as the extreme in liberality towards an opposition. Also, since only Communists are

⁴⁶ Not printed.

opposing him, the outside world may gain the impression that the liberal elements here find nothing objectionable in his government. With the Communist Party having a toe-hold in the Dominican Republic other elements here may feel it necessary to support President Trujillo in order to protect the country from Communism.

In February 1946 President Trujillo permitted a limited freedom of the press, but soon found press criticism not to his taste, and therefore he clamped down on the press. The question about which everyone here is speculating is "How long will President Trujillo tolerate opposition from a political party?" and the consensus is that it will not be for very long. In any case, the Communist organization constitutes no immediate danger to the Trujillo regime.

Respectfully yours,

GEORGE F. SCHERER

839.00/10-446

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

CONFIDENTIAL
No. 46

CIUDAD TRUJILLO, October 4, 1946.
[Received October 21.]

SIR: With reference to the Department's confidential instruction no. 2 of September 25, 1946 and the Embassy's despatch no. 1176 of August 18 [13]⁴⁸ relative to the sponsored introduction of Communism into the Dominican Republic, I have the honor to report that President Trujillo already appears to have reversed his position of favoring the presence of the Communist Party in the Republic. Even sponsored opposition appears too strong a dose for the Dictator, particularly since he feels that it may get out of hand. As a result his ardor toward the Communists has cooled rapidly; his press is attacking Communism in general; his political party is instructing members to be on the alert against it, and his henchmen have started molesting individuals, in the press and personally.

[Here follows a series of illustrations of the Dominican Government's attitude toward Communists.]

My views on abstaining from local politics and on receiving persons freely who wish to consult me may be having a favorable effect since they provide another indication that the Embassy is not inclined to play hand in glove with Trujillo.

Respectfully yours,

GEORGE H. BUTLER

⁴⁸ Neither printed.

839.00B/10-2746 : Telegram

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

CONFIDENTIAL

CIUDAD TRUJILLO, October 27, 1946—9 p. m.

[Received October 28—2:07 a. m.]

344. Communist Party meeting Saturday night⁴⁹ dispersed with resulting injuries several participants. At least one death reported. Demonstrations later at US and Mexican Embassies, Cuban Legation and other diplomatic missions.

Crowd several hundred outside residence and chancery about 10:30 last night. I paid no attention for about an hour so as to obviate any charge of sympathy for opposition. I did not attempt to communicate with Dominican authorities since that might have been used as excuse to get rough with demonstrators.

Guard at chancery had telephoned Third Secretary Owen who came to residence about 11:15 to ask if anything to be done. Owen and I went to chancery. Military Attaché⁵⁰ came in about same time. Group of about 20 demonstrators were inside office. In reply my question what wanted the Communist leader Grullon said they were there to inform me that pro-democratic meeting had been violently broken up by Govt. I answered with substantial show temper that I was in my office every day, that he or anyone else could see me without coming in Embassy at midnight, that the Embassy was not going to be drawn into internal political affairs on one side or the other, that he knew very well the US policy re non-intervention and not granting asylum, and I asked the group to leave. They did so quietly although Grullon made sarcastic remarks along regular Communist line. I told him he could see me Monday if as he claimed he only wanted to inform me about events. He said he would come. Demonstration orderly and limited usual speeches, calls and songs.

Situation quiet so far today. McArdle⁵¹ and Military Attaché are of opinion in which I concur that present opposition to Trujillo may become most serious he has faced. Rank and file do not know difference between democracy and Communism. Communist leaders do and of course capitalize on hunger and misery of masses. It is not to our national interests to support Trujillo against Communist-led popular opposition nor to encourage latter to overthrow Trujillo. Only practical course action seems absolute non-intervention and constant effort to make it understood that real democracy as understood

⁴⁹ October 26.⁵⁰ Maj. Miguel J. Montesinos.⁵¹ Robert J. McArdle, senior economic analyst.

in US is opposed to extremes of both Right and Left. Dismal prospect of overthrow of Trujillo is that of only a change in type of dictatorial govt.

BUTLER

738.39/11-846

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

SECRET
No. 173

CIUDAD TRUJILLO, November 8, 1946.
[Received November 14.]

SIR: I have the honor to report that Mr. Charles C. Hauch of the Division of Caribbean Affairs and I called on the Secretary of State for Foreign Affairs of the Dominican Republic⁵² the afternoon of November 6. . . .

[Here follow statements by the Ambassador on the program which Mr. Hauch was to follow during his visit in the Dominican Republic, and a discussion of Dominican-Haitian relations.]

The Foreign Minister then spent some time in describing the dangers of Communism in Latin America. He expressed the fear that the United States would be as unprepared for a possible future war as it was for the recent war. He said that in case of trouble between Russia and the United States the Communists in Latin America would be so well organized that they would constitute a serious threat. Mr. Peña then expressed great pessimism about the world situation today. He reminded us that he had attended both the Mexico City and San Francisco Conferences.⁵³ He claimed that the Latin American countries are confused and uncertain about the foreign policy of the United States. He thinks that "the Pan-American System was torpedoed at the San Francisco Conference". Although he admitted that no agreement at San Francisco would have been possible without acceptance of the veto power, he thinks that Russia and Great Britain are the two powers which have benefited from the organization of the United Nations. He fears that the strong support of the United States for the United Nations—as well as recent Republican political victories—mean a return by the United States to the Monroe Doctrine and the consequent destruction of the inter-American system. Finally, Mr. Peña expressed great pessimism about democracy. He says that liberal elements in Great Britain and the United States, and the Catholic Church, are fighting a losing battle against world Communism. He professed to have doubts about whether the younger gen-

⁵² Manuel Arturo Peña Batlle.

⁵³ For documentation on the Conference at Mexico City, February 21-March 8, 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.; for documentation on the Conference at San Francisco, April 25-June 26, 1945, see *ibid.*, vol. i, pp. 1 ff.

eration in the United States, in view of strong and insidious Communist propaganda, would remain loyal to the democratic tradition of America.

In reply to this diatribe, I reminded Mr. Peña that the Charter of the United Nations makes provision for effective regional organizations to support the world organization. I expressed the opinion that the inter-American system could be maintained and strengthened if the American republics decide to develop it on the democratic principles which are the foundation of the system. I expressed the opinion that the recent elections in the United States would not result in any fundamental change in United States foreign policy, reminding the Foreign Minister that our foreign policy for some time has had bipartisan support. I told the Foreign Minister that while the world situation today is a difficult and discouraging one, I could not share his extreme pessimism because I still believed, as I thought the American peoples in general believed, that liberal democracy is a vital force capable of meeting the various "isms".

My personal opinion is that Mr. Peña has had an opportunity to discuss these questions with many Latin American statesmen at Mexico City and San Francisco, that some of his views may well reflect a rather strong current of official Latin American opinion; but that an important factor also may be an effort on the part of the Trujillo government to make a case for United States-Dominican cooperation in a fight against the alleged critical danger of Communism.

Respectfully yours,

GEORGE H. BUTLER

839.00/12-1846 : Telegram

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

SECRET

CIUDAD TRUJILLO, December 18, 1946—4 p. m.

[Received December 19—6 a. m.]

397. Foreign Minister asked me to call again last evening to tell me of reports from Dominican Embassy Washington, apparently not given to Department, to effect that Dominican political exiles with encouragement from Cuban Communist Party are planning labor disturbances in the Dominican Republic about December 24.⁵⁴ . . .

⁵⁴ The Dominican Ambassador (García Godoy) called on the Director of the Office of American Republic Affairs (Briggs), December 24, to leave with the Department a memorandum concerning reports on this subject. According to the memorandum of conversation, December 24, Mr. Briggs stated again, what was already known by the Ambassador, i.e., that the policy of the United States was to allow no political movement involving force to be launched from the United States against the government of a friendly state. He added that beyond this well-known policy, there was also the law which forbade such activities. (839.00B/12-2446)

Foreign Minister stated that Dominican Government would not tolerate Communist activities and would take necessary measures to prevent them. I expressed following views:

A. I was sure that US shares the concern of many of the American Governments about illegal Communist activities and about the campaign against the democratic system of the Americas now being carried on by Communists;

B. That I was sure opinion in the US would react unfavorably to any general repressive measures against the political opposition to the Trujillo Government, to which the Foreign Minister replied that he understood the US position regarding non-intervention;

C. That I believed any measures against labor in general would play into Communist hands, to which Foreign Minister replied that no such measures are contemplated and that Dominican Government action would only be to control Communist leaders who seek to disturb public order through labor agitation.

Sent Department as 397; repeated to Habana.

BUTLER

DISCUSSIONS REGARDING UNITED STATES-DOMINICAN TREATY OBLIGATIONS WITH RESPECT TO CLAIMS AND TRADE RELATIONS

[*Claims*: On January 9, 1946, the Foreign Office of the Dominican Republic addressed a note to the American Embassy indicating that that Government had made payment of the final balance of all bona fide American claims in accordance with the Hull-Trujillo Convention signed at Washington on September 24, 1940 (Department of State Treaty Series No. 965; 55 Stat. (pt. 2) 1114). The Dominican Government rejected the contention of the United States Government that, under the exchange of notes at the time of the Hull-Trujillo Convention, the Dominican Government should continue to set aside the sum of \$125,000.00 annually until all bona fide claims of American nationals had been liquidated. The Dominican Government maintained that only those claims approved for payment at the time of the exchange of notes and those known to the Government at that time, although not then approved, were comprehended under the terms of the exchange and that all such claims had been liquidated; the United States Government maintained that certain claims known to the Dominican Government at the time of the exchange and subsequently approved for payment remained outstanding. The Dominican Government did not include the \$125,000 item in the 1946 budget for bona fide claims payments.

In response to the Secretary's inquiry of December 9, Ambassador George H. Butler noted in despatch 275, December 12, 1946, that it

was reasonable to anticipate (in the event that the annual appropriations were not continued) that approved claims would be paid by specific appropriations or by allotments from specially appropriated funds, and the Embassy knew of no reason why existing procedures of submitting claims to the Dominican Claims Commission should not be continued (439.11/12-1246).

Trade Relations: The most-favored-nation commitment in the Agreement of September 25, 1924, between the United States and the Dominican Republic (*Foreign Relations*, 1924, volume 1, pages 666-670) was explicitly contingent upon the ability of either party to discharge the obligation under domestic legislation not inconsistent therewith. The Philippine Trade Act approved April 30, 1946 (Public Law No. 371, 79th Congress) clearly precluded the discharge of the obligation on the part of the United States by requiring that preferential tariff treatment prescribed for products of the Republic of the Philippines "shall not, by reason of any . . . existing . . . agreement with any third country, be extended to such country, or its products, citizens, or subjects." The Department in its note of May 4, 1946, to the Dominican Embassy, proposed a prospective agreement that the 1924 Agreement "shall not be understood to require the extension to the Dominican Republic of advantages accorded by the United States to the Philippines." The Dominican Embassy in its note of October 7, 1946, accepted the Department's proposal. For texts of the exchange of notes by the United States and the Dominican Republic on May 4 and October 7, 1946, on trade relations with the Philippines, see Department of State, *Treaties and Other International Acts Series No. 1572*, or 61 Stat. (pt. 3) 2441.]

ECUADOR

NEGOTIATIONS CONCERNING UNITED STATES BASES ON ECUADORAN TERRITORY AND OTHER DEFENSE PROBLEMS¹

811.24522/1-446

*Memorandum by Mr. Henry Dearborn of the Division of North and West Coast Affairs*²

SECRET

[WASHINGTON,] January 4, 1946.

This afternoon I attended for a short time the State-War-Navy Coordinating Committee meeting in Mr. Dunn's³ office. During the time that I was there the Committee was considering the recommendation of its subcommittee on Latin America that the State Department be authorized to negotiate with Ecuador for joint rights in a Galápagos Base, paying maintenance costs as a maximum. The War Department made two recommendations which were accepted:

1. that the State Department should conduct negotiations within the maximum desired (exclusive rights) and the minimum acceptable (joint rights) as outlined by the Joint Chiefs of Staff in JCS 570/40.⁴
2. that to the extent that the State Department offers in return for those rights the payment by this Government of the cost of maintenance of United States facilities, such offer should be restricted to such maintenance as the United States considers necessary for the security of the Galápagos Islands and/or the United States.

The reason for the second recommendation was that the War Department feared that the Ecuadorans might try to have us engage in building projects not of any interest to us.

I took the opportunity to tell the Committee that in view of the vast difference between the twenty million dollars which the Ecuadorans expect for our continued presence in the Galápagos and the payment we were about to offer them, we should be prepared for anything as soon as we make this offer, including an official request that we depart. I pointed out that Galo Plaza⁵ had told us not to bother to tell him if we were going to offer "chickenfeed" and that the Ecuadoran President⁶ was recently reported to favor leaving us in the Base

¹ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1007-1036.

² Addressed to NWC: Mr. Flack, and to ARA: Mr. Briggs.

³ James Clement Dunn, Assistant Secretary of State.

⁴ Not printed.

⁵ Ecuadoran Ambassador in the United States.

⁶ José María Velasco Ibaña.

without agreement, with all that this implied, if we were not prepared to pay a substantial amount. I went on to explain that Ecuador was a poverty stricken country which had long counted on money received as rental on the Galápagos to pull it out of its economic doldrums and that the Ecuadorans expect to amortize a large (\$20,000,000) Exim-bank loan with the proceeds of what we pay them for the use of a Galápagos Base. In view of this background, I reiterated, we should not be surprised if the Ecuadorans refuse to talk further about permitting us to use a Base or if they ask us to withdraw from the one we now operate.

822.248/1-1746 : Telegram

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

SECRET

WASHINGTON, January 17, 1946—7 p. m.

15. In conversation January 8, Assistant Secretary Braden agreed with General Arnold⁷ to approve interim allocation of aircraft to armed forces of Ecuador as follows: 2 PBY's, 15 P-47's, 4 C-47's, 6 C-45's.⁸ Because certain of these types of planes are now in short supply, it may be necessary to substitute other types for them.

Approval of this interim allocation is subject to your concurrence and subsequently to views of Ecuadoran Govt should it not wish to receive full number approved by you.

It was further understood that any "implied commitment" on the delivery of planes to other American republics resulting from staff conversations will be discharged when planes in interim allocation are made available. No further allocations of military planes to other American republics will be made until State and War Depts review and agree on basic policies of program of military collaboration.

No decision as to exact price for planes has as yet been made, but military planes will probably be made available at low figure, and prices will be same to all countries.

Please telegraph Dept whether you approve allocations mentioned above.⁹ Although you will no doubt wish to consult U.S. military air officers, your decision should, of course, take political and economic factors into account.

⁷ Gen. Henry H. Arnold, Commanding General, Army Air Forces.

⁸ The PBY's and P-47's were patrol and dive bombers and the C-47's and C-45's were transport planes.

⁹ In telegram 38, January 22, 1946, 5 p. m., Ambassador Scotten advised the Department of the desirability of supplying the aircraft indicated here and of the harmless character of the planes with respect to neighboring countries. (822.248/1-2246)

The foregoing information is not to be disclosed to Ecuadoran officials. For your information questions of procedure on disposal of planes are still to be worked out. Dept will inform you as soon as ground and air force equipment can be made available.

ACHESON

811.24522/1-1746

Memorandum by Mr. Henry Dearborn of the Division of North and West Coast Affairs

SECRET

[WASHINGTON,] January 17, 1946.

The following is the procedure which the Department of State will follow with regard to the Galápagos Base negotiations:

1. Mr. Acheson will, as soon as possible, arrange a meeting with the Secretaries of War and Navy, who will be accompanied by officers of those Departments fully acquainted with the Galápagos question. It will be explained to them that, since those Departments have informed us of their inability to give us a figure representing the value of the Galápagos Base to the United States, we are prepared to propose to the Ecuadorans the minimum objective set forth in the recent secret communication received from the Joint Chiefs of Staff—joint use by Ecuador and the United States of a Galápagos Base. For this use we will, as authorized by SWNCC, offer Ecuador as a maximum remuneration, the maintenance costs of the Base. It will be explained that in our opinion this may not be acceptable to the Ecuadorans and may result in a request for the withdrawal of the American forces altogether. The purpose of this meeting will be to place the Secretaries of War and Navy clearly on record as endorsing the action recommended to the State Department by SWNCC.

2. An immediate examination will be undertaken with Mr. Wayne Taylor, President of the Export-Import Bank, to determine whether there are now before the Bank any projects which merit early execution. If there are such projects (for example the H.T. Smith application for a three million dollar loan to finance municipal waterworks projects), the State Department will recommend to the Bank that they be favorably considered.¹⁰

3. The Ecuadoran Ambassador will be informed that the Eximbank stands ready to give favorable consideration to extending credit to Ecuador for the construction, in order of their importance to the economy of Ecuador, of all those projects duly recommended by the firm conducting the million dollar survey referred to in the *Aide-Mémoire* signed in Quito by representatives of Ecuador and the United States on September 1, 1945¹¹—provided that these projects shall be considered economically sound and commercially feasible by the Eximbank and the Ecuadoran Government; the credit extended therefore

¹⁰ For documentation on proposals for the economic development of Ecuador, see pp. 873 ff.

¹¹ Not printed, but see telegram 657, August 28, 1945, from Quito, and subsequent documents, *Foreign Relations*, 1945, vol. ix, pp. 1018 ff.

shall be secured by such guarantees as the Eximbank may require. If Mr. Taylor names any projects meriting early execution the Ambassador will be so informed.

4. The Ecuadoran Ambassador will be requested to receive authorization from his Government to modify the text of clause 5 of the *Aide-Mémoire* of September 1, 1945, to read as follows in view of the recent separation of the loan and the Galápagos Base matters.

"It is understood that any credit extended by the Export-Import Bank shall be secured by such guarantees as the Export-Import Bank may require. These funds are to be made available on such terms and conditions as may then be mutually satisfactory."

5. Finally, the Ecuadoran Ambassador will be informed of our proposal that the Ecuadorans permit us to use the Galápagos Base jointly with them in return for our paying the maintenance costs of the Base.

Steps 3, 4 and 5 will be undertaken in the same conversation with the Ecuadoran Ambassador but this conversation should not take place until the procedure outlined in this memorandum has been cleared with the War and Navy Departments and the Exim-Bank.

811.25422/1-3046

Memorandum of Telephone Conversation, by Mr. Henry Dearborn of the Division of North and West Coast Affairs

[WASHINGTON,] January 30, 1946.

Participants: Ambassador Robert M. Scotten, American Embassy, Quito

Mr. Joseph Flack—NWC

Mr. Henry Dearborn—NWC

Mr. Flack telephoned to Ambassador Scotten at Quito this morning and informed him that the Secretary of State had sent a letter to Mr. McCabe, Foreign Liquidation Commissioner, instructing him to turn over all that property at Salinas which the War Department had declared surplus to the Commission. Mr. Flack read the pertinent part of this letter and told the Ambassador that this had been quoted by telegram to the Foreign Liquidation Commission's representative in Panama, whom Mr. McCabe directed last night to follow out this instruction. Ambassador Scotten replied that he was delighted with this news since he had been very much worried by the possibility that the ceremony at Salinas on February 1 might become involved in all sorts of complications.

Mr. Dearborn told Ambassador Scotten that he had nothing to worry about since the Secretary's letter to Mr. McCabe was in the nature of a directive and since Mr. McCabe had already instructed his man in Panama to turn over to Ecuador all that property declared surplus by the War Department.

Ambassador Scotten said that he was sending a telegram this morning with respect to an editorial by Drew Pearson regarding the Galápagos; the article was quoted in Quito newspapers, but the public "reaction" had not yet been determined.

Ambassador Scotten asked Mr. Dearborn to do all he could to get action from FP with respect to the employment of Mr. Godoy as a telephone technician in the Embassy.

811.24522/2-246 : Telegram

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

RESTRICTED

QUITO, February 2, 1946—11 a. m.

[Received 6:25 p. m.]

56. Shaw¹² and I attended the ceremony of the turning over of the base at Salinas yesterday to the Ecuadoran authorities. General Crittenberger,¹³ two general officers and an Admiral from the Canal Zone as well as the Ecuadoran Minister of Defense,¹⁴ many high Ecuadoran officials and a representative from the Foreign Office were present. The ceremony went off smoothly and the Minister for Defense expressed very clearly the appreciation of his Govt for the reception of all the equipment on the base. A luncheon followed for General Crittenberger at which he and General Homer¹⁵ received decorations from the Ecuadoran Govt. We took to Salinas the press representative of IIS [*INS?*] who flew back a detailed account of the ceremony and an excellent photographic record. Both the photographs and news account are published in all the Quito newspapers of this morning and I feel that this turnover has been given adequate and very favorable publicity from our point of view.

SCOTTEN

811.24522/2-1146

The Secretary of State to the Secretary of War (Patterson)

SECRET

WASHINGTON, February 11, 1946.

MY DEAR MR. SECRETARY: Confirming the conversation which I had with you and the Secretary of the Navy¹⁶ on February 6, 1946, with reference to the Galápagos Base, the State Department will be

¹² George P. Shaw, Counselor of Embassy.

¹³ Lt. Gen. Willis D. Crittenberger, Commanding General, Caribbean Defense Command.

¹⁴ Col. Carlos Macheno.

¹⁵ Maj. Gen. John L. Homer, Deputy Commander, Panama Canal Department.

¹⁶ James Forrestal.

glad to put forth its best efforts to obtain the rights desired from Ecuador. In undertaking these negotiations, I am however of the opinion that in as much as neither the War nor the Navy Department is prepared at this time to set a figure for the proposed lease, such negotiations would have little chance of success unless the Army has first dismantled the Base and withdrawn from it. I believe that orders to that effect should accordingly be given at once, and further that we should carefully refrain from any further indication to the Ecuadoran Government that we desire future rights, or have any expectation of returning. We can then, at the appropriate and opportune moment, approach the Ecuadoran Government with a clean slate. (It is of course possible that upon being informed of our intention to withdraw, the Ecuadoran Government may approach us. Such an approach should find us in a better negotiating position than we have at present.)

The State Department is naturally not in a position to guarantee that its negotiations will be successful. We have no long-term rights in the Galápagos at the present time, and the Ecuadorans have made it clear on many occasions that they will not consider a sale or cession. We are limited therefore to the possibility of obtaining a lease, preferably for exclusive use according to the Joint Chiefs of Staff, although it should be recognized that it may be necessary to accept a compromise arrangement providing for joint United States and Ecuadoran use.

It will be recalled that while we went into the Galápagos at the suggestion of the Ecuadoran Government, we are there now only on a wartime basis under no other agreement than the general cooperative one between Ecuador and the United States of February 2, 1942.¹⁷ The termination clause of this agreement states that it shall remain in force "for the period of the present emergency and may continue thereafter, if, in the opinion of the two Governments, there still exists the danger of aggression by a non-American power against an American power". As you are aware, a draft agreement for long-term lease rights was negotiated with Ecuador during 1944-1945, along generally promising lines except that it lacked the all-important item of the amount to be paid for the lease. Efforts were made by the State Department to obtain a figure from the War and Navy Departments on the theory, with which I agree, that since our desire to have a Galápagos Base responds exclusively to considerations of national defense, those Departments are the ones to estimate the value of such a Base in terms of national defense. The War and Navy Depart-

¹⁷ See *Foreign Relations*, 1942, vol. VI, p. 365, footnote 13.

ments have stated that they are unable to set a figure. The State Department, as indicated at the beginning of this letter, does not believe that any useful purpose would be served by attempting to resume negotiations without one.

There remains the possibility of negotiating after our departure from the Base, and this, as already stated, I shall be happy to undertake at the first opportune moment, bearing in mind that the views of the Ecuadoran Government in the premises may undergo a change upon the receipt of notification of our intention to depart.

A copy of my proposed note to the Ecuadoran Ambassador is enclosed for your information.¹⁸

I am sending a copy of this letter to the Secretary of the Navy.

Sincerely yours,

JAMES F. BYRNES

811.24522/2-1146

The Secretary of State to the Secretary of War (Patterson)

WASHINGTON, February 11, 1946.

MY DEAR MR. SECRETARY: On December 3, 1945 this Department, in consultation with the War Department, drafted a telegram¹⁹ instructing the American Ambassador at Quito to inform the Ecuadoran Foreign Minister²⁰ that this Government desired to reach an agreement with Ecuador giving the United States transit rights and rights of technical stop for its service aircraft at Salinas. These rights were to be granted on a reciprocal basis—that is, Ecuadoran military aircraft would have the same rights at bases in continental United States, Puerto Rico and the Virgin Islands as our military aircraft would have at Salinas. The Ecuadoran Foreign Minister on December 4, 1945, orally expressed himself to the American Ambassador as being in complete accord with the points covered in the Department's telegram of December 3 and in a note dated December 8, 1945,²¹ the Minister stated that his Government was disposed to study an agreement such as that sought by the United States as soon as the Salinas Base should be returned to Ecuador.

As you are aware, the Salinas Base was turned over to Ecuador on February 1st, 1946. This Department is now prepared to initiate an exchange of notes with the Government of Ecuador toward obtaining the desired rights. Before doing so, however, I should appreciate receiving a memorandum from you suggesting any particular language

¹⁸ Not printed.

¹⁹ For telegram of December 3, 1945, see *Foreign Relations*, 1945, vol. ix, p. 1031.

²⁰ José Vicente Trujillo.

²¹ Letter not printed.

which you may wish to have incorporated into this Department's note—within the limitations of the Department's previously mentioned telegram of December 3, 1945 to our Ambassador at Quito. I understand that the War Department has a copy of this telegram.

Sincerely yours,

For the Secretary of State:
SPRUILLE BRADEN

811.24522/2-1146

*Memorandum of Conversation, by Mr. Henry Dearborn of the Division
of North and West Coast Affairs*

SECRET

[WASHINGTON,] February 11, 1946.

Participants: Mr. Spruille Braden
Ambassador Galo Plaza
Mr. Henry Dearborn (NWC)

Ambassador Galo Plaza, at his request, called on Mr. Braden this afternoon, principally for the purpose of discussing the Galápagos Base. The Ambassador stated that since the United States turned Salinas over to Ecuador press editorials had appeared in Quito which indicated that Ecuadoran views with respect to permitting the United States to maintain a Galápagos Base were changing. He said that opinion was becoming more favorable and that some sources were even suggesting that the United States be permitted to have the use of a Galápagos Base free of charge. Referring to the State Department's "commitments", the Ambassador stated that he believed that the Department might be able to "get around them". He suggested that if no remuneration were paid for the Base perhaps the United States, through the Eximbank, could, in extending Ecuador a loan which should be repaid, make the terms such that Ecuador could begin payment after that country got "on its feet." To Mr. Braden's statement that he understood that Ecuador wanted the United States to legalize its use of the Base or withdraw immediately, the Ambassador replied forcibly that he wanted to make it very clear that his Government did not want the United States to withdraw from the Galápagos but merely desired that the Base there be legalized.

Mr. Braden thanked the Ambassador and said he greatly appreciated this cooperative attitude. He said that although he had been pressing the War and Navy Departments for some statement on the price we would pay for the Galápagos Base, he had not received a satisfactory reply. Mr. Braden stated that he was going to New York within a day or two and that he would take the matter up again upon his return. When Ambassador Plaza suggested that sub-

stantial agreement had already been reached on a draft treaty, Mr. Braden replied that he understood there were some difficulties yet to be ironed out. Mr. Dearborn mentioned as two such matters the paragraph inserted by the Ecuadorans to the effect that if the United States ever had to declare Galápagos waters a military zone and curtail fishing there, the United States would pay to Ecuador those funds which Ecuador would have received had normal fishing activities continued. He suggested that another objection was to an article added by the Ecuadorans for the settlement of disagreements arising under the treaty; this article arranged for bringing in a third party. Mr. Braden then suggested that Mr. Wright,²² Mr. Dearborn and the Ambassador talk the treaty over within the next few days to see if points of disagreement could not be taken care of.

Upon his departure the Ambassador left three press clippings from Quito newspapers for the Department's information regarding the latest Ecuadoran views on the Galápagos Base. He asked that they be returned to him.

822.248/2-1946: Telegram

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

SECRET

QUITO, February 19, 1946—7 p. m.
[Received February 20—12:04 p. m.]

97. Lt. Colonel Mitchell and Major Brown of US Army Air Forces are here at present discussing in general terms the public relations phases of the program of implementation of the bilateral staff conversations so far as deliveries of aircraft to Ecuador and other countries are concerned. In the course of the discussions it developed that Colombia has received a few airplanes and Peru is about to receive some whereas Ecuador has received none. The Department is, of course, aware of the permanent tension between Ecuador and Peru and I feel I should stress the bad feeling which would be caused in Ecuador if news is received that Peru is receiving these planes prior to any being delivered to Ecuador.

To avoid this feeling I would suggest that the Department stress to the War Department the political implications of any unequal distribution with the view to having the deliveries of these planes proceed at least as regards Ecuador and Peru on a fairly uniform schedule.

SCOTTEN

²² James H. Wright, Special Assistant to the Assistant Secretary of State for American Republic Affairs.

811.24522/2-2646

*Memorandum of Conversation, by Mr. Henry Dearborn of the
Division of North and West Coast Affairs*

SECRET

[WASHINGTON,] February 26, 1946.

Participants: Ambassador Plaza, Ambassador of Ecuador
Mr. Braden
Mr. Wright
Mr. Briggs
Mr. Flack
Mr. Dearborn

A meeting was held in Mr. Braden's office this afternoon to discuss our financial policy toward Ecuador and the Galápagos Base question. Ambassador Plaza was present, at Mr. Braden's request, for part of the time.

Upon Ambassador Plaza's arrival Mr. Braden outlined the Department's position with respect to the Galápagos in effect as follows: The Department understood that Ecuador desired the United States to regularize its use of the Base or withdraw entirely. A treaty had already been drafted which required some changes, all of which the Ambassador regarded as minor ones which could easily be ironed out. We were still trying to get a definite statement from War and Navy as to the amount they would be willing to agree to, but we had not yet received a satisfactory reply.²³ The Department would appreciate being informed by the Ambassador whether we might obtain the Base if we agreed to pay maintenance costs, and what terms he thought Ecuador would accept as a final arrangement. Finally, Mr. Braden said he wished to emphasize that, whether we continued to use a Galápagos Base or not, the Department desired to help Ecuador economically, and would go to bat to do so.

Ambassador Plaza stated that he wanted to make it clear that Ecuador did not wish the United States to maintain a base in the Galápagos unless it was considered indispensable by our armed forces. The idea was not popular in Ecuador, and in no case would his government consider granting us long-term rights for less than \$20,000,000, a sum which had become fixed in the minds of Ecuadorans, owing to a series of circumstances over the past year and a half. The Ambassador emphasized that Ecuador had permitted the United States to use the Base in its hour of need on a war basis only, that negotiations for long-term rights were begun by the United States, and that the

²³ The Secretary of State informed the Secretary of War in a letter of March 1, 1946, that Ecuador would be receptive only to a long-term lease and a payment of 20 million dollars; otherwise the base should be evacuated (811.24522/2-1146).

United States was the first to suggest paying Ecuador compensation when in October 1944 Mr. Armour²⁴ mentioned it to the Ambassador himself. (Mr. Braden interjected that our record showed that it was Ecuador which first asked the United States, two days after Pearl Harbor, to defend the Galápagos. The Ambassador recognized this, but said he referred to our having begun the long-term negotiations. Mr. Dearborn pointed out that the current negotiations actually began in Quito in the summer of 1944, and that the first mention of compensation had come, not from Mr. Armour, but from the Ecuadoran Foreign Minister, Dr. Ponce,²⁵ who had indicated to Ambassador Scotten that Ecuador would be willing to grant the United States long-term rights in the Galápagos, but that some form of compensation would be necessary in order to gain public support. The Ambassador said that he did not know about this statement of the Foreign Minister.)

The Ambassador went on to explain why he believed the United States was committed to pay Ecuador \$20,000,000 for the use of the base. He mentioned the Estrada Mission,²⁶ Mr. Armour's offer of compensation, his own talks with Mr. Nelson Rockefeller²⁷ and Mr. Avra Warren,²⁸ which he said revolved around \$20,000,000, Mr. Rockefeller's letter which actually mentioned this sum, and finally the *aide-mémoire* of September 1, 1945,²⁹ which spoke clearly of a million dollar survey paving the way for later projects, the interest and amortization on which should be partly guaranteed by the sum paid by us for the Galápagos. The Ambassador elaborated that, though the *aide-mémoire* itself did not mention \$20,000,000, it could scarcely be supposed that the million dollar survey would be applied to projects valued at anything as low as four or five million. There was general agreement on this among those present.

Thereupon, the Ambassador went into a discussion of the Ecuadoran Development Corporation.³⁰ His main point was that the \$5,000,000, which the Eximbank had loaned to Ecuador for its economic development, had been dissipated so that now, while Ecuador owed this amount to the United States, that country had practically nothing to show for the expenditure. He said that a good part of the loan was spent to promote the rubber and cinchona programs of the United

²⁴ Norman Armour in 1944 was Director of the Office of American Republic Affairs.

²⁵ Camilo Ponce Enrique.

²⁶ Victor Emilio Estrada, as a personal representative of the Ecuadoran President, carried on discussions in Washington on economic and financial matters in the summer of 1944.

²⁷ Assistant Secretary of State for American Republic Affairs, December 1944 to August 1945.

²⁸ Director of the Office of American Republic Affairs, December 1944 to October 1945.

²⁹ See footnote 11, p. 838.

³⁰ For documentation on economic development projects, see pp. 873 ff.

States in obtaining raw materials for the war and to finance the construction of the Manta-Quevedo Highway, the costliness of which was scandalous. Those present agreed that the Development Corporation had not been a success, that the \$5,000,000 had not been economically used, that it had not been devoted solely to the benefit of Ecuador, and that the United States was at least fifty per cent to blame for the poor showing made by the Corporation. Mr. Braden said he would like to see an analysis of what the Development Corporation loan had been spent for with a view to determining how much of it really went toward the economic development of the country, how much went toward the prosecution of the war, and whether any was dissipated through waste and extravagance.

Ambassador Plaza then suggested as an idea of his own, which he had not discussed with his government, that, if the United States did not wish to pay a lump sum for the base, it might arrange to make a very long term loan to Ecuador on which payment would not begin for four or five years. This would permit the country to get on its feet economically before being burdened with servicing the debt. He assumed that this Government would have to get Congressional authorization to make such a loan. A discussion ensued whether it would be better psychologically, to go to Congress for a direct payment of \$20,000,000, or to go to Congress for an authorization to extend a loan to Ecuador such as that mentioned by the Ambassador. Mr. Braden thought the former approach would be more likely to succeed, while Mr. Wright thought (he stated after the Ambassador left) that the loan approach might help to circumvent the objection that we could not pay \$20,000,000 for the Galápagos, since we were not in a position to offer a similar remuneration for other comparable bases desired by us. No definite decision was made as to which course should be followed.

Mr. Dearborn asked the Ambassador's opinion as to whether the \$4,000,000 commitment of the Eximbank to build a waterworks in Quito might not be used to take care of the \$3,000,000 loan being sought with the support of the Ecuadoran Government by Mr. H. T. Smith, to install waterworks in 15 to 20 Ecuadoran municipalities. Mr. Braden recalled that Quito was installing a waterworks without recourse to an Eximbank loan, and observed that the Smith project would benefit many parts of the country. The Ambassador replied that, while it was true that Quito had not attempted to avail itself of this credit, it had immediate plans to draw on the commitment to construct waterworks in sections of Quito not to be reached by present construction. He added, however, that Quito would not require the whole \$4,000,000 and that some such country-wide project as Smith's might well use the remainder.

Following the departure of Ambassador Plaza, it was agreed that letters should immediately be sent to the Secretaries of War and Navy, informing them that Ecuador would not permit us to maintain a Galápagos Base for less than \$20,000,000, and asking them what course they wished us to pursue. When a reply should be received we would be in a position to take up our financial policy toward Ecuador with the Eximbank.

811.24522/2-1146

The Secretary of State to the Secretary of War (Patterson)

SECRET

WASHINGTON, March 1, 1946.

DEAR MR. SECRETARY: I refer to my letter to you of today's date ³¹ in regard to negotiations between the United States and Ecuador concerning the Galápagos Base. In considering the attitude which the War and Navy Departments will take in regard to the Galápagos negotiations, I am sure that you and Secretary Forrestal will bear in mind the effect of your decision on other negotiations. It is clear to me that the precedent set with Ecuador will have a bearing on our negotiations with other countries for the base rights set forth in the recommendations of the Joint Chiefs of Staff for base rights in numerous other places.

From the negotiating standpoint in obtaining base rights, the State Department's problem is this: If we pay Ecuador twenty million dollars for base rights, is there enough money in Fort Knox to enable us to obtain the base rights elsewhere which have been requested by the Joint Chiefs of Staff. In no other negotiations thus far undertaken has money been requested or offered. It is only fair to add, however, that we are just really getting under way in the negotiations and financial considerations may well be raised elsewhere even if it should be decided to withdraw our forces from Ecuador and to suspend negotiations there.

A copy of this letter is being sent to the Secretary of the Navy.

Sincerely yours,

JAMES F. BYRNES

822.248/3-646 : Telegram

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

SECRET

QUITO, March 6, 1946—2 p. m.

[Received 6:20 p. m.]

128. The Minister of the Interior ³² in conversation with our Naval Attaché ³³ a few days ago expressed considerable bitterness at the long

³¹ Not printed.

³² Carlos Guevara Moreno.

³³ Comdr. Daniel J. Clinton.

delay in receiving airplanes from the US. He stated he had seen pictures indicating that large numbers of American airplanes were being scrapped and dumped into the ocean. He added that the Ecuadorian pilots, many of whom had been trained in the US, are now flying antiquated training planes at considerable personal risk. He stated that these pilots are complaining that due to lack of airplanes, they are unable to maintain their flying proficiency. He added that unless Ecuador actually receives some airplanes by the end of March, Ecuador will realize that it cannot expect any planes and will "wash its hands of the whole business and demand its territory back".³⁴

Although he did not elaborate on this statement, the Naval Attaché assumes he was referring to our base in the Galápagos.

SCOTTEN

811.24522/3-2146

The Secretary of War (Patterson) and the Secretary of the Navy (Forrestal) to the Secretary of State

SECRET

WASHINGTON, March 21, 1946.

DEAR MR. SECRETARY: With reference to your two letters of 1 March 1946 relative to United States military bases in the Galápagos Islands, we agree that the precedent set with Ecuador will have a definite effect on the negotiations with other countries for the base rights recommended by the Joint Chiefs of Staff. Aside from the financial issue, withdrawal from the Galápagos may furnish likely excuse to other small nations such as Iceland, Portugal and Denmark to force the United States to withdraw its troops from Iceland, the Azores and Greenland. These three locations are on lines of communication required to support occupational forces and have been classified by the Joint Chiefs of Staff as essential to the military security of the United States.

Before implementing either of the two alternatives proposed in your letter, an overall examination of all the measures of military collaboration between the United States and Ecuador seems appropriate. Briefly, these are as follows:

a. The Government of Ecuador, along with the United States and the other American Republics, signed the Act of Chapultepec³⁵ providing for hemispheric solidarity and military collaboration to prevent

³⁴ In telegram 90, March 12, 1946, 1 p. m., to Quito, the Acting Secretary of State indicated that 2 PBY's, 12 P-47's, 4 C-47's, and 4 light transport planes were to be available, together with ground equipment for 1 infantry battalion and 1 battery of light field artillery (822.248/3-646).

³⁵ Of March 8, 1945; for text, see Department of State, Treaties and Other International Acts Series No. 1543, or 60 Stat. (pt. 2) 1831.

or repel aggression against any American state. To implement this Act, conferences will be held at Rio and Bogotá.³⁶

b. The United States constructed air bases in the Galápagos Islands at a cost of \$8,000,000 and at Salinas at a cost of \$3,000,000. The Salinas base has been transferred to the Ecuadoran Government without reimbursement.

c. The United States, in addition to the usual military and naval attaches, has established in Ecuador, Air, Ground and Naval Missions, totaling 38 military and naval personnel. These missions are for the purpose of training the Ecuadoran armed forces, standardizing them on United States equipment, and promoting military collaboration.

d. The United States has held staff conversations with Ecuador on the question of reorganizing and reequipping the Ecuadoran armed forces according to United States standards. A certain amount of surplus United States military and naval equipment has been proposed for transfer to Ecuador.

e. The United States has transferred to Ecuador \$7,000,000 worth of ground and air force equipment and \$1,300,000 worth of naval vessels and equipment under the provisions of the Lend-Lease Act.³⁷

f. The United States has trained several Ecuadoran students at United States service schools. Eleven Ecuadorans are now undergoing aviation training.

Of the above, hemispheric defense aspect, in which the Latin American Republics are also interested, appears to be the most important. You are aware of the statement of the Joint Chiefs of Staff to the effect that the strategic location of the Galápagos Islands with respect to the Panama Canal makes United States bases thereon essential to the defense of the United States and the Western Hemisphere. As Ecuador is unable to maintain a military air base in the Galápagos, it would seem that permitting the United States to utilize two small, relatively uninhibited islands would be a fitting contribution of Ecuador to hemispheric security.

We therefore feel that the question of base rights in the Galápagos is not one to be considered separately from other efforts to promote adequate means of hemispheric military collaboration. Accordingly, it is suggested that further discussions be conducted with Ecuador embracing all aspects of mutual military collaboration to determine the extent of all future military relations. These relations may involve any or all of the items mentioned in the second paragraph.

Sincerely yours,

FORRESTAL

ROBERT P. PATTERSON

³⁶ For documentation on the discussions in 1946 on these proposed conferences, see pp. 1 ff., and pp. 28 ff.

³⁷ 55 Stat. 31.

811.24522/4-246 : Telegram

The Acting Secretary of State to the Ambassador in Ecuador

SECRET

WASHINGTON, April 2, 1946—3 p. m.

127. Galo Plaza yesterday presented Dept with note formally requesting withdrawal from Galápagos at earliest possible moment.

Dept asking War and Navy to set date. You will be kept advised of developments.³⁸

ACHESON

822.34/4-1246 : Telegram

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

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p. m.

157. Approval has been given by Dept to sale from surplus of following small Naval vessels to Ecuador. You may notify appropriate representatives that Navy Dept and FLC will negotiate in Washington details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversations.

1 AOG—Oiler, gasoline tender
1 PG —Gunboat

For your conf info Navy plans similar program of Naval aircraft and Naval equipment.

BYRNES

811.24522/6-646 : Telegram

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

SECRET

QUITO, June 6, 1946—11 a. m.

[Received 4:10 p. m.]

295. I urge that instructions be sent through the War Dept immediately to General Crittenberger to suspend all further activities toward dismantling the Galápagos base for the following reason:

Remarks made recently by Ecuadoran Army and Navy officers led me to believe it not improbable that the Minister of Defence was desirous of our maintaining the base in some form to be determined. In order to give the Minister of Defence an opening to broach this matter I called upon him this morning ostensibly to discuss ceremonies

³⁸ The Department advised the Ambassador in telegram 135, April 4, 1946, 7 p. m., that July 1, 1946, was the date set for complete withdrawal (811-24522/4-446).

attending our evacuation of the base July 1st. The Minister himself interrupted my remarks to say that the question of the return of the base to Ecuador was very troublesome for him. He said Ecuador was in no condition financially to maintain it and that 4 months after we left the base it would be stripped clean and all the fine buildings, etc., destroyed. He stated it would be a magnificent site for the Ecuadoran Naval Academy. I told the Minister that while I was without instructions I was convinced that if his Govt so desired it would be possible to work out a formula under which we would maintain the base under Ecuadoran sovereignty but with an American garrison and without expense to the Ecuadoran Govt. The Minister who evidently has been giving this matter considerable thought stated that unfortunately his people did not realize the true situation existing at the Galápagos base. He stated he would immediately discuss this matter with the FonOff and with the Ecuadoran Defence Council and the President. He promised to speak to me not later than tomorrow afternoon and discuss the matter further.

Although it is of course possible that the Minister's ideas may not be shared by the FonOff and the President I am convinced he will make every effort along the lines explained above and I feel there is a reasonable possibility this matter may be arranged to our satisfaction.

SCOTTEN

811.24522/6-646

*Memorandum by Mr. Henry Dearborn of the Division of North and West Coast Affairs*³⁹

CONFIDENTIAL

[WASHINGTON,] June 6, 1946.

Colonel Eiseman⁴⁰ informed me today that the Navy has completed its withdrawal from the Galápagos, and the War Department's withdrawal is 80 per cent accomplished. General Crittenberger has stated that the Base is being left in a presentable condition, and he has communicated with Ambassador Scotten regarding the ceremony to take place on or about July 1.

The procedure on the installations to be left behind will be for War to inform FLC that it is abandoning the property. FLC will then decide whether it is saleable. If not, FLC will simply write it off.

Colonel Eiseman suggests that the California fishing fleets might wish to use the buildings as quarters during their trips to the Galápagos, and that this would at least keep "operation horsefeathers" from being put into effect. He thought the fishermen might be infor-

³⁹ Addressed to NWC: Mr. Wells, and to ARA: Mr. Briggs.

⁴⁰ Lt. Col. Douglas Eiseman, Operations Division, War Department.

mally advised on this so that they could approach FLC before it is too late. I replied that certain talks were now in progress which make it inadvisable to approach the fishermen at this time.

811.24522/6-1446 : Telegram

The Acting Secretary of State to the Ambassador in Ecuador

SECRET

WASHINGTON, June 14, 1946—7 p. m.

252. Please see President Velasco presenting following proposal and leaving memorandum with him listing points covered:

To arrange for operation of Galápagos base after July 1, 1946, US and Ecuador will exchange notes by which:

1. Base will be Ecuadoran (you may explain that we favor the Ecuadoran suggestion that jurisdiction be exercised through the Ecuadoran Minister of National Defense).

2. Each nation will exercise immediate command and jurisdiction of its own personnel stationed at the base.

3. Base will be jointly operated by US and Ecuador.

4. A joint technical commission composed of equal numbers of Ecuadoran and US representatives will recommend to the two Governments the details of participation of each in operation of the base, to include the provision of personnel, real estate, installations, equipment, and maintenance expenses. (You may informally assure the President that the US expects to keep sufficient installations and equipment for operation of the base and is willing to assume the major share of the maintenance as long as US personnel continue to be stationed in the Galápagos. If pressed as to the concept of the term "major share" you may say that this should be construed as including all maintenance except that maintenance required by Ecuadoran personnel.)

5. US technical personnel stationed in the Galápagos may be made available to the US Military and Naval Missions in Ecuador for the training of personnel of Ecuadoran Air and Naval forces.

6. US service aircraft and Naval vessels will be authorized freely to utilize base.

7. The above arrangement will remain in effect for a period of 10 years, beginning July 1, 1946, with provision for renewal at the expiration of this period by mutual agreement. It may be terminated by mutual agreement prior to expiration of 10 years. (You should try for a period of 10 years, but should insist on no less than 5 years. Explain to the President that US provision of personnel, equipment and expenditures of funds can only be justified before the US Congress on the basis of an assured use of the site and its facilities over a period of years).

Regarding omission of reference to Ecuadoran Commanding Officer in number 2 above, War Dept believes if base is placed under Minister

of National Defense, right to appoint Ecuadoran officer to command is implied.

Inform President we are prepared to carry out ceremony of turning over the base to Ecuador July 1, or any date thereafter convenient to him and that this Government will be pleased to furnish transportation to a limited number of Ecuadoran officials attending ceremony.

Please inform Dept of your interview, also date set for turning over base and arrangements made by you and General Crittenberger, who is receiving instructions from War Department.

ACHESON

811.24522/6-1846 : Telegram

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

RESTRICTED

QUITO, June 18, 1946—6 p. m.
[Received June 19—2:10 a. m.]

317. In reply to the memorandum I handed the President yesterday reported in my 313, June 17, 11 a. m.⁴¹ the Undersecretary of Foreign Affairs⁴² this afternoon handed me a memorandum, the text of which follows:

“The Govt of Ecuador has received the memorandum of the Embassy of the United States of America dated June 15, 1946, in which are set out some suggestions respecting the functioning of the Galápagos base after July 1, 1946.

2. Because of treating of a complex matter, as well as for the necessity of coordinating the points of view expressed in the conversations that have taken place in Quito concerning this subject with those carried out in Washington between the Ambassador of Ecuador and officials of the Dept of State, whose points (of view) do not coincide with those of the aforesaid memorandum of the Embassy of the US, the Govt of Ecuador considers it advisable to take prudent time for the study and resolution of the matter.

3. As the Galápagos base must be returned to Ecuador and come under complete and unrestricted Ecuadoran sovereignty on July 1, 1946 the Govt of Ecuador advises the Govt of the US of America in advance that they could agree that the technical personnel of the US necessary for the conservation of the installations and equipment and the conditions of maintaining the base remain until an agreement is arrived at between the two Govts for the amplification of the current contracts covering the technical military missions.”

SCOTTEN

⁴¹ Not printed.

⁴² Rodrigo Jacome Moscoso.

822.24/4-1946

*Memorandum by the Acting Chief of the Division of Special Inter-American Affairs (Dreier)*⁴³

CONFIDENTIAL

[WASHINGTON,] June 24, 1946.

The problem discussed in Mr. Dearborn's memorandum of June 21⁴⁴ really breaks down into two matters:

(1) The question of transfer of military equipment to Ecuador as part of the negotiations for the Galápagos. I have generally believed that we should be very careful about connecting the transfer of armaments with any other negotiations, because it would jeopardize our basic policy of equal treatment to all countries in terms of their reasonable requirements for arms. However, the importance of the Galápagos agreements, and the general military inferiority of Ecuador, may make it necessary and possible to connect arms transfers with the Galápagos negotiations. I doubt, however, we could effectively transfer arms to Ecuador in return for base rights until after enactment of the pending Inter-American Military Cooperation Bill.⁴⁵

(2) The question of whether any credit, particularly time payment, should be extended to other countries in connection with the purchase of arms. The interim program was intended to make available to other countries small amounts of arms which they wanted immediately and which they could presumably pay for in cash. For the long-range program under the expected legislation, I believe that the extension of credit may be both necessary and desirable, particularly if other arms-producing countries offer favorable terms of sale involving credit. I am exploring this subject now with a subcommittee of the Department's Arms Policy Committee, and shall have some recommendations to submit for your consideration in the near future.

JOHN C. DREIER

811.24522/7-346: Telegram

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

CONFIDENTIAL

QUITO, July 3, 1946—6 p. m.

[Received 10:50 p. m.]

355. Just returned from Galápagos ceremony, which was carried out in atmosphere harmony and goodwill both sides. Ecuadoran delegation royally entertained by American Army. Adequate quarters on base with electricity, water, etc., furnished small Ecuadoran contin-

⁴³ Addressed to ARA: Messrs. Butler and Briggs.⁴⁴ Not printed.⁴⁵ House Document No. 548, 79th Cong., 2d sess.

gent consisting 10 men, 3 officers: During my 2 day stay I had frequent conversations with Minister of Treasury ⁴⁶ who represented this Government; Political Adviser of Foreign Offices and Ecuadoran Navy and Air Force Officials, and they unanimously expressed desire we remain and maintain base. Both Minister of Treasury and Foreign Office Adviser expressed belief some form military agreement could be arrived at promptly, providing maintenance base would be without cost to Ecuador.

I will press this matter with Minister of Foreign Affairs; but as he is in bed with grippe, it may be few days before I can determine how matters stand. Minister of Treasury informed me he was delighted to have seen base with own eyes, as he now realized Ecuadoran Government could not maintain it "one week" with its own resources and he felt its maintenance essential for hemisphere defense.

SCOTTEN

811.24522/7-3146: Telegram

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

SECRET

QUITO, July 31, 1946—6 p. m.
[Received August 1—12: 15 a. m.]

403. Have just had lengthy and satisfactory conversation with Minister Foreign Affairs regarding Galápagos matter. I explained that as I probably would not see him again before he meets with the Foreign Relations Committee of the new Assembly ⁴⁷ (he leaves on Friday for Bogotá for inauguration President and only returns here ninth) in order to avoid any possible misunderstanding that Committee, I desired to explain our position once more. I stated that we are willing to maintain the base and give full guarantees for Ecuadoran sovereignty in whatever agreement we sign, but that we are not willing pay any compensation or allow this matter to be a bargaining point for other matters. I explained that our Government is now on a peace time basis, that an economy wave is in progress and that the agreement must be expedited so that the War Department may obtain necessary funds from Congress. I cited, as an example of economy wave, that Navy Department cancelled only last week extra compensation which members our Naval mission have been receiving for services here. The Minister assures me that he understands the situation perfectly and will so explain it to Committee. He said that his only idea was for United States to assist Ecuador with the outstanding

⁴⁶ Enrique Arizaga Toral.

⁴⁷ In telegram 389, July 22, 6 p. m., the Ambassador reported that the President, while desirous of prompt completion of a Galápagos agreement, had decided to await the appointment of the Foreign Relations Committee (811.24522/7-2246).

loan negotiations and also assist it to supervise fishing in the Galápagos. I replied that three officials of the Export Import Bank will arrive here Sunday for the purpose of completing both the Guamote Tambo loan matter and the Guayaquil waterworks loan. I further explained that negotiations have been completed for Ecuador to purchase two small naval vessels in the United States of the type of submarine chasers which would be admirably suited for supervising fishing in the archipelago. The Minister Foreign Affairs seemed very pleased with this information. He added that I could rely on him to present the matter to the Assembly Committee in the most favorable light. He hopes to begin conversations with me about August 14 and to be in position to sign agreement for the Galápagos August 18 or 20.

While the Minister is, as the Department is aware, apt to insert last minute conditions in any negotiations, I feel from his general attitude this conversation that the matter is more promising than heretofore.

SCOTTEN

811.24522/8-2246 : Telegram

The Acting Secretary of State to the Ambassador in Ecuador

CONFIDENTIAL

WASHINGTON, August 27, 1946—6 p. m.

349. Urtel 438 Aug. 22.⁴⁸ Dept not favorable linking credit military equipment with Galápagos agreement. If FonMin makes proposal foreseen by you Dept prefers you discourage him; if he insists state you will refer matter Dept.

In any discussion with FonMin you may in your discretion refer in whole or in part following points: 1) military equipment now available to American republics is surplus and is sold only for cash according policy established for whole hemisphere; 2) equipment which might become available under proposed Inter-American Military Cooperation Act cannot be considered now because until Congress passes bill this Govt has no way of knowing what would be available thereunder to any given republic; 3) in accord desires of Ecuadoran Govt, US separated all questions of credit from Galápagos; we agree this was sound move and are opposed to linking matters again. For your confidential info an added factor is Dept doubtful about desirability increasing Ecuador's debt burden by extending credit for arms.

If FonMin appears expect gift of military equipment in return for Galápagos agreement you may state in effect: this Govt regards hemisphere defense as matter for all American republics since all

⁴⁸ Not printed.

benefit thereby. While US is desirous of assisting American republics to adopt adequate defense measures, US should not be asked to reimburse any republic for such contribution as is within latter's capacity to offer. A Galápagos Base is an Ecuadoran contribution hemisphere defense, as vital to Ecuador as to any American republic. US has already stood expenses of constructing of Base and has agreed to maintenance and to assistance in operation and Dept is reasonably certain US Congress would not approve assumption of further expenses on project where benefit is so palpably mutual.

ACHESON

822.24/9-446

*Memorandum by Mr. Henry Dearborn, Division of North and West Coast Affairs*⁴⁹

[WASHINGTON,] September 4, 1946.

Our activities with respect to military affairs in Ecuador do not appear to me to make sense and I believe we should do something about it before it is too late to do anything but reap a harvest of bad feeling.

We have sent a Military Mission and an Air Mission to Ecuador principally, I think, for two purposes: (1) to keep other countries from setting up missions there, and (2) to standardize military methods and equipment along US lines so that if faced with another emergency we will be able to work with the Ecuadorans in defensive warfare instead of being hampered by them.

Ecuador has received our military missions well and has stated that it wishes to standardize along American lines and to be trained by us. That country has received overtures from Argentina to send military students there but has not done so up to now, still hoping to benefit from its association with us.

Under Lend-Lease we outfitted an Ecuadoran mechanized battalion. This benefited about 3 per cent of the whole Ecuadoran Army. It is significant that this small, well-organized unit has been the one segment of the Army on which the Velasco Government has been able to rely. Rumors of disaffection are heard elsewhere, in large part because other parts of the Army feel neglected in one way or another. (Our Lend-Lease shipments to Ecuador were appreciated but somewhat bewildered the recipients in some respects. For example, the 43 M3A1 tanks which we sent were not accompanied by ammunition for their 37 mm. guns, and those guns have never yet been fired.)

Our Military Mission in Ecuador is now practically stymied owing to the lack of American matériel in the Ecuadoran Army. Mission-

⁴⁹ Addressed to NWC: Mr. Hall; Mr. Wells; IA: Mr. Dreier; ARA: Mr. Briggs.

trained graduates of Ecuadoran schools, when they have completed their training, must return to using matériel of European make which the Chief of our Mission (Colonel Earl Macherey) describes as "museum pieces" in many instances. This matériel is 40 to 60 years old and more. Ammunition is 20 or 30 years old, and owing to oxidation of cases and to other sorts of degeneration is, in fact, dangerous to use. It is obvious that when Ecuadorans trained by us return to using this 19th century equipment they soon lose all benefit of what our Mission has taught them. Perhaps even more serious is the effect on their morale and their thinking. It is only to be expected that they are dissatisfied with the Government in power which cannot provide better equipment. Impelled by this pressure the Government seeks to obtain new matériel from us. Not being able to do so, that Government will doubtless eventually turn elsewhere, not only for equipment, but also for Missions.

Ecuador now seeks from us that ground equipment promised to it on March 11, 1946,⁵⁰ under the interim program. The amount is small and I am told is not valued at more than \$40,000 or \$45,000. The Chief of our Mission informs me that in his opinion the receipt of this matériel is essential to the success of his work. He believes that this small amount will raise the morale of the artillery and the infantry (65 per cent of the Army), will prevent his Mission from being regarded as a failure, and will help to take the Army's mind off politics. I asked Colonel Macherey what he thought would happen if we did not let Ecuador have this matériel. He replied that he did not know but thought that country would be justified in dismissing our Mission as not being worth while.

We have a policy not to extend credit to the American Republics to purchase matériel under the interim program. Doesn't this conflict with some of our other policies in the case of Ecuador?⁶¹ We have Missions there for purposes thought to be valid. It is reasonable to suppose that these Missions depend for their success, and in fact for their continued existence, on the receipt of a small amount of equipment to supplement and eventually replace Ecuador's ancient European equipment. We have suddenly offered new matériel for which that country's annual budget is wholly unprepared. Ecuador requests us, in the attached memorandum, to permit her to pay \$40,000 or \$45,000 for interim program ground matériel out of her next year's budget.⁶² I think it would be wise to comply with this request.

⁵⁰ See footnote 34, p. 849.

⁶¹ A marginal note reads: "A dilemma from which I fear it is up to Ecuador to extract us. M. K. W[ells]."

⁶² The following comment appears: "Perhaps they would not have to make payment until next year anyway if billed c.i.f. Guayaquil. M. K. W[ells]."

811.24522/9-546

*The Ambassador in Ecuador (Scotten) to the Assistant Secretary
of State for American Republic Affairs (Braden)*

PERSONAL AND CONFIDENTIAL

QUITO, September 5, 1946.

DEAR SPRUILLE: The Galápagos matter seems to be hanging somewhat in the balance, and it will not be until the end of next week that I can tell which way the scales will tip.

This afternoon the Minister for Foreign Affairs, who just returned from a several days' trip to Guayaquil, told me that he had had a session with the Foreign Affairs Committee of the Assembly last Friday on the eve of his departure from Quito. He stated that he had explained the Galápagos situation carefully to the Committee and that the members of the latter had informed him that they did not dare make any decision without submitting the question to the Assembly itself. The Minister added that the Assembly will discuss this question in a secret session on Thursday, September 12. The Minister himself will be present at that session to explain the matter in detail. He added that while some decision may be arrived at during the same session of the Assembly, it is possible that a decision may be postponed until the next session on the thirteenth. I asked the Minister if he could tell me in confidence, the general attitude of the Committee. He stated that in the strictest confidence, he could tell me that the Committee was somewhat cold to the proposition and felt that the Galápagos matter should be handled in a formal treaty, rather than by an exchange of notes. He added that he is finding himself considerably handicapped in his activities from the fact that while he is a Liberal, the majority of the Assembly is Conservative and they resent somewhat having a Liberal Minister for Foreign Affairs instead of one of their own party. While I am perhaps jumping to conclusions, he gave me the impression that the tendency of the Conservative Assembly would be to oppose anything that he as a Liberal Minister should propose.

In passing on to you, Spruille, the information set forth above, I do not wish to convey the impression that all is lost. I think, however, I should give you full information in order that you should be prepared in case I have to send up some bad news after the Assembly makes its decision the end of next week.

Very sincerely yours,

R. M. SCOTTEN

822.24/9-2746

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

CONFIDENTIAL
No. 1664

QUITO, September 27, 1946.

The Acting Secretary of State transmits for the confidential information and files of the Embassy copies of a note of even date to the Ecuadoran Embassy in Washington and of Statement LL-8,⁵³ showing charges made against the Government of Ecuador during the period from December 1, 1945 through February 28, 1946 for defense matériel transferred to Ecuador under the terms of the Lend-Lease Agreement signed on April 6, 1942.⁵⁴

It will be noted that the amount of charges during the period under reference is \$12,960.66, and that charges through February 28, 1946 aggregate the grand total of \$6,009,326.08. The balance of reimbursement now due on account from Ecuador is \$3,000.

S11.24522/10-1746

*The Ambassador in Ecuador (Scotten) to the Assistant Secretary of
State for American Republic Affairs (Braden)*

PERSONAL AND RESTRICTED

QUITO, October 17, 1946.

DEAR SPRUILLE: I have just returned from a long conversation with Trujillo which confirms the hunch I have had recently that he would place the Galápagos negotiations in Illescas' ⁵⁵ hands to see what he can get out of them economically. Boiling down this long conversation is difficult, but the essentials are as follows:

Illescas has been instructed to take up in Washington a whole series of matters relating to economic cooperation with Ecuador. Trujillo did not specify what the different subjects are. He stated that these would be, not on the basis of compensation for the Galápagos, but as "parallel" negotiations. Trujillo is far from satisfied with the way Galo Plaza reported the progress of his negotiations and does not know whether those reports were exact or not.

Among other things he stated that Ecuador had never asked for a straight compensation but only for an Exim Bank reimbursable loan.

⁵³ Neither printed.

⁵⁴ For text, see *Foreign Relations*, 1942, vol. VI, p. 379.

⁵⁵ Francisco Illescas Barreiro, Ecuadoran Ambassador in the United States.

I told Dr. Trujillo that at a meeting in Ellis Briggs' office I had asked Galo Plaza the direct question whether Ecuador considered that the Exim Bank loan of twenty million dollars would be compensation for the Galápagos lease. Plaza replied flatly, no—that in speaking of compensation he was speaking of a direct payment of twenty million dollars for a lease of thirty years. General Hertford⁵⁶ was present at that conversation and after a rapid calculation he stated this meant a rental of \$750,000 per year. Galo Plaza answered in the affirmative. Trujillo seemed completely taken aback by this information which he claimed, truthfully or not, he had not had previously. I informed Trujillo that while I wished Illescas every success in his negotiations I felt sure that if he tried to link those negotiations with the question of our maintaining the Galápagos base they would be doomed to failure. I added that whether he could achieve success in his negotiations regarding a general program of economic cooperation, I could not say, because I did not know what questions he was going to take up. I added, however, that such negotiations in my opinion would be successful or would fail on their own merits and without relation to the Galápagos matter.

Trujillo indicated that he wishes Illescas to make a rapid report of the entire global picture of the possibility of Ecuador's obtaining aid from the United States, and that he had placed the negotiations in Illescas' hands as he felt this picture could only be obtained in Washington. He told me with considerable emphasis that in placing the negotiations in Washington this did not indicate in the slightest any lack of confidence either on the part of the President or himself in me. He indicated that the method which we had proposed in the form of a simple exchange of notes of settling the Galápagos matter was politically impossible. He stated it was true that a small group of Ecuadoran military, including the Minister of Defense, had wished the matter to be settled this way, but that their views did not represent the views of the various Ecuadoran political parties. He added that if he had put to the Assembly yesterday the proposition of our remaining in the Galápagos as simply as we had expressed it in our memorandum, he would have been thrown out of the Foreign Office in five minutes. Without mentioning his name directly, he indicated that it was Camilo Ponce and a few others in the Assembly who had attacked him bitterly on this very point. He stated rather paradoxically that the views of these few individuals did not represent the views of the majority of the Assembly. He implied, nevertheless, that this small group was too powerful for him to oppose success-

⁵⁶ Brig. Gen. Kenner F. Hertford, Chief of the Pan American Group, Operations Division, War Department.

fully. He added that he expects that as a result of the report of Illescas after his conversations in Washington, the Galápagos matter will be settled "within a month" either one way or the other.

He asked me whether I did not think some aid could be secured from the United States for establishing a naval school in the Galápagos and assist Ecuador to control the fishing industry. I replied that while a naval school in the Galápagos, in the opinion of our Naval Mission, was utterly impractical, of course, this matter could be discussed as well as assistance in controlling the fishing. I stated that I thought that something along this line could be agreed upon, but I pointed out that this was far different from the monetary compensation which Ecuador had been asking.

As indicated, I have not been apprised of any specific things which Illescas will ask for. My opinion is that he will ask for the moon and see if he cannot obtain a slice of it.

Very sincerely yours,

R. L. SCOTTEN

FW822.248/12-1246

Memorandum by Mr. George O. Spencer of the Division of Special Inter-American Affairs to the Acting Chief of that Division (Dreier)

CONFIDENTIAL

[WASHINGTON,] December 23, 1946.

The attached letter ⁵⁷ from Ambassador Scotten to Henry Dearborn indicates that the Ecuadorans have been unable to obtain the planes in the interim program which they have paid for. I called General Wooten's ⁵⁸ office to determine the reason for this and was informed that FLC has been after the War Department to get the planes delivered but has so far been unsuccessful. According to FLC, the delivery of planes is being made on a priority basis which means that some of the countries will get planes before others. I was informed that Ecuador was apparently low on the priority list.

I called Colonel Skeldon ⁵⁹ in the War Department and had a rather lengthy conversation regarding aircraft in the interim program in general. He stated frankly that he was very sorry that I had raised the question at all because the War Department cannot promise to deliver any of the undelivered aircraft to the other American republics until after January 1. I asked him if he could state approximately at what date after January 1 the planes would be delivered and after exacting from me a promise not to widely broad-

⁵⁷ Not printed.

⁵⁸ Maj. Gen. Ralph H. Wooten, Field Commissioner for Military Programs.

⁵⁹ Lt. Col. James F. Skeldon.

cast the information in the State Department, he stated that as things now stand the delivery of these planes will probably not be made before late 1947. He stated that his office now had the problem up for consideration at a high level in the War Department and suggested that I call Doug Eiseman for a final answer on whether the War Department would be able to do anything to get the planes delivered sooner. Colonel Skeldon stated that it requires 7500 man hours to take a C-47 from storage and get it into running shape and that a lack of manpower and funds had created the problem. Colonel Skeldon stated that what the War Department needs most at this time is the passage of the Military Cooperation Act. The implication was that under the Act the War Department would be able to obtain the necessary funds to go forward with the program. Colonel Skeldon stated finally, that if his office is not able to get the necessary authority from a higher War Department level to proceed more rapidly with the delivery of aircraft, it may be necessary to apply to aircraft the same procedure which Navy is applying to ships, namely, that the aircraft be sold on an "as is" basis, and the purchasing government put up the funds for the necessary reconditioning.

I suggest that on Thursday we obtain from Doug Eiseman the War Department's final decision on what can be done to expedite these deliveries and if the decision is unfavorable that we then point out to General Wooten that no more checks should be taken from foreign governments and no more contracts signed without the purchasing government being clearly informed that no certainty exists as to when the planes purchased can be delivered. If you should discuss this problem with anyone in the War Department or FLC, I would appreciate your not revealing that you know that the planes will probably not be delivered until late 1947. Doug Eiseman will probably tell you this anyway if you raise the problem with him but Colonel Skeldon gave me the information on a strictly personal and confidential basis. I think that we should wait until Thursday before suggesting to Henry Dearborn a reply to Ambassador Scotten's letter, at which time we should have the final decision of the War Department.

[A memorandum of conversation between representatives of the War Department, the Department of State, and the Office of Foreign Liquidation of January 20, 1947, indicated that some \$530,000 worth of equipment had been delivered "about June 1946" and that Ecuador lacked the means to pay for the pending requisition (822.24/1-2047)].

EFFORTS TO SECURE THE COOPERATION OF THE ECUADORAN GOVERNMENT IN THE ELIMINATION OF AXIS BUSINESS INTERESTS⁶⁰

740.00112A EW/3-1946: Airgram

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

[Extracts]

SECRET

QUITO, March 19, 1946.

[Received March 29—2: 42 p. m.]

A-94. Reference Department's secret circular airgram of March 4, 1946,⁶¹ requesting a report on the current replacement situation and the prestige of the Proclaimed List.

1. The last overall summary of the replacement program with particular reference to spearhead firms was transmitted to the Department in the Embassy's strictly confidential report No. 12 of January 17, 1944,⁶¹ entitled, "Monthly Report on Operation of Freezing and Blocked Properties Control", written at the close of the regime of President Arroyo del Rio and covering the period during which almost all enemy commercial activity was eliminated. That report expressed surprise but satisfaction in the fact that all but nine matters were settled. . . .

In brief it seems that, except for two firms, the Joyería "El Brillante" and the ice plant "La Polar", which are objectionable but can hardly be described as spearheads, the replacement program in Ecuador was completed in 1944.

2) and 3)—Considering that there appears to be no actual spearhead firms in Ecuador, it cannot be expected that any further action may be taken by the Ecuadoran Government on the replacement program.

4) It will be recalled that the basic Ecuadoran act under which Axis activity was eliminated was Executive Decree No. 854 of the former Arroyo regime. As a result of the revolution of May 1944, adjudication to private persons made under that decree were annulled by a decree of the National Constituent Assembly on March 2, 1945, (Embassy's confidential despatch No. 2839 of March 20, 1945 "Decree Annuling Adjudications of Blocked Properties"⁶¹). This action left transfer of former Axis properties open to possible return to the original ownership, menacing the whole program until November 7, 1945, when the Embassy secured the guarantee of the Ecuadoran

⁶⁰ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1037-1051.

⁶¹ Not printed.

Government that it would not permit under any circumstance the return of any blocked property to its former owner. A copy of the guarantying note was transmitted to the Department as an enclosure to the Embassy's confidential despatch No. 3666 of November 9, 1945, with the subject "Recommendations for Names to be Retained on Hard Core Proclaimed List for Ecuador".⁶³

The Office of the Director of Blocked Properties has managed enemy properties and funds very effectively, but as noted in the Embassy's secret airgram No. A-86 of March 14, 1946,⁶³ concerning repatriation there is mounting pressure on the Ministry of Foreign Affairs to clarify the status of blocked persons, indicating a growing attitude of forgiving, forgetting and returning to business as usual.

5) The prestige of the Proclaimed List in Ecuador seems to be non-existent. Factors causing this low state include the awarding of agencies by United States firms to persons formerly listed, the lack of listing of many of the returned German internees, and the general feeling that the war is won and over as far as Ecuadorans are concerned.

SCOTTEN

822.5151/4-2546 : Telegram

The Chargé in Ecuador (Shaw) to the Secretary of State

CONFIDENTIAL

QUITO, April 25, 1946—7 p. m.

[Received 10:45 p. m.]

218. The Quito press of this morning published order No. 90 based on Executive Decree No. 854 of June 11, 1943 ordering the unblocking of property and funds belonging to Ecuadoran citizens which may have been blocked because of their having been on the Proclaimed List or for any other reason. It provides that said Ecuadoran citizens may engage in any activity without restriction, thus attempting to remove them from the restrictions of the Proclaimed List.

There are only 3 admittedly Ecuadoran persons on the Proclaimed List, their names being Clemente Baquerizo, Orrantia Gonzales and Pino Roca. No attempt has been made to determine which firms on the Proclaimed List may be defined as Ecuadoran.

Order No. 89, also published today, unblocks the property and funds of Fernando Schimanetz (formerly Proclaimed List and internee in the US) and returns those properties and funds to him.

⁶³Not printed.

The foregoing action violates both the spirit and the letter of actual and implied commitments of the Ecuadoran Government.

The orders referred to have not yet been published in the official register and thus may not have been put into effect.

Instructions are respectfully requested as to whether a formal protest should be lodged or if other representations should be made.

SHAW

822.5151/4-2646 : Telegram

The Acting Secretary of State to the Chargé in Ecuador (Shaw)

CONFIDENTIAL

WASHINGTON, April 26, 1946—7 p. m.

176. Urtel 218 Apr. 25. You are authorized in your discretion either to make formal protest or other representations or both.

Protest should be based on commitments by Ec Govt on basis of which we drastically reduced PL and should express surprise or disappointment that in light of excellent cooperation in these matters in past Ec Govt should take this action without offering us opportunity to give our views and furnish evidence concerning cases. Note should not imply we have intransigent views with respect unblocking every and all persons now blocked but should stress we feel unblocking should only occur after careful review of all facts and not on nationality basis, alone.

Reur telephone conversation today with Scotten, Embassy has full evidence why funds in question should not be unblocked.

ACHESON

862.20210/5-346 : Telegram

The Chargé in Ecuador (Shaw) to the Secretary of State

CONFIDENTIAL

QUITO, May 3, 1946—6 p. m.

[Received May 4—9:45 a. m.]

231. Reurtel April 30, 8 a. m.⁶⁴ Only German school in Ecuador Colegio Leman of Quito was closed and German instructors returned to Germany April 1942. Suspected successor school Penjionado Gonzalez Suarez closed July 1943 by inclusion on PL.

Official German propaganda continued clandestinely by Max Rueff in charge of German affairs at Spanish Legation after Ecuador broke relations in January 1942 continued until November 1943 when Rueff arrested and interned in US.

SHAW

⁶⁴ Not printed; in it the Department requested reports on the liquidation of German schools and other propaganda and cultural agencies (862.20210/4-3046).

740.22112A/5-746

The Chargé in Ecuador (Shaw) to the Secretary of State

[Extracts]

CONFIDENTIAL

No. 4175

QUITO, May 7, 1946.

[Received May 20.]

SIR: . . .

The following conclusions seem to be inescapable—The effectiveness of the Proclaimed List has diminished almost to the vanishing point. There is little to be gained by attempting to retain on the list the three remaining names that are admittedly Ecuadoran citizens. It is probable that the Ecuadoran Government either will arbitrarily unblock the funds not only of Ecuadoran citizens but also of many of the Axis nationals, or that it will actively press further for the concurrence of the United States in the latter action.

It is highly improbable that some of the few, if any at all, of the internees recently returned to Ecuador from the United States will be deported to their countries of origin. Should these individuals remain in Ecuador, as now seems likely, their influence will increasingly continue to be felt and the Government of Ecuador undoubtedly will increasingly tend to acquiesce to their demands for the unblocking of their funds and removing restrictions on their activities.

A note was prepared under authority granted in the Department's telegram no. 176 of April 26, 7 p. m., and was delivered to the Foreign Office after careful consideration of the various factors involved with the idea in mind that some protest should be lodged against the unilateral action of the Ecuadoran Government in an effort to deter similar or more extensive action in the future; to set out the view of the Government of the United States as a matter of record; and, to indicate the desire of the United States Government to be consulted in each individual case before further action looking to the delisting of names or unblocking of funds and property of these individuals or firms should occur. There was a careful avoidance of intransigency in the note for the obvious reason that the Under Secretary for Foreign Affairs⁶⁵ had made it clear that the Ecuadoran Government considers both the listing of Ecuadoran individuals and the blocking of their funds within the jurisdiction of Ecuador and completely a local matter, that it will not recede from this attitude, that it feels the proof of the dangerousness of most of the listed Axis nationals is very inconclusive, and that it will continue to press for the unblocking of the property and funds of these individuals.

⁶⁵ Rodrigo Jacome Moscoso.

Attached to this report is a copy of the Embassy's note no. 98 to the Foreign Office referred to in the preceding paragraph, dated May 6, 1946.⁶⁶ The British Legation concurred in the text of this note before it was sent and it has also drafted and delivered to the Foreign Office a similar note, a copy of which will be obtained and forwarded to the Department.

It is evident that this matter will continue to become increasingly embarrassing and it would be politic for the Government of the United States as quickly as possible to reduce to a minimum those listing or blocking activities upon which it will continue to insist.

It is respectfully recommended that the entire Proclaimed List for Ecuador be abolished as quickly as possible as it is practically ineffective at the moment and as its continuance would tend to increase the danger of loss of prestige. It is recommended that if this action occurs a further note be sent to the Foreign Office expressing the hope that the funds of Clemente Baquerizo will be continued to be blocked (providing that Resolution No. 90 may not at that time have been published in the Registro Oficial and that the properties may not have already been returned to him) and, that the funds of all other presently blocked persons or firms continue to be blocked until each individual case can be reviewed and a mutual agreement reached as to the advisability of unblocking, or at least until the United States may have an opportunity to present its arguments and any further information that is available. (See Department's airgram no. 121 of April 16, 1946.⁶⁶)

Respectfully yours,

GEO. P. SHAW

740.22112A/5-746: Telegram

The Secretary of State to the Chargé in Ecuador (Shaw)

CONFIDENTIAL

WASHINGTON, May 29, 1946—6 p. m.

221. Depcirtel May 15.⁶⁷ Since date of complete withdrawal of PL is so close is believed best to follow present policy of requesting consultation with Ecuadoran Govt in individual cases of unblocking. Complete withdrawal of list for Ecuador (urdes 4175 May 7) much, if any, before June 30 would be mechanically impossible and would give rise to problems re similar action with regard to other Amer Republics.

Dept believes it will soon be in position to authorize you to inform

⁶⁶ Not printed.

⁶⁷ Not printed; it indicated that a date for withdrawal of the Proclaimed List had not been set, but that June 30, 1946, was a likely day (740.00112A.-EW/5-1546).

Ecuadoran Govt that PL will be withdrawn on or about June 30. When giving this info you could again request Ecuadoran Govt (Paragraph 3, page 3 urdes 4175) to continue blocking of funds of Clemente Baquerizo and others until individual cases can be reviewed and mutual agreement reached.

BYRNES

740.22112 RP/8-1446

The Chargé in Ecuador (Shaw) to the Secretary of State

[Extract]

CONFIDENTIAL
No. 4503

QUITO, August 14, 1946.
[Received August 20.]

SIR: . . .

It is a well known fact that the former owners and their representatives have been active in bringing political pressure to bear with a view to having these various properties returned to them. The effect of their handiwork now has become apparent by the publication in today's issue of *El Comercio* of Quito of a projected decree by virtue of which all of the blocked properties would be returned to their former owners.

The Embassy intends to maintain its position that these properties should remain blocked but, as the Government of Ecuador entered into the informal agreement of November 7, 1945, only on the basis that the decree of March 2, 1945 was inapplicable⁶⁹ and that this situation would have to be reviewed by the next Congress, it appears to be within its rights now to reconsider the whole matter. The Embassy has pointed out, of course, that there are other international commitments which are either definite or implied that this matter should be left pending until the next appropriate Inter-American Congress of States. It is thought highly improbable that Ecuador will follow this line of procedure.

The Embassy would appreciate, in view of the above situation, having any comment which the Department may care to furnish. It particularly would appreciate having a statement of policy as to the attitude to adopt in connection with the return of former Italian properties, especially those mentioned in the Embassy's despatch no. 4438 of July 27, 1946.⁷⁰

A copy and translation of the news item which appeared in *El Comercio* of today are attached hereto⁷⁰ for the information of the Department.

In view of the Department's circular airgram of October 9, 1945,⁷⁰ it would be appreciated also if the Department would comment upon

⁶⁹ See point 4 of airgram 94, March 19, 1946, p. 865.

⁷⁰ Not printed.

the advisability now of mentioning to the Ecuadoran Government the desirability of maintaining the properties under discussion blocked until the matter of reparations claims may be settled.⁷¹

Respectfully yours,

For the Ambassador:
GEO P. SHAW

740.22112 RP/8-2046

The Chargé in Ecuador (Shaw) to the Secretary of State

CONFIDENTIAL
No. 4521

QUITO, August 20, 1946.
[Received August 30.]

SIR: I have the honor to refer to my despatch no. 4503 of August 14, 1946 transmitting a news item announcing the plan of the Ecuadoran Government to return blocked properties to former Axis owners. Information has come to the Embassy from other sources indicating that this matter is being pushed actively in the present National Constituent Assembly by interested deputies and that names of a number of deputies have been obtained who will support this measure. Both the American Embassy and the British Legation recently have been in receipt of communications from the Foreign Office inquiring as to the possibility of unblocking the assets of individual Axis nationals or sympathizers.

In view of the fact that the Government of Ecuador, or at least an important sector of its representatives in the Constituent Assembly, appears to have decided that the time has come to unblock all the former Axis assets, and, in view of the implied threat of disturbing the *status quo* of these Axis assets, the Embassy requested an interview with the Foreign Office to discuss this matter. A copy of a memorandum of the ensuing conversation is attached hereto⁷² for the information of the Department.

The developments in each of the individual cases now pending in the Embassy are being reported to the Department in separate despatches.

It is believed that it would be advantageous and would have a desirable influence upon the Ecuadoran Government if the Department of State and the British Foreign Office should express the point of view of the respective Governments to the Ecuadoran Chiefs of Mission in Washington and in London, so that they might transmit to their Government the information that it was considered undesirable by these Governments, United States and British, for former Axis assets in Ecuador to be unblocked or that the *status quo* be disturbed. It is hoped that the Department will see no objection to taking this

⁷¹ The Acting Secretary of State, in telegram 343, August 19, 1946, 5 p. m., approved of the suggestion (740.22112 RP/8-1446).

⁷² Not printed.

action as soon as possible. The British Legation agrees with the recommendation just made and is today requesting the British Foreign Office to take similar action.

Respectfully yours,

For the Ambassador:
GEO. P. SHAW

462.00R/10-3046

The Chargé in Ecuador (Shaw) to the Secretary of State

[Extract]

RESTRICTED

No. 4704

QUITO, October 30, 1946.

[Received November 5.]

SIR: . . .

On October 21, the Embassy received Foreign Office Memorandum No. 213 DDP dated October 17, acknowledging receipt of the Embassy's memorandum of October 3 and stating that the Government of Ecuador had agreed that the final disposition of German property should be treated upon by the Inter-American Social and Economic Council. However, the memorandum takes exception to the Embassy's description of the property in question as "enemy" rather than "German".

It is possible that the Ecuadoran Government may take advantage of this distinction between "German" and "enemy" to unblock and return properties to certain non-German enemy persons. Although no recent activity or action has come to the attention of the Embassy, such persons have been pressing the Government and more recently the National Constituent Assembly for return of their former properties to the detriment of present owners in good faith.

A copy of the Embassy's memorandum of October 3 and a copy and translation of the Foreign Office's Memorandum No. 213 of October 17, 1946 are transmitted herewith⁷³ for the information of the Department.

Respectfully yours,

GEO. P. SHAW

822.002/11-1246: Telegram

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

CONFIDENTIAL

US URGENT

QUITO, November 12, 1946— 1 p. m.

[Received 6 p. m.]

543. The press of the past few days has discussed the possibility of the appointment of Leonardo Stagg as Minister of Economy to suc-

⁷³ Neither printed.

ceed José Carbo Puig, recently resigned. This morning's press carries statement by Stagg to effect that he has in fact been offered this position and has it under consideration. Stagg was on the British Black List and our PL and was deleted with a non-meritorious status.

Both the British Legation and myself feel it would be embarrassing to have to deal with a Cabinet Minister in this category but we are both hesitant about mentioning the matter to this Government without instructions as this Government might well consider any such representation as intervention in the domestic politics of Ecuador. If the Department decides to take any action, I strongly recommend the matter be taken up with the Ecuadoran Ambassador in Washington as I am apprehensive representation made here would produce an embarrassing situation between this Embassy and the Government. The matter is pressing as the appointment may be made within 48 hours.⁷⁴

SCOTTEN

**PARTICIPATION OF THE UNITED STATES IN THE ECONOMIC
DEVELOPMENT OF ECUADOR⁷⁵**

822.154/5-246

*Memorandum of Conversation, by Mr. Henry Dearborn of the Division
of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] May 2, 1946.

Participants: Department of State: Ambassador Scotten
Mr. Dearborn
Export-Import Bank: Mr. Martin
Mr. Gaston
Mr. Ness
Mr. Chase

Ambassador Scotten commenced the conversation by stating that he was principally interested in enhancing United States prestige politically and economically in Ecuador. Within this frame of reference, he proceeded to discuss;

- a. the H. T. Smith application to the Eximbank for a loan of \$3,000,000 to cover the dollar requirements necessary for the construction of municipal waterworks; and,
- b. the completion of the Manta-Quevedo Road.

Smith Application. The Ambassador said he would like strongly to recommend the Smith project for the following reasons:

⁷⁴ The Acting Secretary of State in telegram 413, November 14, 1946, 7 p. m., characterized the contemplated action "incomprehensible," but indicated that the Department was not disposed to take any step that might be construed as interference in domestic matters (822.002/11-1246).

⁷⁵ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1051-1061.

1. Smith himself was an American businessman of the best sort who was strictly honest and who delivered the goods; it would be beneficial to US prestige to have an American of Smith's caliber working in Ecuador.

2. Smith was not a fly-by-night promoter, but rather an individual who was operating in Ecuador on a long-term basis on a type of project which was of real value to the country.

The Ambassador pointed out that he was not going to go into the financial considerations involved, since such considerations were the Bank's special concern.

Mr. Gaston remarked that reputable American businessmen were our best representatives abroad and that we should encourage their activities insofar as our limitations would permit. He added that one way for Ecuador to build up her depleted dollar reserves would be through attracting a tourist trade and that if such a plan were to be realized, it would be essential to encourage sanitary improvements, of which good drinking water was one of the most important. Mr. Dearborn observed that another salutary effect of the Smith project would be that it would reach many sections of Ecuador and would not be limited to Guayaquil and Quito, which cities were accustomed to corner any economic advances falling to the country. A reputable American like Smith, working on a nation-wide basis, would have an opportunity to speak for American business in places generally uninformed on the United States.

Manta-Quevedo Highway. The Ambassador stated that he believed the Eximbank, if it could do so within governing statutes and regulations, should advance to Ecuador the funds necessary to complete the Manta-Quevedo Road. He emphasized that this would do much toward counteracting the poor record of the Ecuadoran Development Corporation. He recalled that prominent Ecuadorans had expressed the opinion to him that if the Corporation would only finish that one project, it (the Corporation) would have been worthwhile. The Ambassador recognized that if the Bank were to make available funds with which to finish the road, this should only be done as a result of a request from the Ecuadorans.

Mr. Gaston agreed with the Ambassador's point of view and asked if the latter did not think that the highway should be given priority on the Bank's list of projects for Ecuador. The Ambassador replied that he thought the highway and the waterworks were equally meritorious. To Mr. Gaston's question as to whether the Bank would have to extend credit to Ecuador to cover the sucre requirements as well as the dollar requirements in connection with the road, the Ambassador replied that the Bank would undoubtedly have to make available to Ecuador funds for both dollar and sucre requirements.

Mr. Chase recalled that Ambassador Plaza,⁷⁶ on his most recent visit to the Bank, had advanced the following as his idea which he would present to his Government: It is likely that the projects for which certain Eximbank credits are now earmarked will not require the full amounts specified. The excess could be used to finance other development projects. He thought, furthermore, that the million dollars now marked for a general economic survey might be used for the completion of the Manta-Quevedo Road. Finally, Ambassador Plaza suggested, vaguely, that other loans might be extended to Ecuador in accordance with that country's ability to pay. Ambassador Scotten expressed his surprise that Plaza was willing to consider the use of the million dollar survey loan for another purpose since this represented a very different view than previously voiced to him by Ecuadorans.

There appeared to be general agreement among those present with Ambassador Scotten's point of view on both the Smith project and the highway.

Mr. Martin and Mr. Gaston explained that the Bank was now in a difficult position with respect to extending credits to Latin American countries. They said that recent loans had been channeled to Europe and they were apprehensive with regard to the availability of funds for worthy projects in the Western Hemisphere. Both men stated that they were very much in favor of continuing to assist the American Republics, and they hoped that their resources for this purpose would not be cut off completely.

HENRY DEARBORN

822.51/5-1046

Memorandum by the Director of the Office of American Republic Affairs (Briggs) to the Assistant Secretary of State for American Republic Affairs (Braden)

[WASHINGTON,] May 10, 1946.

The Export-Import Bank for some months has been considering certain public works projects in Ecuador, we being given to understand that the projects had been approved in principle and awaited only final O.K. of engineering studies, et cetera. Two projects in particular (water works for various municipalities, and Manta-Quevedo Highway) have been reportedly on the point of jelling for some weeks. As you know we have not been happy over Ecuador's relationships with the Bank, the Development Corporation, et cetera.

⁷⁶ Galo Plaza, Ecuadoran Ambassador in the United States.

and in our opinion there are some grounds—although not so substantial as asserted by Ecuador—for the Ecuadoran complaint.

We now hear that the Bank has no more money as a result of large credits to Europe and Asia. If this is true all pending projects in Latin America will have to await a further capital authorization by Congress.

It would be particularly unfortunate, having in mind the critical attitude already prevailing in a number of Latin American countries as a result of our alleged preoccupation with world problems to the detriment of Latin American relations, should the Export-Import Bank in fact be out of funds at this time. (The recent comments on this subject by the Mexican and Brazilian Ambassadors would be merely a sample of what we would face when they begin reading about tens of millions of dollars for Poland, China, Iraq, et cetera, and nothing whatever for the Good Neighbors, many of whose projects were submitted long before those of other countries outside of this hemisphere).

ELLIS O. BRIGGS

822.51/5-3146

Memorandum of Conversation, by Mr. Henry Dearborn of the Division of North and West Coast Affairs

CONFIDENTIAL

[WASHINGTON,] May 31, 1946.

Participants: A-BR—Mr. Braden NWC—Mr. Schnee
 A-C—Mr. Clayton⁸⁶ NWC—Mr. Dearborn
 ARA—Mr. Briggs
 OFD—Mr. Luthringer⁸⁷

At Mr. Braden's request, a meeting was held in Mr. Clayton's office today for the purpose of informing Mr. Clayton of the political division's reasons for desiring that favorable action should be taken by the Eximbank on the H. T. Smith application for a \$3,000,000 loan.

Mr. Braden began the conversation by stating that there were four substantial reasons of justice involved:

1. Ecuador had accepted a highly unpopular boundary settlement in 1942, and was persuaded to do this largely as a result of US promises to assist that country economically;⁸⁸
2. The Ecuadoran Development Corporation, which the Eximbank had financed with a \$5,000,000 loan, had been a failure and we were at least partially responsible;⁸⁹

⁸⁶ William L. Clayton, Assistant Secretary of State for Economic Affairs.

⁸⁷ George F. Luthringer, Chief of the Division of Financial Affairs.

⁸⁸ See *Foreign Relations*, 1942, vol. vi, pp. 387-388.

⁸⁹ See *Foreign Relations*, 1945, vol. ix, pp. 1051 ff.

3. An American company, the Ambursen Company which engaged in road construction in Ecuador and which was under contract to the Ecuadoran Development Corporation, conspired against the Ecuadoran Government;

4. Through a combination of factors, the Ecuadorans had been prevented from discussing loans with the Eximbank over a period of almost two years, because the Department of State had informed the Ecuadoran Ambassador that negotiations for such loans could only be carried on after some settlement was reached regarding a Galápagos Base.

Mr. Braden continued that there was general agreement that the Smith project was economically sound, and that it would be highly beneficial to Ecuador. He suggested that, if the Ecuadorans were now carrying too heavy a debt burden to the Eximbank, outstanding loans might be extended to twenty-year periods, thereby decreasing the amortization and interest payments due annually.

Mr. Clayton replied that he had never favored this Government's making a foreign loan when there was not a reasonable chance of repayment and that, in the case of the Smith application he felt that there was almost no likelihood of repayment. A discussion ensued, but there was no real meeting of minds. Mr. Clayton concluded the meeting by saying that he would consider Mr. Braden's position and would act according to the dictates of his (Mr. Clayton's) conscience when the Smith application came up before the Eximbank Board.

822.51/6-746

Memorandum of Conversation, by Mr. Henry Dearborn of the Division of North and West Coast Affairs

CONFIDENTIAL

[WASHINGTON,] June 7, 1946.

Participants: ARA—Mr. Briggs NWC—Mr. Schnee
 A—Br—Mr. Wright⁹⁰ NWC—Mr. Dearborn
 OFD—Mr. Luthringer
 ED —Mr. Fetter⁹¹
 ED —Mr. Stenger⁹²

A meeting was held in Mr. Briggs' office this morning to discuss our financial relations with Ecuador. There was no meeting of the minds between OFD and ARA officers present, except on the point that the Eximbank should hold discussions with Ambassador Plaza

⁹⁰ James H. Wright, Special Assistant to the Assistant Secretary of State for American Republic Affairs.

⁹¹ Frank W. Fetter, Director of the Office of Financial and Development Policy.

⁹² Jerome J. Stenger, Special Assistant, Division of Investment and Economic Development.

in an attempt to reach an understanding on the Bank's over-all relationship with Ecuador.

Mr. Briggs and Mr. Wright reviewed numerous reasons why this Government should assist Ecuador. Added to the usual points made, it was stressed that we were trying to make it possible for the US Army to remain in the Galápagos, while we were at the same time denying Ecuador economic help, and that this latter attitude might well frustrate our efforts toward the desired military arrangement. Mr. Briggs and Mr. Wright emphasized that, in their opinion, a combination of all the factors involved justified US assistance to Ecuador at this time.

The OFD representatives did not show any inclination toward changing the position which they adopted prior to the turning down of the H. T. Smith loan by the Eximbank on June 5th. Mr. Luthringer stated that he saw no possibility of any readjustment of our commitments to Ecuador which would make it possible for us to extend credit both for the completion of the Manta-Quevedo road and for the financing of the Smith proposal.

822.51/7-146 : Telegram

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

CONFIDENTIAL

WASHINGTON, July 1, 1946—6 p. m.

286. From Eximbank. Following consideration Smith waterworks application Eximbank Board Directors has reviewed present commitments to Ecuador. Inasmuch as Development Corporation credit has since Aug 1 been in default in an amount approximately \$250,000 Board decided not to proceed further with existing commitments until arrearage is paid up. This decision was communicated to Ambassador Plaza. Following discussion of individual commitments Bank agreed as exception to conclude negotiations for Guamote-Tambo Highway credit agreement.

There was an understanding between Bank and Ambassador Plaza to effect that Bank would rely upon his discretion concerning time and manner of undertaking to secure resumption of debt service. He subsequently informed Bank that in telephone conversation with Quito he expressed as his personal opinion concern that Bank would be unwilling to proceed with unutilized commitments in view of default. He said he had reported that Smith project was turned down because of this default.

Following understanding with Ambassador Bank received from Municipal Council Guayaquil notice of imminent departure of Com-

mission authorized to conclude negotiations on Guayaquil waterworks credit. As Bank did not consider it advisable at that time to make a flat statement to effect that it would not consider Guayaquil waterworks project until all arrears had been paid it replied that due to its preoccupation with conclusion of Guamote-Tambo negotiations it was not at that time prepared to receive delegation but promised to inform Commission of appropriate time to come to Washington.

Board's unfavorable action on Smith application was not based primarily upon default status of Corporation credit but upon Ecuador's entire credit and exchange position.

In view of Ambassador Plaza's resignation and since Bank does not know extent he informed either his govt or his colleagues here of foregoing Bank is undertaking to review situation with Chargé d'Affaires and to request that he inform his govt immediately. [Eximbank.]

From Dept urtel 331 Jun 25⁹⁶. Dept emphasizes Eximbank credits are considered entirely apart from and independent of Galápagos negotiations.

ACHESON

822.51/7-146 : Telegram

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

WASHINGTON, July 26, 1946—8 p. m.

316. For Scotten from Eximbank. Reference our cable 286 of July 1⁹⁶ Eximbank at Ecuador's request submitted statement of arrearage as of July 1 on Development Corporation debt. Treasury Minister⁹⁷ by telephone and cable proposed Eximbank accept note for defaulted principal and interest. Bank expressed willingness to accept note for matured principal installments of approximately \$94,000 but insisted upon payment about \$173,000 interest offering to consider revision present maturity schedule on all outstanding Ecuadoran debts held by Bank extending them over 15-year period. Minister accepted and interest paid July 24 but disposition of note payment of matured principal still pending.

Pursuant to arrangements made prior to above described development Eximbank received Dr. Mendoza⁹⁸ on July 25. Due to intervening acceptance of Bank's counterproposal Eximbank indicated its willingness to proceed with complete negotiations Guayaquil Waterworks agreement.

⁹⁶ Not printed.

⁹⁷ Enrique Arizaga Toral.

⁹⁸ Rafael Mendoza Aveles headed the Ecuadoran Mission to the United States concerned with the water works loan.

Bank is sending Messrs. Kinnear, Sullivan and Chase to Ecuador, arriving August 4, principally to discuss with Ecuadoran officials and Jones Company representatives proper procedures to be followed in connection with technical and financial aspects of Guamate-Tambo Highway project. Public Roads Administration is sending to Ecuador a resident engineer who will supervise project on Ecuador's behalf with Eximbank concurrence. Bank's representatives will cooperate with him in getting the project under way on basis of mutual understanding. As a result of discussions with Dr. Mendoza, they are authorized to discuss terms and conditions to be included in Guayaquil waterworks credit. Any information brought to their attention on other Ecuadoran matters will be reported to Bank.

Please make reservations for them at Cordillera Quito August 4 at Metropolitano in Guayaquil August 6 and plane reservations Quito-Guayaquil August 6. [Eximbank.]

BYRNES

822.51/8-1746 : Telegram

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

RESTRICTED

QUITO, August 17, 1946—3 p. m.

[Received 10:24 p. m.]

430. For Sidney Sherwood Export Import Bank from Chase. Complete agreement with Ministry Treasury reached with respect to consolidation and extension Ecuadoran debts held by Export-Import Bank in accordance with Bank's counter proposal. Defaulted principal will be funded upon exchanges of notes. Ecuadoran Republic will be sole obligor on new notes thus eliminating Development Corps as obligor. Automatic payment by Chase Bank of matured installments principal and interest to be authorized.

Treasury Minister acknowledged original purpose million dollar credit no longer exists and agreed to make written proposal that this credit be diverted toward completion Quevedo-Manta Highway. He observed that Development Corp under present circumstances serves no further useful purpose relative to Export-Import Bank credits. Because of most urgent need Quito insists formalization credit agreement for long standing commitment to improve waterworks facilities. Considering circumstances believe it advisable to negotiate terms of agreement, conforming substantially to Guayaquil arrangements while we are here. Please advise if you approve. [Chase.]

SCOTTEN

822.51/8-2646

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

CONFIDENTIAL
No. 1618

WASHINGTON, August 26, 1946.

The Acting Secretary of State transmits herewith for the information of the Officer in Charge a copy of the amendatory agreement signed July 12, 1946¹ between the Republic of Ecuador and the Export-Import Bank to increase the credit of \$1,200,000 authorized on July 15, 1943 to \$1,980,000 to assist in financing the cost of constructing the Guamote-Tambo Highway and also to extend the expiry date of the former agreement from December 31, 1946 to June 30, 1948.

**POSITION OF THE UNITED STATES WITH RESPECT TO THE WHEAT
DEFICIENCY IN ECUADOR**

822.6584/11-1546: Telegram

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

CONFIDENTIAL

QUITO, November 15, 1946—11 a. m.

[Received 2:25 p. m.]

549. Referring to Embgam 359, October 30,¹ concerning request this Govt for quota 9,000 wheat Minister Economy² informed me few days ago that unless wheat received immediately there would be complete lack of flour in Ecuadoran market in approximately one month with consequent danger social disturbances.

Yesterday MinFonAff³ called me to his office on same subject stating that present serious shortage of flour has arisen largely from fact that large importations last year drove down price of wheat and many farmers planted barley this year instead of wheat. He added he was calling me personally as supply of flour in market could not possibly last more than one month and grave political situation would be created should population be unable obtain bread. He stated Ecuador had made repeated representations through its Embassy in Washington as well as this Embassy and had tried without success procure sufficient wheat from Canada. He stated his representation to me was a virtual SOS and the situation here respecting this matter really desperate.

¹ Not printed.

² José Carbo Puig.

³ José Vicente Trujillo.

Following this conversation MinFonAff sent me official communication emphasizing what he told me verbally as set forth above (copy and translation airmail). Dept has been apprised of serious economic situation confronting Ecuador and my considered opinion is that if population unable obtain bread the serious disorders feared by this Govt may very well occur. Obviously enemies of Govt would seize upon this opportunity to incite disorders and possibly revolution.

SCOTTEN

102.78/11-1946: Telegram

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

RESTRICTED

WASHINGTON, November 19, 1946—7 p. m.

418. Ur A-359 Oct 30.⁴ From State and Agriculture. Canada reports wheat and wheat flour exports Ecuador 1945-46 as follows: Wheat 71,975 bu and flour in wheat equivalent 22,090 bu. US exports flour same year equaled 1,100,000 bu wheat equivalent. OFAR estimate Ecuador wheat production same year placed at 850,000 bu. Total supply available from the 3 sources approx 2 million bu. Planned Canadian export to Ecuador of 37,333 bu wheat in 1946-47 expected move current quarter. July-Sept quarter Canadian export flour 78,000 bu wheat equivalent. July-Dec semester US flour quota in wheat equivalent 362,000 bu. Ecuador on Canada's "A" list for flour exports, and US has made recent change in control of flour exports to West Hemisphere countries including Ecuador which is expected to increase movement flour this area. OFAR indicates Ecuadoran wheat production this year should exceed previous year slightly. With this indigenous production and liberalization Canadian and US flour exports, it appears availability Ecuador in 1946-47 of wheat and flour from these sources should approx 1945-46 availability. In view limitations imposed on US grain exports by transportation difficulties and extreme needs many areas to which exports have been scaled down drastically below requirements, we believe Ecuador should meet its emergency by diverting to food use largest possible proportion of its wheat production.

However following is proposed alternative: Emb has been advised in plain circular tel from Agri Nov 19⁴ that no further quotas will be

⁴ Not printed.

established for shipments wheat flour to countries in West Hemisphere. Shipments flour can now be made under general license without necessity securing export licenses from Commerce. To meet situation described urtel 549 Nov 15 and provide bread, Ecuador should promptly seek purchase flour in Amer markets and arrange for immediate shipment.

ACHESON

EL SALVADOR

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR FOR THE ONE-YEAR RENEWAL OF THE AGREEMENT OF MAY 21, 1943, PROVIDING FOR THE DETAIL OF AN OFFICER OF THE UNITED STATES ARMY TO SERVE AS DIRECTOR OF THE MILITARY SCHOOL AND OF THE MILITARY ACADEMY OF EL SALVADOR

[Effectuated by exchange of notes signed at Washington July 30 and August 28, 1946; notes not printed (copies filed under 816.223/7-3046). For text of agreement of May 21, 1943, see Department of State Executive Agreement Series No. 328, or 57 Stat. (pt. 2) 1000.]

GUATEMALA

TERMINATION OF 1942 AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA TO PROVIDE FOR PROCUREMENT OF CRUDE RUBBER IN GUATEMALA FOR USE IN PROSECUTION OF THE ALLIED WAR EFFORT

[Effected by exchange of notes signed at Guatemala February 4, 13, and 15, 1946; notes not printed (copies filed under 814.6176/2-1846). For memorandum of agreement between Guatemala and the Rubber Reserve Company, signed at Guatemala, September 4, 1942, see *Foreign Relations*, 1942, volume VI, page 451.]

SETTLEMENT OF THE REMAINING OBLIGATION OF THE UNITED STATES UNDER ITS MUTUAL AID AGREEMENT WITH GUATEMALA

814.24/5-1546

Memorandum by the Acting Secretary of State to President Truman

WASHINGTON, May 14, 1946.

Our Lend-Lease Agreement with Guatemala provided that the value of material delivered by us under lend-lease should be applied in payment for certain base rights in Guatemala, which were valued for the purposes of the agreement at \$3,000,000.¹ Total lend-lease deliveries to Guatemala have amounted to approximately \$1,500,000, leaving an obligation to deliver \$1,500,000 worth of additional material to them.

Under the interim allocation of military equipment to the other American republics, Guatemala is slated to receive equipment having an original cost value of approximately \$1,700,000. I propose to offer Guatemala its share of the interim allocation under lend-lease rather than as surplus property, taking in return a full discharge of our obligation under the Lend-Lease Agreement. I think this will be satisfactory to the Guatemalans and it seems a good opportunity to discharge their claim out of Army stocks without the expenditure of additional funds. You have already approved similar procedure in the case of Belgium to settle the excess of reverse lend-lease over lend-lease.²

¹ For texts of lend-lease and air-base agreements of November 16, 1942, see *Foreign Relations*, 1942, vol. vi, pp. 444-450.

² For text of agreement between the United States and Belgium regarding mutual aid settlement, see Department of State Treaties and other International Acts Series (TIAS) No. 2064, or 62 Stat. (pt. 3) 3984.

Do you approve of this transfer by the Army as an exception to the general rule that lend-lease transfers of arms and ammunition were to be terminated on V-J Day? ³

DEAN ACHESON

814.24/5-2346

*The Secretary of State to the Guatemalan Ambassador
(García Granados)*

WASHINGTON, May 23, 1946.

EXCELLENCY: I have the honor to refer to the conversation between Dr. Enrique Lopez-Herrarte, Chargé d'Affaires of Guatemala, and Mr. William P. Cochran, Jr., Chief, Division of Caribbean and Central American Affairs, Department of State, on March 13, 1946 with regard to furnishing military equipment for the Guatemalan armed forces. A list of the equipment available for that purpose was given to Dr. Lopez-Herrarte at that time.

It is proposed that the terms and conditions of sale of this equipment shall involve no cash payment by the Government of Guatemala, but that the equipment, costing approximately \$1,700,000, shall be transferred in discharge of the remaining obligation of the United States under its lend-lease agreement with Guatemala. Under that agreement, material of a value approximating \$1,500,000 has been delivered to Guatemala, whereas, for the purposes of the agreement, concessions put at the disposal of the United States by Guatemala were valued at \$3,000,000. If this proposal is acceptable to the Government of Guatemala an indication to that effect is requested, after which detailed arrangements for the transfer of the equipment can go forward.⁴

Accept [etc.]

For the Secretary of State:
SPRUILLE BRADEN

³ A marginal notation reads: "Approved 5/15/46 Harry S. Truman". For White House press releases of August 21 and September 6 concerning the discontinuance of lend-lease operations, see Department of State *Bulletin*, August 26, and September 9, 1945, pp. 284 and 359, respectively.

⁴ The Guatemalan Ambassador informed the Secretary of State in his note of June 7 that his Government had agreed to accept the equipment referred to in the Secretary's note of May 23 in discharge of the remaining obligation of the United States and requested a slight change whereby his Government would receive only two C-47 airplanes instead of four, and five AT-11 airplanes instead of three. In his note of June 10, the Secretary of State informed the Guatemalan Ambassador that the Government of the United States acceded to the request of the Guatemalan Government in that particular (814.24/6-746).

814.24/9-1746

*Memorandum by the Acting Chief of the Division of Central America and Panama Affairs (Newbegin)*⁵

CONFIDENTIAL

WASHINGTON, October 15, 1946.

Guatemalan Lend-Lease is being settled in accordance with the Acting Secretary's memorandum of May 14, 1946, approved by President Truman. Guatemala was offered its share of the interim allocation, in return for full discharge of our obligation under the Lend Lease Program.

The list of equipment that constituted Guatemala's "share of the interim allocation" was communicated to the Guatemalan Chargé on March 13. It consisted of military equipment for:

| | |
|-----------|--|
| | 1 Battalion of Infantry |
| | 1 Battery Light Field Artillery |
| Aircraft: | 4 C-47's |
| | 3 C-45's, AT-11's or AT-7's (Depending on availability) |
| | 6 AT-6's |
| | 10 PT's |

Also the Chargé was told verbally that "aircraft would be accompanied by spare parts and equipment for ground crews insofar as they were available in surplus".

By exchange of notes⁶ Guatemala accepted this proposal, with minor changes in types though not in number of aircraft.

The present Guatemalan note of September 17, 1946,⁷ requests approval for transfer of equipment for far more units than contemplated in the original interim allocation. The amount of equipment thus exceeds that approved by the President. This is the principal reason the reply to the request has been drafted in the negative.⁸

Moreover, the Guatemalan request is based on the assumption that the allocation of "spare parts and equipment for ground crews" should include an "Aircraft Base Maintenance Unit" valued under lend lease at \$625,642.93. The Guatemalan representatives negotiating the settlement have admitted that such a Base Maintenance Unit far exceeds their needs and that they would be unable to maintain it and its diverse equipment. Not wanting to take the Maintenance Unit, they desire instead the credit of \$625,642.93 to be applied to other equipment.

⁵ Addressed to the Under Secretary of State (Acheson), the Assistant Secretary (Braden), the Deputy Director of the Office of American Republic Affairs (Trueblood), and the Divisional Assistant, Division of Special Inter-American Affairs (Spencer).

⁶ See footnote 4, p. 886.

⁷ Not printed.

⁸ Draft note not printed; see note of October 18 to the Guatemalan Ambassador, *infra*.

This seems inconsistent both with the letter and the spirit of the agreement for settlement. The interim allocation strictly specified the ground forces that were to be equipped. It listed the aircraft and added that spare parts and "equipment for ground crews" would be transferred as available.

When the Guatemalan Military Attaché⁹ delivered the note, an officer of the Department observed that there were serious obstacles to approving the request for additional material. The Attaché replied that there seemed to be "no harm in trying".

R[OBERT] N[EWBEGIN]

814.24/9-1746

*The Acting Secretary of State to the Guatemalan Ambassador
(García Granados)*

WASHINGTON, October 18, 1946.

EXCELLENCY: I have the honor to acknowledge your note of September 17, 1946,¹⁰ in which you request certain changes in the lists of equipment to be furnished Guatemala in final settlement of the mutual aid agreement between our two countries.

In reply I regret to inform you that my Government considers such changes inconsistent with the proposals contained in the note of May 23, 1946, and accepted in Your Excellency's note of June 7, 1946.¹¹ Accordingly it is not in a position to comply with your request.

However, there remains the possibility that after fulfillment of the present agreement and upon completion of the interim program further equipment may be made available for sale to the Government of Guatemala.

Accept [etc.]

DEAN ACHESON

814.24/12-3046

*Memorandum of Conversation, by Mr. Murat W. Williams of the
Division of Central America and Panama Affairs*

CONFIDENTIAL

WASHINGTON, December 30, 1946.

Participants: Col. Oscar Morales López, Military Attaché, Guatemalan Embassy,
Mr. Robert Newbegin, Acting Chief, Division of Central America and Panama Affairs,
Mr. Murat Williams, CPA

Colonel Morales López called at Mr. Newbegin's request this afternoon. Mr. Newbegin explained that he had heard that Colonel Morales

⁹ Col. Oscar Morales López.

¹⁰ Not printed.

¹¹ Latter not printed.

López and other Guatemalan officials were interested in making some changes in the equipment being transferred to Guatemala in final settlement of the lend-lease program. Mr. Newbegin said he wished to point out that any such changes were virtually impossible. The proposal, which the Guatemalan Government had accepted, had previously been approved by President Truman. It had been formulated in an effort to satisfy a just Guatemalan claim. No other way of meeting the U.S. obligation had seemed feasible.

Colonel Morales López said he appreciated this Government's position. He realized fully that the terms of settlement had been accepted by Guatemala. However, there was a great difficulty in that no storage facilities existed in the country to accommodate the bulky equipment of a base maintenance unit, one of the items included in the allocation. Furthermore, there was great objection in Guatemala to transfer of equipment, of which such a high proportion was for aviation. "That," said Colonel Morales, "is my fault. I could not go through all of the tables of organizations included in the allocations." He also realized that the Ambassador had signed the note accepting the agreement for lend-lease settlement and that there was accordingly no basis for a Guatemalan protest. He added that he thought Guatemala was fortunate to have this "money from the skies".

Mr. Newbegin explained that this Government did not wish to force upon the Guatemalans any equipment that the Guatemalans did not want, and he reiterated our desire to settle the matter at the earliest possible moment. Colonel Morales said he did not suppose this Government would approve of Guatemala accepting matériel and reselling it in this country. Mr. Newbegin replied that he assumed there might be objection to this and that there would undoubtedly be criticism.

Colonel Morales said that he was negotiating with the United Fruit Company for space to send sheds to Guatemala to house the equipment. He was optimistic about obtaining such space on a ship in the near future because of the good relations now existing between the Guatemalan Army and the Fruit Company (as a result of the Army's assistance in the recent strike at the Fruit Company's plantations).

December 31, 1946. Colonel Morales López telephoned Mr. Williams this morning and reported that he had spoken by long distance to the Chief of Staff in Guatemala. He was told that Guatemala would accept all of the equipment allocated, but it would take one or two months to ship it. He asked if that would be agreeable to us. He was informed that the difficulties were appreciated and that it was assumed that there would be no objection.

**UNITED STATES CONCERN OVER THE POSSIBLE NATIONALIZATION
OF RAILWAY LINES IN GUATEMALA**

814.5045/11-2946

*Memorandum of Conversation, by the Acting Chief of the Division
of Central America and Panama Affairs (Newbegin)*

WASHINGTON, November 29, 1946.

Participants: Mr. Spruille Braden, Assistant Secretary
Mr. John L. Simpson and Mr. Tennyson, of Inter-
national Railways of Central America
Mr. Pollan, Vice President, United Fruit Company
Mr. Robert Newbegin, Acting Chief, Division of
Central America and Panama Affairs

Mr. Simpson and Mr. Tennyson called in connection with the imminent strike of the International Railways of Central America¹² employees scheduled for December 6. Mr. Pollan accompanied them in as much as United Fruit is an important minority stockholder in the International Railways of Central America and because a strike of the Railway employees would seriously handicap the United Fruit Company's operations. After reviewing the background of the strike (which is apparently governed entirely by the desire of the Union to effect the dismissal by the Company of a small number of its former members), Mr. Simpson stated the Company had received information to the effect that the cabinet had been considering the desirability of taking over the railway with possible eventual expropriation.¹³ Were the railway taken over, even without expropriation, the Company was concerned as to how or when it would be able to obtain its return. Mr. Pollan inquired as to what steps the Department might be able to take in the event of expropriation and whether it could request prior compensation. He explained that Guatemala was in no position to make such compensation which would amount to some \$50,000,000. Mr. Braden explained that the Department's policy was to require "adequate, prompt and effective compensation". He said that he had considerable difficulty with the Legal Division in

¹² The International Railways of Central America (IRCA), an American corporation, was incorporated in New Jersey, and American citizens owned the majority of its capital. The Company operated in Guatemala under contracts with the Government which had been approved by the Executive as well as the Legislative body.

¹³ On Labor Day, May 1, 1946, the Guatemalan President (Arévalo) made a speech in which he severely criticized contracts granted by previous administrations, referred to "such contracts as those which for a railway line gave away the blood and soul of Guatemala", and indicated that Guatemala should liberate the wealth wrongfully owned by nationals and foreigners. The President's speech was construed in certain quarters as a warning of future expropriation in spite of official denials.

pushing the idea of prior compensation and that apparently according to international law this could not be insisted upon. He felt, however, that the word "effective" was sufficient. Mr. Pollan asked if the Guatemalan government could be informed that before expropriating the property, it should consider its ability to pay for it. He stated that in the case of Guatemala, the Constitution itself provided for prior compensation. Mr. Braden stated that he felt the constitutional provision would be sufficient for our purpose and that he would be glad to call in the Guatemalan Ambassador and go into the matter with him.

Mr. Simpson and Mr. Pollan both expressed their appreciation and stated that they hoped it would be possible to get the Department's views to the Guatemalan government before the December 6 deadline. Mr. Braden stated that we would communicate with the Guatemalan Embassy today and take immediate action.

R[OBERT] N[EWBEGIN]

814.5045/11-3046

The Assistant Secretary of State for American Republic Affairs (Braden) to the Chairman of the Board, International Railways of Central America (Simpson)

WASHINGTON, December 6, 1946.

MY DEAR MR. SIMPSON: I have received your courteous letter of November 30, 1946¹⁴ with further reference to the difficulties experienced by the International Railways of Central America. I appreciate very much your courtesy in keeping me advised of developments both by the means of this letter and through Mr. Tennyson's telephone conversations with Mr. Newbegin on December 2.¹⁵

I was happy to be able to inform the Guatemalan Ambassador, during his call last Monday,¹⁶ that the matter had apparently been satisfactorily settled. I took the occasion of his visit, however, to impress upon him the concern which was felt with regard to the possible nationalization of the Company and particularly to point out that it would be difficult to make adequate or effective compensation if nationalization were contemplated. The Ambassador denied

¹⁴ Not printed.

¹⁵ Memorandum of conversation not printed; Mr. Tennyson reported that the strike of Guatemalan railroad workers had been averted as a result of President Arévalo's mediation; he also reported the President's having stated to the President of the International Railways of Central America (Bradshaw) that the Guatemalan Government had no intention whatsoever of nationalizing the property (814.5045/12-246).

¹⁶ Memorandum of conversation with the Guatemalan Ambassador on December 2, 1946, not printed.

that such a procedure had ever been under consideration. He did, however, mention the fact that certain American Companies had been operating under long standing contracts some of which had been granted in contravention of the Constitution operating at the time the contracts were entered into. In this regard, he was referring particularly to exemption from certain Guatemalan taxes. He mentioned the commission set up by the Guatemalan Congress to review contracts from the taxation angle.¹⁷ He stated further that he had been authorized by his Government to approach some of the American companies directly in an effort to reach a fair and voluntary agreement with them. I am writing you the above in confidence for your background information as I am sure it will be of interest to you to know that such an approach is contemplated. I very much hope that mutually satisfactory agreements can be reached. I wish to assure you that the Department is always ready to be of any appropriate assistance.

Very sincerely yours,

SPRUILLE BRADEN

814.00/12-1146

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

CONFIDENTIAL
No. 2017

GUATEMALA, December 11, 1946.
[Received December 18.]

SIR: I have the honor to refer to the Embassy's airgram No. 543 of December 11, 1946,¹⁸ stating that during recent weeks the opposition has started a number of rumors to the effect that in view of the growing communistic trend in Guatemala, the United States looks with disfavor upon this country and is imposing certain economic sanctions.

In this connection there is enclosed a copy, in translation, of an editorial¹⁸ which appeared in *La Hora* on December 9, 1946 entitled "Mr. Braden in Action". The editorial was written by Licenciado Clemente Marroquin Rojas, Minister of National Economy and owner of *La Hora*, and the Department will note that he states that the reports received by the Department of State emphasize the disorder into which the present administration in Guatemala has fallen. After a defense of Guatemala's lack of experience in the management of its affairs, due to the lengthy periods of dictatorships, Marroquin Rojas goes on to state, "Mr. Braden, Under [*Assistant*] Secretary of State, seems to be

¹⁷ American officials were concerned that this action had been taken to find grounds on which the Guatemalan Government might base cancellation of these contracts.

¹⁸ Not printed.

watching our attitude with care and to be studying it in order to ascertain just where we are heading . . .¹⁹ And as to lead us back to a logical center path all that is needed is a jerk on the reins of economic interests, it would not be strange if that jerk on the reins were to be felt at any moment.”

. . . it is felt that the enclosed editorial, perhaps based upon reports of Mr. Braden's recent conversation with the Guatemalan Ambassador in regard to the possible nationalization of the IRCA, as discussed by the Foreign Minister²⁰ upon his return, reflects fairly accurately the attitude of a number of the members of the Government that there is a growing feeling of concern in the Department with regard to political developments in Guatemala, and that if measures are not taken to effect a decrease of communistic influence in this country, Guatemala will suffer economic sanctions.

This attitude was also expressed by the Minister for Foreign Affairs in a conversation with me on December 9. Licenciado Silva Peña described at some length the Soviet attitude at the UN Meeting at New York²¹ and expressed strong admiration of the firm and straightforward position taken by the United States. He said that upon his return he had pointed out to the President his feeling that while there now appears a probability that it will be possible to cooperate with the Soviets, such cooperation must be in accordance with the firm policy of defending the rights of the democracies and not allowing the Russians to dominate the situation through constantly acceding to their demands. Licenciado Silva Peña said that he told the President that he felt that at this time Guatemala should take a strong stand with regard to the elimination of foreign labor agitators in this country, influenced by communistic doctrines.

Respectfully yours,

ANDREW E. DONOVAN, II

814.002/12-1846

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

CONFIDENTIAL
No. 2035

GUATEMALA, December 18, 1946.
[Received December 26.]

SIR: [Here follows report on statement made by the Guatemalan Minister for Foreign Affairs (Silva Peña) on December 17 concerning anticipated Cabinet changes.]

¹⁹ Omission indicated in the original.

²⁰ Guatemalan Minister for Foreign Affairs, Eugenio Silva Peña.

²¹ For documentation on the second part of the first session of the General Assembly of the United Nations, New York, October 23-December 16, 1946, see vol. I.

The Foreign Minister then referred to the recent no-strike order²³ issued by the Ministers of National Economy and Gobernación, and said that the statement was directly due to a conversation which he had with the President after his return from the United Nations Meeting at New York. Silva Peña said that he argued at some length with the President with regard to the impression being created abroad of chaotic conditions in Guatemala, the growing uncertainty with regard to foreign investments, the number of illegal strikes and the increasing feeling among outsiders that Guatemala is dominated by communistic labor leaders. He said that in order to prepare the President's mind and further to convince him, he had requested that Ambassador García Granados prepare an exposition of the feeling that he had gathered from conversations with officials of the State Department and notably in his conversation with Assistant Secretary of State Spruille Braden, regarding the difficulties of the IRCA and the question of the revision of contracts with the large foreign companies. He said that the President had been impressed by his arguments and had thereupon telephoned to the Minister of Gobernación, asking that a statement be prepared and made public concerning the Government's position with regard to illegal strikes. . . .

Licenciado Silva Peña said that one of the points which he had emphasized in his conversation with the President, was the inadvisability of allowing Congress to proceed with any investigation of the contracts held by the leading American companies in this country, since such unilateral action, looking towards their revision could not be but viewed with disquiet abroad. He said that he had spoken with several Congressional leaders and that they have agreed not to continue with the investigation of these contracts. He asked my opinion with regard to the matter, and I said that I had always heard from the managers of the several companies concerned, expressions of willingness to enter into discussions with regard to a voluntary re-negotiation provided such re-negotiation meant a settlement of their troubles and was not simply the beginning of further demands on the part of the Government and the Congress. Licenciado Silva Peña said that he wished first to discuss the matter in a Cabinet meeting and would

²³ Despatch 2019, December 11, 1946, from Guatemala, indicated that workers in Guatemala were not to be allowed to go on strike until Congress completed action on the new labor code and put it into effect, probably in March 1947 when the regular session of Congress was to convene. The prohibition on strikes was set forth in a public statement on December 10 by the Ministries of Economy and Labor and of Government which indicated that strikes and stoppages were forbidden by laws already in force. (814.5045/12-1146)

Despatch 2059, December 27, 1946, from Guatemala, indicated that peace between the International Railways of Central America (IRCA) and the Guatemalan Railways Workers Union (SAMF) was temporarily achieved with the signing of an agreement on December 21, 1946, that neither would "create new conflicts until the issuance of the labor code." (814.5045/12-2746)

then again discuss the question with me to see whether it would be desirable to initiate conversations with the local managers of the several companies or whether instructions should be issued to the Guatemalan Ambassador in Washington to undertake discussions with the head offices of these interests. I said that I felt that while I believed that such discussions might be productive of gratifying results, it would be necessary first to remove any appearance of coercion because of pending action in Congress. The Foreign Minister said that he felt that the question of the contracts in Congress was now more or less settled and that sometime early in the new year it might be desirable to undertake conversations in an entirely informal manner to ascertain the views of the officials of the companies concerned. He said that he had told the President that a mutual re-negotiation of the contracts in a friendly spirit would be beneficial to Guatemala and to the feeling abroad with regard to this country, while the other course of unilateral action on the part of Congress was politically inexpedient as well as illegal. He said that he did not agree that such subterfuges should be engaged in, such as claiming the contracts were illegal under one or another of the constitutions, but that the re-negotiation should be on the basis of a frank and friendly discussion.

Respectfully yours,

ANDREW E. DONOVAN II

PROTECTION OF AMERICAN INTERESTS IN THE EXPROPRIATION OF AN AIRLINE IN GUATEMALA ²⁴

314.248/1-2446

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, January 28, 1946.

The Ambassador of Guatemala ²⁵ called this afternoon at my request and was told that the Department had received information to the effect that the two C-47 planes, for which the Department had approved the issuance of a license on January 21 upon assurances from Dr. López-Herrarte, Counselor of the Embassy, that they were for the use of the Guatemalan Government, had in fact been delivered upon their arrival in Guatemala City to the hangars of Aviateca.²⁶ I told the Ambassador that we had received further information that

²⁴ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1084-1089.

²⁵ Jorge García Granados.

²⁶ Aviateca, the Compañía Guatemalteca de Aviación, S.A., was organized following the expropriation by the Government of Guatemala of the airline, Aerovías de Guatemala, whose principal stockholder was Alfred E. Denby, American citizen.

these planes were now being used on scheduled commercial flights. I emphasized that this report had caused the Department serious concern. The Ambassador stated that he knew nothing of the matter and had not realized that it had been discussed by Dr. López-Herrarte. He then telephoned the latter in my presence requesting a clarification. Dr. López-Herrarte confirmed that he had requested the Department's assistance in obtaining the license and that he had done so at the request of the Guatemalan Military Attaché. I explained to the Ambassador that had we had any knowledge that the planes were being delivered to Aviatega we would not have approved the issuance of the license. I asked him to be good enough to verify the report that the airplanes had been so delivered and were being used on commercial flights, expressing the hope that were the report confirmed the Guatemalan Government would take whatever action might be necessary to remove the planes from Aviatega. The Ambassador said that he would send a telegram to his Government immediately explaining to them that if the report were true some means would have to be found for the Government to take over the planes. He said further that he understood the Department's position perfectly, that he felt that it was entirely justified in its concern and he offered his profound apologies.

R[OBERT] N[EWBEGIN]

814.796/2-1346: Telegram

The Secretary of State to the Ambassador in Guatemala (Kyle)

SECRET

WASHINGTON, February 15, 1946—8 p. m.

64. Urtel 74, Feb 13, 6 p. m.²⁸ Dept does not concur in view that the two C-47 planes should be administered by Aviatega. While it is not necessary to impute bad faith to President Arévalo, FonMin or members of Guatemalan Emb here fact remains that license was granted for their export solely on the assurances from Guatemalan Emb that planes were for use of Guatemalan Govt in its military program and not for Aviatega. Had there been any intimation that Aviatega was even indirectly concerned the license would have been withheld. The Depts serious concern was brought forcefully to attention of Guatemalan Ambassador by one of its officers on Jan 28, (see memo of conversation transmitted informally to Emb) with request that if facts were in accord with Depts information immediate steps be taken to remove the planes from Aviatega. Any other course would jeopardize position of this Govt in seeking satisfactory solution of problem arising from expropriation of Aerovias. Continuation of connection

²⁸ Not printed; Ambassador Kyle reported that the Guatemalan Minister for Foreign Affairs (Silva Peña) had stated that planes were for Government use but, lacking competent pilots, the Government had turned them over to Aviatega for operation largely in connection with a Government-sponsored project (814-796/2-1346).

with Aviatega would necessarily mean that Dept would view any further request for planes or aviation equipment from Guatemalan Govt in light that final destination might be Aviatega.

You are accordingly instructed to make the Depts position entirely clear to the FonMin and request that immediate steps be taken to comply with assurances given by Guatemalan Emb. Please inform Dept of results of your conversation.²⁹

BYRNES

814.796/2-1646

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, February 16, 1946.

Colonel Morales López³⁰ called this morning to discuss certain aspects of the Aviatega case. He said that he hoped to go to Guatemala in the near future and in as much as he had personal relations with a number of people concerned, he thought that if he thoroughly understood the Department's point of view he might be instrumental in bringing about a settlement of the difficulties.

I reviewed with him the developments emphasizing that the Department, as was he and undoubtedly the Guatemalan Government, was interested in settling the matter as promptly as possible. He said that the impression had been gained that the Department was hostile to Aviatega and that this impression was having unfortunate repercussions. I expressed regret that this was the case telling him that our only interest was that adequate and just compensation for the expropriated Aerovias be made to the latter's stockholders. I informed him that there was no objection whatsoever to the expropriation as such but that the compensation had not been prompt nor had it been pos-

²⁹ Ambassador Kyle reported in telegram 98, February 26, 1946, noon, that the Foreign Minister had informed him officially that at a Cabinet meeting on February 25 the Government decided definitely to withdraw the C-47 planes from Aviatega and place them under the Minister of Communications (Chacón) effective immediately (814.796/2-2646).

In despatch 1201 of March 22, 1946, Ambassador Kyle reported that Guillermo Toriello, former Minister for Foreign Affairs, and at that time attorney for Aviatega, had discussed with him on March 21 the decision of Aviatega officers to refuse to comply with the Government's request to turn over the two C-47 planes, on the grounds that it had no legal right to make this request, since the Government owned 30 percent of the stock in Aviatega, and, further, because if the planes were disposed of, it would ruin the company as there were no other planes available. Ambassador Kyle also reported statements by Ambassador García Granados a few days before that neither Aerovias nor Aviatega had a legal contract as they had not the final approval of the Guatemalan Congress (814.796/3-2246).

In despatch 1492, June 27, 1946, Ambassador Kyle noted the possibility that Congress would declare illegal the contract under which Aviatega, the successor company to Aerovias, was operating (814.796/7-246).

³⁰ Col. Oscar Morales López, Guatemalan Military and Air Attaché.

sible to determine as yet whether the compensation was adequate; that the amount set aside as compensation was reached by Aviatega alone without negotiation with all of the stockholders.

Colonel Morales López then referred to Mr. Denby in disparaging terms. I told him that the Department took the point of view as had been previously pointed out to the Ambassador by Mr. Cochran³¹ that until definite proof was forthcoming of illicit or improper actions on the part of Mr. Denby, the Department necessarily must consider him innocent. I said that to date no such proof had been forthcoming and that however convinced certain individuals might be, we could not be guided by opinions and hearsay. Colonel Morales López said he understood this perfectly.

I pointed out that much of the delay in reaching a conclusion as to whether the compensation was adequate was due to the fact that the books had not been available to Mr. Denby's representatives and that they had therefore not been in a position to make their own evaluation of the shares. Stressing that the Department was still not in a position to judge whether the compensation was adequate, I likewise mentioned that Mr. Gherini, Mr. Denby's son-in-law, was now investigating the matter in Guatemala City and that it had recently been alleged that new difficulties had been put in his way since officials of Aviatega were reviewing the books at the same time. I told him that I could not confirm this latter statement since it was purely unofficial. Colonel Morales López suggested that representatives of Aviatega, Denby, the Guatemalan Government, and State Department, go into the matter together. I replied that whereas this might well afford a method of settling the problem, I was not sure that the Department would be willing to designate a representative for this purpose and probably in any case would not be willing to do so until a genuine effort had been made on the part of Aviatega and the Denby interests to reach a solution by direct negotiation. I asserted that his proposal was one which would require further consideration.

R[OBERT] N[EWBEGIN]

814.796/7-2346

The Ambassador in Guatemala (Kyle) to the Secretary of State

No. 1576

GUATEMALA, July 23, 1946.

[Received July 26.]

SIR: With reference to the Embassy's despatch No. 1511 of July 2, 1946³² regarding the intervention by the Guatemalan Government

³¹ William P. Cochran, Jr., Chief of the Division of Caribbean and Central American Affairs.

³² Not printed.

of Aviateca and forwarding a copy of the congressional decree authorizing this action, I have the honor to enclose a copy in translation of a decree, effective July 20, 1946,³³ establishing a board encharged with the formalities in connection with the transfer to the State of the property and assets of the Compañía Guatemalteca de Aviación. The decree also provides that once this transfer is completed the present Interventor, Colonel Tomás M. Letona, will automatically become manager of the new company. The manager is empowered to pay private individuals possessing shares in Aviateca the paid-in value of the shares to which they have subscribed.

Respectfully yours,

For the Ambassador :
ANDREW E. DONOVAN II
Secretary of Embassy

814.796/9-446

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, September 4, 1946.

In the course of a conversation this afternoon, Dr. López-Herrarte stated that during his recent trip to Guatemala he had taken occasion to impress upon the local authorities the necessity of reaching a solution of the Aviateca case. He said that, speaking quite unofficially, he had taken Dr. Matos, Denby's father-in-law, to the Foreign Office to talk to the Foreign Minister and that he believed it might be possible for the two parties to reach a settlement. He expressed the opinion that if a definite settlement were reached the State Department would not be interested in its exact terms. I told him that that was the case but our principal interest was that a settlement be reached agreeable to both parties without reference to terms. We would, however, have a direct interest in the terms of settlement provided Denby and his lawyers on the one hand and the Guatemalan Government on the other, failed to reach a prompt and mutually satisfactory agreement. I told him that speaking entirely unofficially that I considered it desirable for him to know of a development which had caused us considerable concern here but which was not as yet being made a matter of any official record and that I hoped it would be unnecessary to do so.

I then informed him that we had been advised that up until the intervention of Aviateca by the Guatemalan Government, Aviateca had been flying the two C-47's which had been the subject of previous discussions between us, on scheduled flights notwithstanding repeated assurances of the Guatemalan Government that this was not

³³ Not printed.

the case and that action was being taken to remove the planes from Aviateca. I told him again, emphasizing that I was speaking purely informally and as a friend, that this seemed to me to be about as near an example of bad faith as had come to my attention. Dr. López-Herrarte expressed his agreement with this point of view and informed me that he was quite aware of that situation.

R[OBERT] N[EWBEGIN]

814.796/10-1546

Memorandum of Telephone Conversation, by the Acting Chief of the Division of Central America and Panama Affairs (Newbegin)

WASHINGTON, October 15, 1946.

Dr. López-Herrarte called this morning to state that he had an application for two propellers for the use of Aviateca and that he wished to check with me as to the Department's attitude towards permitting the licensing of equipment for Aviateca at this time. I informed him that the Department's attitude had changed somewhat due to the change in the status of Aviateca. I pointed out that in view of the action taken by the Guatemalan Government in taking over Aviateca, the entire responsibility for a settlement of the Aviateca-Aerovias matter now rested with the Guatemalan Government and that there was no longer a divided responsibility as between the former owners of Aviateca (as distinct from Aerovias and the Denby interests) and the Government. I told him that on the assumption that the Guatemalan Government would now make every effort to reach a settlement, we would look with more sympathy on the licensing of equipment for Aviateca than we had under the previous arrangement.

Dr. López-Herrarte then inquired as to whether we had been informed of any progress as regards the question of a settlement of the Aerovias matter. I replied that we had been informed that Mr. Gherini was in direct contact with representatives of the Guatemalan Government in an effort to establish the facts and that it was understood that a commission would be appointed to work out any differences of views between the two parties. I added that although this did indicate some progress, nonetheless, we did not appear to be much nearer to a final solution than we had been heretofore. I explained that the Department's attitude was unchanged and that we continued to regard the long delays in reaching a settlement as unwarranted and deplorable.

In referring to the intervention on Denby's other properties, I informed Dr. López-Herrarte that we had been informed that action

was to be taken by the Government with a view to its lifting but that here again the action had not as yet been taken and there was no real change from the time when the case originally arose. Dr. López-Herrarte said that he understood the Department's position perfectly and was in full agreement with it; that he also felt the entire responsibility for a settlement now rested with the Guatemalan Government. I told him that I would appreciate his informing his Government of the reasons for the change in the Department's views as regarded equipment for Aviateca and particularly its hope that the Guatemalan Government would expedite action. Dr. López-Herrarte expressed his thanks for the Department's very generous attitude.

R[OBERT] N[EWBEGIN]

HAITI

UNITED STATES RECOGNITION OF THE NEW HAITIAN GOVERNMENT

838.00/1-1346

The Ambassador in Haiti (Wilson) to the Secretary of State

CONFIDENTIAL
No. 1220

PORT-AU-PRINCE, January 13, 1946.
[Received January 23.]

SIR: In continuation of my despatch no. 1214 of January 9,¹ I have the honor to report that the political disturbances precipitated by the student strike proceeded with unusual rapidity, and finally brought about perhaps the principal object of the strikers, the overthrow of President Lescot. . . .

The strike spread with great rapidity on January 8 and 9, extending to Government offices and commercial houses and by January 10 may be said to have been complete. The movement was remarkably contagious, undoubtedly because the demands of the students comprised not only the restoration of political guarantees and the holding of new legislative elections but also because of the unpopularity in which President Lescot and some of his supporters, such as Gontran Rouzier, the Under Secretary of State for the Interior, were held by the public. . . .

Undoubtedly with the purpose of effecting a stabilizing influence and diminishing the popular effervescence, President Lescot delivered a radio address at 1:00 on January 9 (see Embassy's telegram no. 12 of January 9¹). In doing so the President probably injured rather than helped his own cause. The tenor of the address (see my despatch no. 1219 of January 10¹) which is harsh rather than conciliatory, and the tone of the President's voice did not produce the desired result. He announced categorically that he would remain in office instead of suggesting a modification of the Constitution, and his proposal to hold a popular referendum offered no immediate relief. As I have reported in my telegram mentioned above, I called on the President that day at my own request and asked him to enlighten me on the current of events. He frankly acknowledged that the agitation was directed against his own person and then assumed a defensive position by virtually denying that his administration was harsh or repressive of popular liberties. I felt it useless to contest the accuracy of his views,

¹ Not printed.

although I gave no indication of concurring in them. He then produced the text of his proposed address, which he read to me in full, and appeared to invite my comment. As the time was growing extremely short, I could do no more than suggest to him informally that it might be helpful if he could include some reference to his Government's support of the United Nations Charter or President Roosevelt's Four Liberties.²

On January 10 the crisis was precipitated by the resignation of the entire Cabinet. It merely added fuel to the flame of the growing demand for the immediate departure of the President. . . . About mid-day on January 11 he consulted Mr. Rigaud,³ who informed him categorically that he could not choose his own Cabinet but must accept the choice of the Unified Democratic Front and that he could not remain in office until May 15, 1946 but must withdraw immediately and permit the new Cabinet to choose a new President. This ultimatum the President appears to have accepted, with the exception of requesting that a suitable length of time be granted to him to arrange his personal affairs before leaving. Rigaud then left, stating that he would consult his organization.

A short time later I received a telephone call from the President asking me to come to see him. This I did. He described to me at some length his efforts to form a Cabinet, handed me the text of his proposed radio address and asked me whether I would use my good offices with the Unified Democratic Front to permit him to remain a few days in order to arrange his personal affairs. I told him that all this would put me in a rather delicate position, but that I would give it my sympathetic consideration. He promised to send me the names of the persons whom I should consult.

A few minutes before 4:00, three cannon shots were fired from Fort National, announcing the seizure of power by the Military Executive Committee, and a few minutes later Colonel Lavaud⁴ read a proclamation over the radio, the text of which in original and translation is enclosed.⁵ This proclamation announces that owing to the inability of the Government to form a new Cabinet and the failure of efforts to restore calm to Haitian life, the General Staff of the Garde asked the President to resign, thereby making him a prisoner. The proclamation then states that the General Staff has formed an Ex-

² For excerpt from the annual message of President Roosevelt to the Congress, January 6, 1941, setting forth the "four essential human freedoms", see Sen. Doc. 123, 81st Cong., 1st sess. : *A Decade of American Foreign Policy: Basic Documents, 1941-1949*, p. 1.

³ Georges Rigaud, Minister of Commerce and Agriculture.

⁴ Col. Frank Lavaud (Chief of Staff), Chairman of the Military Executive Committee (a Junta of three officers of the Garde). The other members of the Junta were Maj. Paul Magloire (Chief of Palace guard), and Maj. Antoine Levelt (Director of Military School).

⁵ Not printed.

ecutive Committee to govern the country until new elections can be held. It guarantees all the liberties demanded by the people and assures the security of Haitian and foreign institutions. The streets of Port-au-Prince immediately became a scene of jubilant manifestations, people crying, "Vive Liberté!" and "à bas Lescot!" The presidential flag was hauled down from the National Palace. The crowd was particularly dense before the office of the Chief of Staff, where many officers of the Garde were gathered. The crowd appeared to be friendly to Americans, as I observed during a short tour of the town which I made later in the afternoon.

About 11:00 p. m. on January 11 the Executive Committee, through the intermediary of Major Peterson,⁷ requested to see me. I received them shortly afterwards at the Residence and conversed with the three officers for about an hour. Colonel Lavaud recounted to me at some length the events of the day and the President's inability to form a Cabinet. As during the afternoon he received disturbing reports from various parts of the city stating that the situation was getting out of the control of the Garde, he considered it essential in the interests of public peace to inform the President that he must immediately give himself up as a prisoner and leave the country. After some reflection the President consented.

I then talked with him at some length concerning the constitutional aspects of the situation. He frankly acknowledged that an extra-constitutional *coup d'état* had taken place. I asked him whether it would not have been possible, in view of the absence of a Cabinet, to follow the provisions of Article 39 of the Constitution, which states that the Permanent Committee of the National Assembly can choose a President.⁸ This he promptly put aside, as he said that the present Assembly was so unpopular that the people would never accept a President selected by the Permanent Committee. In fact, he said, it was the intention of the Military Executive Committee to dissolve the Chambers. This occurred on January 12.

I then asked Colonel Lavaud to describe to me his Committee's program. He replied that it intended to call popular elections as soon as possible, apparently within about two months, and that the newly elected Congress would choose the new President. In the meantime a military government would exercise control. This would mean, according to Colonel Lavaud, that various military officers would be placed in charge of the various Cabinet portfolios so as to enable the Government to function.

⁷ Maj. John L. Peterson, Military Attaché.

⁸ A penciled marginal note on the original by Mr. Charles C. Hauch of the Division of Caribbean and Central American Affairs reads: "Art 39 Const says that Perm. Committee convokes the Chambers which elect the President. The Committee itself does not elect. CCH"

I asked him whether he believed that his Committee had the support of popular opinion. He pointed out to me the enthusiastic crowds which had appeared in the streets and had given every sign of approval. He announced that all liberties had been restored and that political prisoners had been released. I inquired whether all political groups had given their approval. To this he did not give a wholly affirmative answer, and I gathered that the Unified Democratic Front, copy and translation of whose manifesto is enclosed,⁹ was not satisfied. I explained to him that I had put these questions to him, as he understood that the question of recognition would immediately arise and explained to him that I could not enter into any formal relations with him except under instructions from my Government. This he appeared to understand and showed no sign of displeasure.

During the last twenty-four hours it has become abundantly apparent that the members of the Unified Democratic Front have not given their support to the Military Committee, and that they have formed a Committee of Public Safety. On the morning of January 12, as I informed the Department in my telegram no. 24 of January 12,⁹ Dr. Camille Lherisson, a prominent physician of Port-au-Prince, and Mr. Emile Rigaud called upon me and in the name of this Committee of Public Safety demanded that the Department take immediate steps to compel the Military Committee to turn control over to it in order that the latter may rule as a provisional Government. Copy and translation of the Note of the Committee of Public Safety is enclosed,⁹ which gives me until midday to obtain the intervention of the United States Government, and announces that if this intervention should not be forthcoming, the Committee would not be responsible for future events. I told the gentlemen that in my opinion the proper way to proceed would be for them to approach the Military Committee as responsible and patriotic citizens and endeavor to reach a settlement with the latter, who in my opinion appeared to be equally patriotic. After some difficulty they were persuaded to give their consent and I requested Major Peterson to approach Colonel Lavaud and to ask him, if possible, to grant the interview. The latter willingly gave his consent, which was transmitted to Dr. Lherisson. The latter, however, after some hesitation, gave an evasive answer, stating that in the circumstances he did not consider it necessary any longer to see Colonel Lavaud.

At the time this is written it appears that the position of the Military Committee is becoming stronger, as it has enlisted the support of the students who initiated the strike, the latter issuing radio broadcasts announcing their support of the Committee and asking everyone to

⁹ Not printed.

return to work on Monday, January 14. The refusal of the Committee to permit any officers serving as Cabinet ministers to accept the ministerial salaries has produced a favorable impression.

As of interest to the Department, I should state that I was consulted on January 12 by Messrs. Williams, Pearson and Waterschoot of the National Bank, who stated that the Executive Committee had requested the Bank to provide funds on Monday to meet the regular budgetary expenses of the Government. The situation appeared delicate, as the Executive Committee is merely a *de facto* organization, not as yet having selected a provisional Cabinet. After some consideration, however, they decided that in the interest of stability and peaceful conditions, it would be necessary for the Bank to take the risk and issue the necessary funds to carry on the ordinary business of the country.

During the last twenty-four hours mobs have destroyed the houses of some of the unpopular officials, including the country residence of Gontran Rouzier, who has taken refuge in the Cuban Legation. There has been also a certain amount of pillaging of the shops. The animosity of the people, however, does not appear to be directed against foreigners, except the Syrian shopkeepers, and Americans appear to enjoy the friendly feelings of the people in general.

Respectfully yours,

ORME WILSON

838.01/1-1646 : Telegram

The Ambassador in Haiti (Wilson) to the Secretary of State

CONFIDENTIAL

PORT-AU-PRINCE, January 16, 1946—3 p. m.

[Received 8:15 p. m.]

Embtel 32, of Jan. 14.¹⁰ I received yesterday a note from the Haitian FonOff signed by Major Levelt stating that the Haitian Embassy in Washington has been instructed to request recognition. The note declares that the Executive Military Committee is recognized unreservedly throughout the entire territory of the Republic and has received the most complete popular support. It is determined to respect all international engagements assumed by the Republic of Haiti.

Information which I have obtained from reliable sources indicates that the Committee is in complete control of the Govt and enjoys the support of the student groups who commenced the revolution and of business circles. The press is uniformly favorable. Attitude of political groups is not so clear probably because of personal ambitions of various individuals but I doubt whether in view of assurances of committee to hold popular elections soon in order to establish a civilian

¹⁰ Not printed.

constitutional govt that they will endeavor seriously to weaken the authority of the Committee. In addition they appear to be unable to draw up a plan for a provisional civilian govt. It must also be remembered that the Garde is the only force which can maintain order and that recognition by the US of the provisional military govt will undoubtedly strengthen its position. I believe that the members of the Committee have no political ambitions. They have refused to accept any compensation other than their military salaries. There are no indications whatever that the revolution was aided by Axis influences.

If the situation continues to remain tranquil I expect to be able to send the Dept definite recommendations for recognition in the very near future.

WILSON

838.01/1-1646 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Wilson)

SECRET

WASHINGTON, January 17, 1946—7 p. m.

10. Urtel, unnumbered, Jan. 16, 3 p. m. Dept expects consult other American republics regarding recognition Executive Military Committee and cirtel¹¹ on this subject is being sent you for information only.

Consultative process may take some time. In view recent developments certain countries of hemisphere and possible future repercussions, Dept plans proceed cautiously as regards recognition military regimes. Dept needs all possible information as to whether Committee intends and will be able to hold elections and turn power over to its elected successor. Please keep Dept advised of any further facts and views you may have on this subject.¹²

¹¹ Circular telegram, January 17, 8 p. m., not printed.

¹² Ambassador Wilson reported in telegram 50, January 22, 2 p. m., that he had reached the conclusion after careful consideration that it would be advisable to grant recognition to the Military Executive Committee; the Committee appeared to possess general popular support, and, in his opinion, it intended to proceed to elections as soon as possible, its members had no personal political ambitions, and it proposed to fulfill its international obligations. Furthermore, he expressed his belief that recognition by the United States would tend to strengthen the position of the Committee which in his opinion was the only organization in Haiti that could maintain tranquility. (838.01/1-2246)

In telegram 80, February 5, 1946, 8 p. m., Ambassador Wilson reported the intention of the Military Executive Committee to announce on February 10 its plan to hold elections, adding: "This will contemplate elections for legislature and not for constitutional convention in order to prevent Communists from endeavoring to control deliberations of latter. Legislature could draw up new constitution and elect president." The Ambassador was of the opinion that this fact was a further indication of the good faith of the Committee to establish a civilian government at the earliest opportunity and should receive the Department's sympathetic attention in connection with the question of recognition. (838.00/2-546)

Dept requests your views on recent or present applicability Article 39 of 1944 Constitution on presidential vacancy and the attitude of the Executive Military Committee towards this article.

ACHESON

838.002/2-146 : Telegram

The Ambassador in Haiti (Wilson) to the Secretary of State

CONFIDENTIAL

PORT-AU-PRINCE, February 1, 1946—5 p. m.

[Received 7 : 58 p. m.]

73. Re Embassy despatch 1220, January 13. During a conversation today with Major Levelt, a member of the Military Executive Committee, I inquired whether the committee had ever considered the possibility of placing a civilian in the Cabinet as by so doing the Committee might strengthen its position and inspire greater confidence. He answered affirmatively but added that the Committee feared that if a reputable civilian were chosen the Communists would demand a portfolio for themselves. I suggested that this might be avoided by selecting a person entirely without political affiliations. He expressed appreciation of my interest and said that he would direct Colonel Lavaud's attention to the matter.

I believe that Levelt is sincere and that the Committee will give its attention to this subject.¹⁴

WILSON

838.01/2-2046

The Ambassador in Haiti (Wilson) to the Secretary of State

CONFIDENTIAL

PORT-AU-PRINCE, February 20, 1946.

No. 1302

[Received March 1.]

SIR: I have the honor to report for the information of the Department that conversations which I have had with prominent members of the American colony in Haiti indicate that many Haitians have been looking eagerly towards the United States as the great power which through its recognition of the Military Executive Committee would strengthen the moral authority of the Committee and thus assist their country to emerge from the present abnormal situation brought about by the fall of Lescot. Recognition by other American Republics would mean in comparison little or nothing. As, however,

¹⁴ In a memorandum of February 7, 1946, Mr. Charles C. Hauch pointed out the fact that the Committee had demonstrated a willingness to take representative civilians into the Cabinet, but the latter had been unable to agree among themselves as to who should be included; Mr. Hauch expressed his opinion that the elections should settle this problem. (838.00/2-546)

this recognition has not been forthcoming, the attitude of these persons has changed to disillusionment and the prestige of the United States has consequently suffered.

I have endeavored to point out to my informants that the United States is following scrupulously its policy of cooperating with the other American Republics by means of consultation and that this will obviously take some time, as many of these republics have an inherent distrust of military rule. This, however, does not seem to convince them, as they advocate prompt recognition. It is, of course, difficult for persons residing in Haiti who feel the need of a strong executive who would bring the country back to a more normal status, to realize that consultation may be a protracted procedure. Many appear to consider that the United States is failing to further the cause of order and tranquility by pursuing a course of action which to them is distant and unreal.

Respectfully yours,

ORME WILSON

838.01/3-146 : Circular telegram

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

SECRET

WASHINGTON, March 1, 1946—8 a. m.

Consultations among the various American Republics with regard to the possible recognition of the incumbent regime in Haiti have demonstrated that five countries are favorably disposed towards such action, while four (Mexico, Guatemala, Panama, and Venezuela) have expressed reluctance to do so in view of the wholly military nature of the cabinet as well as of the triumvirate. The remaining eight have expressed no definite opinion other than their intention to act only after full consultation and in conformity with the views of the other republics.

The military aspect has also caused us some concern in the light of past experience with regimes in hemisphere which before recognition have promised to observe democratic practices but after recognition had been extended sometimes ignored them. It is of course no part of this Govt's intention to lend encouragement to the establishment or maintenance of military regimes or of any Govt not resting on the freely expressed will of the people. On the other hand, reports so far available, indicate that the military junta assumed power because it was only group prepared to assume the responsibilities of office and capable of maintaining order in face of lack of organization of opposition to Lescot and that it has acted with patriotism and disinterest.

Information reaching Dept indicates that junta would be quite willing to include civilians in cabinet and in fact has tried to do so; but

that its efforts have been unsuccessful due in part to lack of any political party with sufficient public support to ensure public confidence in its representative; in part to the inability of the numerous political parties which have sprung up to establish any working coalition; and in part to reluctance of individual civilians to accept office without the assured support of political groups and of the public.

Military junta has emphasized its desire to turn over to a civilian Govt as soon as possible, and has convoked elections not later than May 12, in which no member of the military is to be eligible for election. At that time, voters will choose a legislative assembly, which will first draw up a new constitution to replace that abrogated in January of this year and then elect a President. There would appear to be no prohibition preventing election of member of present junta or of Military to Presidency at that time.

Please convey foregoing survey of situation to FonMin, pointing out that junta controls machinery of Govt and is maintaining order, appears to enjoy popular support and has promised to fulfill its international commitments. You may point out that apprehension has been expressed that continued withholding of recognition might result in collapse of junta, general disintegration and even chaos—a possibility which the FonMin will wish to consider in conjunction with the other factors enumerated bearing on the situation.

Please ask FonMin for any additional information he may have and inquire specifically whether in his Govt's estimate recognition should be extended. You should add that your Govt makes no recommendation on this point and that it will take no action pending a consensus that recognition should be extended and the setting of a definite date. You should tell FonMin that if he favors recognition Dept would appreciate his suggestions as to date.

Above repeated to Buenos Aires, Ciudad Trujillo, and Port-au-Prince for information only.

BYRNES

838.01/3-2646 : Circular telegram

The Acting Secretary of State to Diplomatic Representatives in the American Republics

WASHINGTON, March 26, 1946—8 p. m.

Depcirtel Mar 1. Uruguay recently extended recognition to provisional regime in Haiti thus presenting occasion for reassessment our position and evaluation recent additional information. In face reluctance certain Govts to recognize wholly military regime Dept considers it significant that Haitian triumvirate did not attain office by *coup d'état*, but stepped into vacuum left by resignation Lescot under pressure popular discontent. Junta attempted deliver execu-

tive power to Supreme Court which was unwilling to accept. Equally, junta attempted include civilians in cabinet, but was unsuccessful due existence plethora individualistic political parties each demanding cabinet post and unwilling concede such representation to its competitors. Junta has convoked elections for May 12 for legislature which will meet and organize soon as possible thereafter, prepare new constitution (it is hoped within 30 days), and then elect President to whom junta will deliver executive powers. Junta decree provides that no military man on active service can be candidate for legislative election unless he resigns within 15 days of date of decree (Feb. 12). So far as is known, no officer resigned in accordance with this decree. Members of Committee have also declared repeatedly they do not intend to be candidates for any position including presidency. Foregoing information confirms reports of lack of political ambition on part of junta or army and of their sincere desire to establish civilian regime soonest possible.

In view foregoing and since junta controls machinery of Govt and is maintaining order, appears to enjoy popular support and has promised to fulfill its international commitments, please consult FonMin once more regarding recognition, informing him that your Govt favors such action at early date and that Costa Rica and Bolivia should now be added to the list of countries favoring such action. If he indicates his Govt favors recognition, his view on date for this action is solicited.

For your confidential information only, please attempt have reply reach Dept within a week so that if consensus favorable early date can be set for recognition.

Repeated to Haiti, Dominican Republic, Uruguay, and Argentina for information only.

ACHESON

838.01/1-1346 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Wilson)

SECRET

WASHINGTON, April 2, 1946—7 p. m.

82. Since consensus of views on Haitian recognition in response to Depcirtel Mar 26 8 pm is favorable,¹⁵ you should on Apr 8 advise

¹⁵ A circular telegram of April 2, 2 p. m. announced to 20 missions the Department's plans to recognize the Military Executive Committee on April 8; a marginal handwritten notation initialled by Acting Secretary Acheson on the original telegram reads: "Approved by the President. DA." It was reported that two Republics (Uruguay and Mexico) involved in original consultation on Haitian recognition had extended recognition to the Committee; 14 others including this Government were favorable to recognition; no reply had been received from Guatemala to the circular telegram of March 26; and only the Venezuelan reply was unfavorable (838.01/4-246).

FonOff of this Govts receipt of communication addressed to President by Military Executive Committee on Jan 14,¹⁶ as well as similar communication of Jan 15 addressed to Secretary by FonMin,¹⁶ both of which stated that Committee wished to maintain with this Govt the traditionally friendly relations between Haitian and American peoples. In response to these messages you should state this Govt desires to resume the amicable official relations which before Jan 11 prevailed between Haiti and the United States. At same time you should advise FonOff Dept is replying in same sense to note from Haitian Emb of Jan 13 requesting recognition.¹⁷

ACHESON

REPRESENTATIONS BY THE UNITED STATES TO HAITIAN AUTHORITIES REGARDING PROVISIONS OF PROPOSED HAITIAN CONSTITUTION WHICH WOULD DISCRIMINATE AGAINST UNITED STATES INTERESTS IN HAITI

711.38/8-1846

The Ambassador in Haiti (Wilson) to the Secretary of State

CONFIDENTIAL
No. 1638

PORT-AU-PRINCE, August 18, 1946.
[Received August 22.]

SIR: I have the honor to report that President Dumarsais Estimé¹⁸ requested me to call upon him this evening at the National Palace.

After a number of introductory remarks, during which Mr. Estimé referred to his acquaintance with former Chiefs of this Mission, he proceeded to tell me of his great admiration for the United States, which he had visited in 1939 while Minister of Public Instruction, and referred to the immense productivity of the American soil. He also said that he had read with interest some of the works of former Vice President Henry Wallace. The United States, he stated, produces nearly everything it needs, except aluminum. This gave me an opportunity to point out that in this respect the relations between Haiti and the United States could be strengthened, since the former has bauxite deposits which are about to be worked by the Reynolds Mining Company. He appeared to be familiar with this matter.

On the general subject of Haitian-American relations, the President told me that he realized perfectly well that these relations must be close, as American economic and commercial assistance to Haiti was

¹⁶ Not printed.

¹⁷ Not printed. A memorandum by the Department of State to the Haitian Embassy, April 8, 1946, stated: "The Embassy is hereby informed of this Government's desire to resume today the friendly official relations which have traditionally prevailed between the United States and Haiti." (838.01/4-846)

¹⁸ The election of Dumarsais Estimé as President of Haiti by the National Assembly took place on Friday, August 16, 1946.

absolutely indispensable to the latter's existence. He recognized that during the war the United States, by purchasing Haiti's products, had saved Haiti from economic collapse. He endeavored to point out, not very convincingly, however, that the Haitian peasant benefited relatively little by this trade, as the imports which were received from the United States were distributed by the Lescot¹⁹ administration among its favorites, who made scandalous profits on them. This discussion furnished me an opportunity to tell the President that while the United States Government was inspired by the kindest sentiments towards Haiti and desired to relieve the economic status of the peasant, as exemplified by the presence of the Sanitary Mission²⁰ and the Food Supply Mission, I felt that it could not view with satisfaction such attempts as are apparently being made by means of the proposed new constitution to destroy or injure American business interests legally established in the country. I referred in particular to Article 6, which would appear to occasion severe injury to American capital invested in agricultural enterprises, and Article 13, which forbids the conduct of retail business by foreigners. The President replied that there exists a group of radical minded persons, among whom he mentioned Emile St. Lot, who call themselves Leftists and wish to take drastic action against foreign capital. He then said that although he, too, could be called a revolutionary, he is of the Right, and that although it is his intention to endeavor to free the Haitian peasant from his present condition of misery and squalor, he harbors absolutely no hostile feeling against American capital. The Standard Fruit Company, for instance, is, in his opinion, doing much to relieve the status of the Haitian peasants by means of its contracts with the small fruit growers. I pointed out that nevertheless I felt a distinct anxiety, since Article 6 definitely limits the land holdings of foreigners and that in the case of one company, the Haitian-American Sugar Company, this would appear to occasion immense damage, since the latter's real property amounted to about 9,000 acres. The President endeavored to reassure me by expressing his confidence that in the legislation which would be enacted to enforce the constitutional provisions, means would be found to avoid injustice. In addition, he doubted whether such legislation could be retroactive or applied to Haitian companies through which American capital is now operating. He then reminded me that in the decree adopted a few days ago putting the Constitution of 1932 temporarily into effect he was forbidden to intervene in the future work of the Constitutional Assembly (see

¹⁹ President Elie Lescot.

²⁰ For 1944 agreement between the United States and Haiti respecting a health and sanitation program, see Department of State Executive Agreement Series No. 453.

my despatch no. 1633 of August 14 ²¹). He felt, however, that he would be able, through discreet conversations, to convey to the legislators sound and appropriate advice.

On the subject of Article 13 (retail trade) he informed me that it was directed against the Syrians, who had enriched themselves through questionable relations with the Lescot Government. I replied that although this might be true, I felt it unfair to make American businessmen suffer for the misdeeds of the Syrians. Again he gave me general assurances that the situation could be worked out satisfactorily, but did not commit himself as to just how this would be done.

Time did not allow me to enter at great length into the financial subjects, such as the Agreement of 1941.²² I told him, however, that the Department was always perfectly willing to discuss any propositions that might be laid before it by the Haitian Government, both with regard to the six percent bonds and the four percent notes held by the Export-Import Bank. I also pointed out to him that insofar as the Department is concerned, the Haitian authorities are at entire liberty to negotiate with the bondholders for a refunding of the six percent issues, which would automatically terminate the special financial relations now existing between the two Governments. He said that he understood quite well that the six percent and the four percent obligations constituted two different problems and then inquired about the Shada debt.²³ To this I repeated that the Department would, of course, be glad to receive any suggestions on this subject, although the notes themselves were held by the Export-Import Bank. The conversation terminated with the understanding that I could discuss these matters later with Dr. Price-Mars, the new Minister of Foreign Affairs.

The impression made upon me by the President was not unfavorable. His manner was cordial and he conversed on the subjects at issue considerably more clearly and directly than did his predecessor, not losing himself, as the latter did, in a mass of words, through which the thread of conversation was broken. His principal interest appears to be that of raising the standard of living of the Haitian peasant. He said that it is a shame and a disgrace that at a flying distance of only four hours from the United States a mass of about 4,000,000 persons should be living in rags and misery, barely able to scratch a living from the soil, and he added that these people have nowhere to go, as neither the Dominican Republic nor Cuba wants them. As

²¹ Not printed.

²² Signed at Port-au-Prince September 13, 1941, by the United States and Haiti; for documentation, see *Foreign Relations*, 1941, vol. VII, pp. 322 ff.

²³ For documentation on the contract between the Société Haitiano-Américaine de Développement Agricole (SHADA) and the Export-Import Bank of Washington, August 15, 1941, see *Foreign Relations*, 1941, vol. VII, pp. 366 ff.

stated above, I indicated that the United States Government is taking a sincere interest in the welfare of the Haitian peasant through the activities of the Sanitary Mission and the Food Supply Mission, the latter of which has repaired such losses as were occasioned by the Cryptostegia program.²⁴

Respectfully yours,

ORME WILSON

838.5211/8-1446 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Wilson)

RESTRICTED

WASHINGTON, August 21, 1946—7 p. m.

NIACT

240. Embdesp 1633, Aug 14²⁵ and previous communications. Amb should be prepared discuss with Dept on Aug 26²⁶ clauses in Haitian draft constitution which would affect American business interests, furnishing such information as possible to obtain on points below, and having Emb follow up with further information when available.

1. Are Articles 1 to 10 and any others adopted already in final effect or what other steps must be taken and by what branch of the Haitian Govt.

2. Is 1932 Constitution still in effect.

3. Clarification of whether Articles VI and XIII would apply to foreign individuals or companies already established in business in Haiti and regardless of whether or not they are incorporated under Haitian laws and are Haitian corporations.

4. Clarification of meaning of clause in Article XIII re small industries.

5. The meaning of Article D, Title XI and its implications.

Emb should make strong informal representations to Haitian authorities pointing out that Articles VI and XIII will be harmful to prosperity and welfare of Haiti itself especially if applicable to interests already established; that they are contrary to the principles set forth in section 6 of Resolution LI (Economic Charter of the Americas) of the Final Act of the Inter-American Conference on Problems of War and Peace held at Mexico City in 1945;²⁷ and contrary to the principles set forth in the Proposals for Expansion of World Trade and Employment issued by this Govt in preparation for

²⁴ For documentation on the termination of a cryptostegia program in Haiti which had been sponsored by the United States, see *Foreign Relations*, 1944, vol. VII, pp. 1169 ff.

²⁵ Not printed.

²⁶ Ambassador Wilson was in Washington for consultation August 26–September 6.

²⁷ For text of Resolution LI, see *Report of the Delegation of the United States of America to the Inter-American Conference on Problems of War and Peace, Mexico City, Mexico, February 21–March 8, 1945* (Washington, Government Printing Office, 1946), p. 120.

the International Conference on Trade and Employment²⁸ in which Haiti will participate.

It is the strong hope of this Govt that Haiti will not adopt measures which will prejudice the objectives of this Conference especially those embodied in the recommendations of section 6 of Chapter VI of the Proposals.

This Govt also strongly hopes that Haiti will not adopt provisions in its Constitution which will be made the basis for discriminatory treatment of nationals of the United States in a manner which would be in contrast with the liberal principles applied under the Constitution and treaties of the United States in the treatment of aliens legally admitted to this country.

Haitian Corporation²⁹ and Standard Fruit have already inquired re Dept's position in these matters.

ACHESON

838.011/8-2646

The Chargé in Haiti (Mooers) to the Secretary of State

RESTRICTED

PORT-AU-PRINCE, August 26, 1946.

No. 1654

[Received August 29.]

SIR: I have the honor to refer to the Department's confidential telegram no. 245 of August 22,³⁰ instructing the Embassy formally to bring to the attention of the Haitian Government the fact that the Department considers Article 127 of the proposed new constitution would be a violation of the Executive Agreement of September 13, 1941 as applicable to the control of Haitian finances.

Upon the receipt of this instruction, I prepared a formal note and on August 24 personally presented it to the Minister for Foreign Relations, Dr. Jean Price-Mars, who very recently has assumed office. In delivering this note, I took the occasion to point out that the Government of the United States was concerned with the implications of this Article, and that I had felt called upon to hand the note to him in person and respectfully to solicit his fullest assistance in giving the matter immediate attention. A copy of the Embassy's note will be found attached.³⁰

Dr. Price-Mars read the note attentively and then stated that, unfortunately, he was unable to reach any immediate conclusion in view of the short time that he had been in office. He added, however, that he would study both the Executive Agreement of 1941 and the Article

²⁸ United Nations World Conference in Habana, November 21, 1947-March 24, 1948.

²⁹ The Haitian Corporation of America (the holding company for the Haitian-American Sugar Company).

³⁰ Not printed.

itself at an early date and effect a reply, after taking the matter up with other branches of the Government. I then advised him that I had brought with me copies of both the Executive Agreement and the *Projet de Constitution*, and that I would appreciate it if he would glance over the relevant passages to be found in each of these documents. He agreed to do so, and after reading both carefully stated without hesitation that the purpose of Article 127 was indeed a violation of the Agreement now in effect, adding that he realized the seriousness of the situation and that he would confer at once with other officials and make a reply to the Embassy within the coming week. He inquired if this would be sufficiently prompt, and I told him that it would.

I then asked permission to advise him that I had been instructed by my Government to make strong informal representations with regard to Articles VI and XIII of the proposed new constitution, and proceeded to do so, following literally the Department's comment contained in its telegram no. 240 of August 21, beginning with the paragraph following immediately after Item 5 and terminating with the conclusion of the penultimate paragraph of that message. In doing this, I took the occasion to recall tactfully that the Government of the United States for some time had been earnestly endeavoring in many ways to contribute extensively to the welfare of Haiti, including current active participation in programs dealing with public sanitation, national health, food production, education, et cetera, and that the Embassy was at a loss to understand why legislation apparently at once highly detrimental to legitimate American financial investments in Haiti should be contemplated. I added that I was aware that Ambassador Wilson had already brought this informally to his attention (see Embassy's despatch no. 1643 of August 20³¹), but pointed out that I had now been directed by my Government to do so.

Dr. Price-Mars, whose attitude was formal but entirely friendly, repeated that in consequence of the short time he had been in office he was not yet familiar with many of its problems, but added that he was confident that the Haitian Government would work in closest cooperation with the United States and that "the rather uncertain conditions" which "appeared" to exist within some of the articles of the proposed new constitution would eventually be 'ironed out' once they were to be given appropriate attention. He did not venture to say when this would be. He recalled that any article, even though voted, could again be brought up for debate and modification before promulgation and was confident that legitimate American business

³¹ Not printed.

interests in Haiti certainly were not seriously envisaged at the time the articles in question were prepared. Although he realized very well that now was the time to effect enduring definitions, he was satisfied that no serious difficulties between Haiti and the United States would arise. In terminating this second conversation, I asked him whether, with regard to Article 6 which had been voted by the Assembly, the definition of its limitations appearing in *Le Soir* (August 8) was substantially correct. After reading the clipping attentively, he said that it was. He was not able, however, to define the exact meaning of the statement, “. . . une superficie ne dépassant pas trente pour cent de celle à exploiter”, appearing at the close of the penultimate paragraph of the article, admitted that it was “vague”, and promised to secure a clarification for the Embassy’s assistance within a few days. A copy of this article, dealing with Article 6, is appended, together with a translation.³²

It was not possible at the time of this appointment to secure from Dr. Price-Mars an expression of whatever opinion he might have with regard to the several inquiries contained in the Department’s telegram no. 240 of August 21. It is recalled, however, that Ambassador Wilson, now at the Department, is well prepared to supply answers to the majority of these questions, although some obviously were not to be defined at the time of his departure, and do not appear fully to be so now. The Embassy will endeavor to ascertain the information desired at the earliest possible date and transmit it to the Department.

The reply now awaited from the Foreign Office in consequence of the Embassy’s note no. 776,³² under reference, will also be made known to the Department as soon as possible.

Respectfully yours,

HORATIO MOOERS

838.5211/8-2646

*Memorandum of Conversation, by Mr. Charles C. Hauch of the
Division of Caribbean and Central American Affairs*

[WASHINGTON,] August 26, 1946.

Subject: Restrictions on foreign business enterprises in Haiti in proposed Haitian Constitution.

Participants: Assistant Secretary Braden

Mr. Briggs—ARA³³

Mr. Barber—CCA³⁴

Mr. Hauch—CCA

Mr. Orme Wilson—former Ambassador to Haiti

³² Not printed.

³³ Ellis O. Briggs, Director of the Office of American Republic Affairs.

³⁴ Willard F. Barber, Acting Chief, Division of Caribbean and Central American Affairs.

Mr. Harold H. Tittmann, Jr., Ambassador to Haiti ³⁵

Mrs. Hood—CP ³⁶

Mr. Wilson—CP ³⁷

This meeting was held to discuss the above subject and specifically to permit Ambassador Wilson to comment on the various questions posed in the Department's telegram 240 of August 21. Mr. Braden stated that Mr. Hasler of the Haitian Corporation of America had called and had expressed some concern regarding these provisions of the proposed Constitution. Mr. Hasler had added that Mr. Blackmon of the Standard Fruit Company appeared to be very much agitated by the situation.

With respect to the several questions raised in telegram 240, Ambassador Wilson's comments on each of the points raised were as follows:

1. Articles 1-10 are in effect, subject to final approval of the new Constitution as a whole. They may be regarded as having been substituted for comparable articles in the 1932 Constitution, but they are subject to possible further discussion before final adoption of the new Constitution. The same situation is true as other articles of the new Constitution are proposed and adopted.

2. The 1932 Constitution is still in effect, except as it is gradually superseded by articles of the proposed Constitution. The ultimate effect will thus be that the 1932 Constitution will be completely superseded.

3. It is not clear whether Article 6 would be applied retroactively to foreign individuals and companies now doing business in Haiti, or would be applied to Haitian corporations owned and operated by foreigners. On this point Ambassador Wilson stated that the new President felt that the Article in question would apply in neither case, but this was merely his personal opinion. The former Foreign Minister, Major Levelt, had expressed an opinion directly to the contrary. The President had said that enforcing legislation would clarify this point.

With respect to Article 13, the same indefinite comments applied as regards the retroactivity of the Article, but on the second point the Article is explicit that retail business shall be confined to individuals of Haitian origin.

4. The reference to small industries in Article 13 is also unclear and subsequent legislation must be awaited before its meaning becomes clear.

5. It is apparent that by Article D of Title XI the Haitian Assembly is leaving the way open for questioning many of the acts of the former Lescot regime, but it is stated in such general terms and in such obscure language that its application in any individual case

³⁵ Mr. Tittmann was appointed Ambassador to Haiti on July 12, 1946; he was in Washington for Departmental consultation from August 6 to September 12, when he departed for Port-au-Prince.

³⁶ Mrs. Amelia H. Hood, Division of Commercial Policy.

³⁷ Robert R. Wilson, Adviser, Division of Commercial Policy.

must be awaited before any further action by this Government can be taken.

It was agreed that there is no further action to be taken at this time vis-à-vis the Haitian Government, pending a reply from the Embassy to the Department's telegram 240. It was decided that in the meantime a telephone call would be made to Mr. Hasler and he would be asked to come to Washington for a presentation of the situation as it exists at present. He would be received first by officers of CCA and CP and subsequently would talk to Mr. Braden.

838.011/8-3046

The Chargé in Haiti (Moors) to the Secretary of State

RESTRICTED
No. 1669

PORT-AU-PRINCE, August 30, 1946.
[Received September 4.]

SIR: I have the honor to refer to the Embassy's confidential telegram no. 361 of August 29, 1946,³⁸ the second paragraph of which dealt with Article 13 (of the proposed new Constitution for Haiti) which was voted by the Assembly on August 29. It will be recalled that the Department was advised that from a close translation of the more important parts of this Article, as voted, it appears that only native-born Haitians may engage in retail business, manage the activities of small industries and be engaged in such other commercial, industrial and professional activities as the law shall determine.

I have now ascertained that the reference to small industries was removed completely from the Article immediately before being voted and that, in consequence, the translation under reference finally appears to read as follows:

"Only native-born Haitians (i.e. 'Haitiens d'origine') may be engaged in retail business, manage such businesses and be engaged in such other commercial, industrial and professional activities as the law shall determine."

[Here follow the French text of article 13, and summary of discussions with two Americans who owned and operated retail establishments in Port-au-Prince; it was their opinion that by the time the new Constitution was formally accepted the apparent obstacles to their interests would have been either eliminated or suitably amended.]

It may be added for the Department's assistance that the following definition of the words "Haitiens d'origine" apparently was accepted by the Assembly and voted in conjunction with the article:

"A Haitian by origin is defined as any person of the black race, born of a father who himself is born a Haitian. Any person is also

³⁸ Not printed.

a Haitian by origin when of the black race, when not recognized by his father, but born of a mother who was Haitian by birth.”

[Here follows summary of discussion with the British Minister, Augustus Crosbie Routh, who agreed that in consequence of this conversation it would be best for him to make at least strong informal representations to the Haitian Foreign Office without delay; also, reference to articles 14 to 20 which were voted on August 28.]

Respectfully yours,

HORATIO MOOERS

838.5211/9-946 : Telegram

The Chargé in Haiti (Mooers) to the Secretary of State

RESTRICTED

PORT-AU-PRINCE, September 9, 1946—11 a. m.

[Received 2:10 p. m.]

371. Following definite opinions received verbally from FonMin (refer numbered items Deptel 240, August 21) :

Items 1 and 2 already answered by Ambassador Wilson while Department.

3. Articles 6 and 13 would not apply to foreign individuals or companies under circumstances given by Department. FonMin considers that a firm owned by a foreigner and doing business in Haiti if employing a Haitian manager and Haitian foreman would meet requirements of article 13; also that employment of Haitian foreman alone might be sufficient (Embdes 1669, August 30).

4. Small industries clause removed from article when voted (refer same despatch).

5. Considers article D title 11 extremely vague and unsound and assures me this sentiment is shared by all responsible members of Govt who support fully article 28 providing for non-retroactivity of laws.

Embassy hopes receive by 14th final texts of all articles voted to date. These not yet printed.

MOOERS

838.011/9-2746

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

CONFIDENTIAL

WASHINGTON, October 3, 1946.

No. 11

SIR: I refer to the Embassy's telegram no. 411 of September 27 and airgram no. A-335 of September 20, 1946³⁹ and to other communications on the subject of the new Haitian Constitution.

³⁹ Neither printed.

In the telegram it is stated that the Embassy has reiterated a strong informal protest in writing to the Haitian Foreign Office with regard to Article 6 (now 7) and Article 13 (now 15) of the proposed new Constitution. This Government is also concerned over the present wording of Article 8, an Article which was not in the original draft of the Constitution and which was, as the Embassy's airgram under reference indicates, voted upon only recently.

Since the Constitution as a whole will no doubt be voted upon soon, it is suggested that, unless you perceive objection, you take the occasion at an early date to have frank and definitive discussions with as many of the higher-ranking Haitian officials as you deem necessary, expressing this Government's deep concern over Articles 7, 8 and 15 of the Constitution. If you consider it advisable, you might leave an *aide-mémoire* with the Foreign Minister after your discussion with him.

I have noted that President Estimé, Foreign Minister Price-Mars, and others in the present and the interim Governments of Haiti have indicated to Ambassador Wilson and also to you that they realize that United States economic and commercial assistance is absolutely indispensable to the welfare of Haiti. It might be well to remind the Haitian officials that if they and other responsible Haitians desire the continuance of mutually beneficial economic development by United States private enterprise, such enterprise should not be discouraged by discriminations against foreign investors, entrepreneurs and technicians.

Verbal assurances, such as have been given by various Haitian officials, that established United States private enterprises will not be affected by these Articles of the Constitution, are not sufficient since there would be no guarantee that such treatment would be continued if the wording of these Articles remains as it now stands.

This Government feels that the most desirable solution would be the deletion of all provisions of Articles 7, 8 and 15 of the Constitution that discriminate against foreigners. In the case of Article 7 this would mean retaining only the first sentence of the first paragraph and the first sentence of the second paragraph except for the last clause. All of Article 8 and the second sentence of Article 15 would be deleted.

Should the Haitian officials request your views (but only if they request them) regarding alternative provisions, you are authorized to convey informally the ideas set forth in the memorandum transmitted herewith.⁴⁰

In discussing with the Haitians the matter of the protection of the rights of United States private enterprise in Haiti, you should make clear that this Government is not asking for special favors for its

⁴⁰ Not printed.

nationals and that it asks only for such treatment as is granted to foreigners in treaties of friendship and commerce between many nations of the world. Such treaties are based upon the principle of mutual advantage, and their provisions accord to nationals of either contracting country the right to engage in commercial, professional, and manufacturing activities and to own property in the territory of the other contracting nation upon the same terms as the nationals of that nation.

This Government, as you know, has taken the initiative in advocating that all countries of the world join in a broad program looking toward the expansion of world trade, employment, and prosperity, as outlined in the "Proposals for Expansion of World Trade and Employment" issued by this Government last November. These Proposals seek "economic cooperation among nations with the object of preventing and removing economic and social maladjustments, of achieving fairness and equity in economic relations between states, and of raising the level of economic well-being among all peoples". One of the functions of the World Trade Organization, which these Proposals advocate be set up, is the following:

"To make recommendations for international agreements designed to improve the bases of trade and to assure just and equitable treatment for the enterprises, skills and capital brought from one country to another, including agreements on the treatment of foreign nationals and enterprises, on the treatment of commercial travelers, on commercial arbitration, and on the avoidance of double taxation."

Since the Haitian Government will no doubt send delegates to the proposed International Conference on World Trade and Employment, which has been called by the Economic and Social Council of the United Nations, at which these Proposals will be considered, it is hoped that Haiti will not incorporate provisions in its Constitution which will make it difficult for its delegates to join with the delegates of other nations in cooperating for the economic betterment of all.

You might also wish to point out that this Government is sincerely hopeful that Haitians will themselves, in the near future, engage to an increasing extent in the economic development of Haiti. One of the broad general purposes of the International Trade Organization of the United Nations, as stated in the draft Charter, is to "encourage and assist the industrial and general economic development of Member countries, particularly of those still in the early stages of industrial development".

Communications from the Embassy have indicated that the French and British Ministers ⁴¹ have expressed concern to the Embassy over the Articles of the new Haitian Constitution which discriminate

⁴¹ Maurice Chayet and Augustus Crosbie Routh, respectively.

against foreigners. Unless you perceive objection, you should urge that each of them make strong representations to the Haitian authorities pointing out their concern over these Articles and urging that the discriminatory and restrictive features be removed therefrom.

The memorandum of conversation dated September 23, 1946⁴² between an officer of the Department and Mr. Ernst Schneeberger, Second Secretary of the Swiss Legation in Washington, a copy of which was sent to the Embassy, shows that the Swiss Government is concerned principally over Article 6 (now 7) and that the Swiss Consul in Port-au-Prince had been requested by his Government to make a full report. You may, if you have not already done so, wish to get in touch with the Swiss Consul and urge him to express formally or informally his Government's concern over the Articles of the proposed Constitution which he finds objectionable.

The Embassy will no doubt continue to send the Department copies of the texts and translations of the Articles of the Constitution as they are adopted.⁴³

I should appreciate it if you would keep me informed of the progress of your discussions with the Haitian authorities.

A separate communication is being sent the Embassy⁴⁴ regarding the Haitian claim to Navassa Island as set forth in Article 1 of the new Constitution.

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

838.011/10-446 : Airgram

The Acting Secretary of State to the Ambassador in Haiti (Tittmann)

WASHINGTON, October 4, 1946.

A-240. Reference is made to Article I of the new Haitian Constitution which states that the Island of Navassa is an integral part of the territory of Haiti. Inasmuch as this Government regards Navassa as falling under the sovereignty of the United States, you are requested to address a note to the Haitian Government⁴⁵ making formal reservation of the rights of the United States with regard to this Island. Particular reference is made in this connection to the Department's instruction 218 of August 13, 1932 and the Embassy's despatch 489 of September 12, 1932,⁴⁶ regarding the action taken by

⁴² Not printed.

⁴³ Ambassador Tittmann reported in telegram 411, September 27, that the National Assembly had that day voted articles 130 through 150 inclusive of proposed new constitution; also, the Embassy had that day reiterated strong informal protest in writing to the Haitian Foreign Office with regard to articles 6 and 13 (838.011/9-2746).

⁴⁴ Airgram 240, October 4, *infra*.

⁴⁵ Copy of note of October 9 transmitted to the Department with despatch 29, October 9, from Port-au-Prince, not printed.

⁴⁶ *Foreign Relations*, 1932, vol. v, pp. 706 and 707, respectively.

this Government with respect to the Haitian Government's claim to Navassa as expressed in Article I of the Haitian Constitution of 1932.

A separate communication is being sent the Embassy regarding provisions of the new Haitian Constitution restricting the business and commercial activities of foreigners.⁴⁷

ACHESON

838.011/9-2646 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Tittmann)

RESTRICTED

WASHINGTON, October 4, 1946—7 p. m.

288. Ur airgram 340 Sept 26.⁴⁸ Emb requested to make strong representations against apparent ultimate purpose Article 35 (formerly 33) of new Haitian Constitution to bar all foreigners as members practicing clergy. Emb should point out foreign clergy in US generally enjoy equal rights with US citizens. Dept feels this portion Article 35 is further application of principle set forth in Article 15 empowering Govt to restrict professional and business occupations to Haitians and Emb should endeavor to secure its deletion. Separate communications being sent Emb on Haitian claim to Navassa Island⁴⁹ set forth Article I new Constitution and on restrictions on economic activities foreigners in Articles 7, 8, 15.⁵⁰

Emb should urge British and French Ministers to take similar action with respect to objectionable portion Article 35.

For your strictly confidential information Dept also fears exclusion foreigners as practicing clergy might be followed by attempted expropriation or confiscation foreign-owned church property.

ACHESON

838.011/10-846 : Telegram

The Ambassador in Haiti (Tittmann) to the Secretary of State

CONFIDENTIAL

PORT-AU-PRINCE, October 8, 1946—1 p. m.

[Received 5: 15 p. m.]

428. (1) I saw both Foreign Minister and President Estimé yesterday with regard to objectionable articles 7, 8, and 15 of proposed constitution and left with them informal protest in writing based on Dept's extremely useful instruction 11, October 3. Foreign Minister failed to request US views regarding alternative provisions, but President did, so I furnished him informally and confidentially with memo accompanying Dept's instruction. Both President and Foreign Min-

⁴⁷ Instruction 11, October 3, *supra*.

⁴⁸ Not printed.

⁴⁹ Airgram 240, October 4, *supra*.

⁵⁰ Instruction 11, October 3, p. 921.

ister recognize principle that regulatory details should be omitted from constitution, but I received impression that President is less inclined to act on principle owing to political considerations. He stated frankly that to have article 7 eliminated would mean "battle" because of its popularity with the masses. He said it was his intention to see that final discussion of new constitution by Assembly was postponed month or two in order to permit present agitated atmosphere in that body to subside. He said he could give me no assurances until he had studied documents, but repeated his usual statement that American interests had nothing to fear. I impressed upon him before I left that verbal assurances were hardly enough.

(2) Meanwhile the official *Moniteur* of September 30 published text of 1932 constitution with first 10 articles of proposed new 1946 constitution included in accordance with decree of August 14, copy of which was transmitted with Embdesp 1653, August 24.⁵² By virtue of article 14 of decree constitution in effect which presumably means that article 7 and 8 are now, at least provisionally, in force until new 1946 constitution is promulgated. As soon as *Moniteur* was distributed on October 4 I protested vigorously to Foreign Minister, pointing out that it had been generally understood that publication was not contemplated and I asked for explanation. He replied that my protest was first he had heard of matter, but after his inquiries over telephone it transpired that President himself had ordered promulgation in order to provide necessary legal basis for judicial appointments he wished urgently to make. This explanation was confirmed later by President who emphasized provisional character of published constitution and once more offered assurances that objectionable articles would not be applied in case American interests. American circles here do not seem unduly alarmed by publication.

(3) Expect to see my British and French colleagues and Swiss Consul today regarding above articles as well as article 35 which was also subject of a written informal protest to Foreign Minister by the Embassy.

TITTMANN

838.011/11-1146: Airgram

The Ambassador in Haiti (Tittmann) to the Secretary of State

PORT-AU-PRINCE, November 11, 1946.
[Received November 13—11: 32 a. m.]

A-390. Reference my telegram No. 429 of October 8,⁵² dealing with appointment of a seven-man Committee to review proposed constitution before final discussion and voting by Assembly.

⁵² Not printed.

On November 6, Committee completed its report to the General Assembly and proposed numerous modifications in the articles of the new projected 1946 constitution. The recommendations have not yet been made public, but Embassy has today succeeded in obtaining a copy of the complete text. There follows a brief review of the Committee's recommendations dealing with those articles which are of specific interest to the Department:

Article 1:

Pointing out that "democratic principles are as readily to be found in a representative system (of Government) as in a socialistic one", the Committee proposes the elimination of the word "social" as it now appears in the project, and suggests that the article read as follows: "(translated) The Republic of Haiti is one, indivisible, free, sovereign, independent and democratic. Port-au-Prince is its Capital and the seat of its Government. All of the islands which lie within the limits consecrated by the *jus gentium (Droit des gens)*, of which the principal are: La Tortue, La Gonave, l'Île à Vache, les Cayemittes, la Navassa, and la Grande Caille, form an integral part of the territory of the Republic, which is inviolable and cannot be alienated by any treaty or convention." (Note: Reference Embassy's despatch No. 29 of October 9, 1946, regarding transmission of note to Foreign Office dealing with the rights of the United States in the matter of the Island of Navassa.⁵³).

Article 4:

Committee suggests elimination of the words "of the black race", pointing out that to retain this prerequisite would be a violation of the United Nations Charter, inasmuch as no distinction as to race should be incorporated into the Constitution.

Article 7:

Committee proposes that henceforth this article be numbered 10, and that the first paragraph of the French text be left as it now appears in the project. In the second paragraph, the words "residing in Haiti" are to be added immediately after the word "foreigner" in the first line, so that the second paragraph of this article shall read: "However, a foreigner residing in Haiti can in no case become proprietor of more than one residential building, nor more than one commercial building in the same locality. In no case may he engage in the rental of property (*location d'immeubles*)".

The third (and concluding parts) of this article have been redrafted as follows:

"The right to own landed property is equally accorded a foreigner residing in Haiti and to foreign companies for the needs of their agricultural, commercial, industrial or educational enterprises. This right will cease at the end of a period of 2 years after the foreigner will have ceased to reside in the country or the operations of these companies will have ceased, and the State will become the rightful owner in conformity with the law which determines the extent of

⁵³ See airgram 240, October 4, to Port-au-Prince, p. 924.

ownership rights and the regulations to be observed in transmitting and liquidating holdings. Every citizen has the rights under the benefits of certain advantages determined by law to denounce violations of this present disposition."

(The Department will note that stringent limitations regarding the extent of property that may be owned by foreigners in Haiti have been eliminated from the original text.)

Article 8:

The Committee recommends that the constitution make no attempt to define the nationality of business enterprises in Haiti, and that such a question be left to the laws of the Republic for decision. No proposed wording of this article is offered in the report.

Article 15:

The Committee suggests that, from now on, this article be numbered 17. It proposes but one modification: that the verb "diriger" (direct) be eliminated from the text and that the verb "entreprendre" (undertake) be substituted. The Committee explains that this modification is proposed solely in an effort to facilitate economic relationships between foreigners and Haitians. (Note: according to the oral statement of the President of the Senate, in reply to informal interrogations on the part of the Embassy, this change in wording would permit Americans to make investments in Haiti and to carry on businesses here on an equal footing with Haitians themselves.)

Article 35:

Committee proposes that this article henceforth be known as No. 21, and that it be drafted to read simply as follows: "All cults and religions are equally free and recognized. Each person has the right to profess his religion and to exercise his cult, so long as to do so does not disturb public order."

Article 42:

The Committee proposes that this article be redrafted, that it be numbered 28, and that it read as follows:

"French is the official language. Its use is obligatory in public services."

The Committee expresses the opinion that Créole should not be recognized or permitted as a medium of expression in political assemblies.

Articles 128 through 131:

The Committee, with reference to these several articles, suggests that "those articles of the 1932 Constitution which better meet the situation be incorporated in the place of the articles under reference." It recalls that "a certain Accord signed between the State (of Haiti) and the representative of the 1922 Loan provides that the National Bank of Haiti and the Department of the Interior enjoy the privilege of establishing the Communal Budgets, and that similar subjects had best be left to the care of legislators."

It is expected that this report will shortly be debated in public by the General Assembly, and that considerable opposition will be voiced

by the leftist parties, which have already voiced their disapproval through their press organs.⁵⁴

TITTMANN

838.011/11-2046 : Telegram

The Ambassador in Haiti (Tittmann) to the Secretary of State

RESTRICTED

PORT-AU-PRINCE, November 20, 1946—4 p. m.

[Received 6 p. m.]

500. ReEmbtel 497, November 18.⁵⁵ Constituent Assembly yesterday voted articles 5 through 21 of Committee's report on constitution after making following changes:

Article 10 amended to permit a foreigner to own more than one residential dwelling although not more than one in each locality.

Article 17 formerly 15 amended by substituting "diriger" for verb "entreprendre", stated to be necessary in order that Americans investing capital in Haiti may be able to control investment through Haitian manager which they may select. As it now stands, this article declares that only Haitians of origin may engage in retail trade and become managers of small industries and devote themselves to other activities as defined therein.

Article 21, dealing with freedom of worship, was finally voted without modification as recommended by Committee but only after heated debate.

Assembly today proceeded to vote articles 22 through 99 without material modification.

TITTMANN

⁵⁴ The General Assembly met on November 15 and heard the first reading of the Committee's report on modifications in proposed new 1946 Constitution, according to telegram 494, November 15, 2 p. m., from Port-au-Prince. The only open criticism was made by a Senator who expressed disappointment and added that the Committee was endeavoring to emasculate the entire 1946 project and that evidently some "foreign mission in Haiti" had brought pressure to bear. (838-011/11-1546)

In telegram 497, November 18, 2 p. m., the Ambassador reported that at the opening of the Constituent Assembly on November 18, another Senator bitterly accused the Committee of having been unduly influenced by the United States and called for rejection of the Committee's report. In voting on the Committee's report, only three were opposed to its acceptance. The Assembly then proceeded to vote definitively the first four articles of report without modification except that in article 1 the words "and social" were added to last sentence. (838-011/11-1846)

⁵⁵ Not printed, but see footnote 54, above.

838.011/11-2246 : Telegram

The Ambassador in Haiti (Tittmann) to the Secretary of State

RESTRICTED

PORT-AU-PRINCE, November 22, 1946—3 p. m.

[Received 4 p. m.]

504. ReEmbtel 500, November 20. Constituent Assembly today terminated duties after definitively voting the proposed 1946 constitution with following amendments in addition to those already reported.

Article 73 was changed to read substantially as follows:

No monopoly may be granted to anyone other than the State and the Communes, although the State and the Communes in the exercise of these privileges may accord them to societies and companies. This would appear to give wider discretionary powers to President.

Article 22 regarding right to strike was eliminated completely after heated debate and as recommended by committees report. Complete text of constitution will be forwarded earliest possible.

TITTMANN

838.011/11-2246

*Memorandum by Mr. Charles C. Hauch of the Division of
Caribbean Affairs*

[WASHINGTON,] December 2, 1946.

In the final version of the new Haitian Constitution⁵⁶ the status of the several articles to which the Department took exception is as follows:

1. *Article claiming Navassa as Haitian territory.* This claim remains in the Constitution, but this is a customary provision in previous Haitian Constitutions, and we were simply reserving our rights.

2. *Article restricting amount of land foreigners will be permitted to own.* In the final version all restrictions of this type were stricken out. There remain certain limitations on the number of residence and commercial buildings foreigners will be permitted to own. In general, this article is now satisfactory to us.

3. *Article defining a Haitian corporation as one 50 per cent of whose stock is owned by Haitian citizens or the Haitian state.* This article was stricken out in the final version.

⁵⁶ Copies of the Haitian Official Journal, *Le Moniteur* (No. 123), of December 23, 1946, containing the full text (French version) of the new 1946 Constitution as promulgated, were transmitted to the Department in despatch 202 of December 27, 1946 (838.011/12-2746); an English translation of this text was transmitted to the Department in despatch 323, February 28, 1947 (838.011/2-2847).

4. *Article requiring that only Haitians born of native Haitian parents may engage in retail trade, become managers of small industries, and devote themselves to all other commercial, industrial, and professional activities such as the law shall determine.* This article remains practically unchanged in the final version, despite our representations. However, it is generally believed that it is not intended to apply its provisions against any but Syrians, and Americans in Haiti who might be affected do not appear to be perturbed by it.

5. *Article calling for the progressive nationalization of the clergy.* This provision, against which we made representations on the grounds that it might bar American clergymen and missionaries from Haiti, was omitted from the final version.

6. *Article providing that communal budgets shall be voted by communal councils.* This article, against which we protested as a violation of the Executive Agreement of 1941 regarding Haitian finances, was altered in a manner deemed satisfactory to this Government.

Attachment: Port-au-Prince's telegram 504 of November 22, 1946.⁵⁷

EFFORTS TO EASE THE BURDEN OF HAITI'S FOREIGN DEBT WHILE PROTECTING THE INTERESTS OF AMERICAN BONDHOLDERS⁵⁸

838.00/1-546

Memorandum Prepared in the Department of State

[WASHINGTON,] January 5, 1946.

HAITI, CURRENT PROBLEMS

1. *Debt Negotiations.*

Negotiations are underway in Port-au-Prince for the signature of a Supplementary Executive Agreement to the Executive Agreement of September 13, 1941,⁵⁹ in order to formalize the understanding that Haiti will pay \$700,000 amortization during the current fiscal year on its 1922 and 1923 bonds,⁶⁰ it being understood that \$300,000 of this will be paid only if it appears by the end of the first half of the fiscal year (March 31, 1946) that Haitian revenues will reach 35,000,000 gourdes.

⁵⁷ *Supra.*

⁵⁸ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1090-1106.

⁵⁹ For documentation on the financial agreement of September 13, 1941, see *Foreign Relations*, 1941, vol. vii, pp. 322 ff.; for text, see Department of State Executive Agreement Series No. 220, or 55 Stat. (pt. 2) 1348. The proposed supplementary Executive Agreement was transmitted to Port-au-Prince in instruction 501, December 5, 1945 (not printed).

⁶⁰ For terms of the Series A loan of \$16,000,000 in 1922 and the Series C loan of approximately \$4,000,000 in 1923, see *Foreign Relations*, 1922, vol. ii, pp. 515-516, and *ibid.*, 1923, vol. ii, pp. 420-423.

President Lescot has indicated his dissatisfaction with the present schedules for repayment of Haiti's foreign obligations and has not accepted a proposal by the Department and the Export-Import Bank for a 20-year consolidation and refunding of the J. G. White⁶¹ and SHADA⁶² credits by the Bank. He objects to the interest rate of 4 per cent and apparently feels that some adjustment should be made in the SHADA indebtedness on the grounds of American mismanagement of that organization.⁶³ He also seems to believe that an adjustment in Haiti's third principal foreign obligation, namely the 6 per cent bonds of 1922 and 1923, should be made as part of a general revision of Haiti's total foreign debt, even though this cannot be done as part of an Export-Import Bank refinancing plan.

As an indication of his dissatisfaction with the recent refinancing proposal of the Export-Import Bank and the present amortization schedules for the 1922 and 1923 bonds, President Lescot has authorized the New York law firm of Pruitt, Hale and Coursen to act as the Haitian Government's representative in further negotiations with the Bank and the bondholders. The Department is informing the law firm and President Lescot that it cannot deal with any but the accredited diplomatic representatives of the Haitian Government in any problem between the two Governments.

2. Reorganization of SHADA.

As part of the 20-year refunding plan of the Export-Import Bank, it was proposed by the Bank that it should withdraw its representative from the SHADA board and return all SHADA stock to the Haitian Government. This is in line with the Bank's and the Department's

⁶¹ The so-called J. G. White credit was a loan to the Haitian Government by the Export-Import Bank in 1938 for public works purposes (roads, water supply for Port-au-Prince, etc.). A contract of July 6, 1938, between the Haitian Government and the J. G. White Engineering Corporation of New York provided for the execution of the program (*Le Moniteur, Journal Officiel de la République d'Haiti*, July 7, 1938). (838.51/3651, 3673)

⁶² SHADA, Société Haitiano-Américaine de Développement Agricole, a Haitian corporation set up in 1941, largely at Haitian instigation, financed by a \$5,000,000 credit from the Export-Import Bank for the purpose of diversifying and developing profitable Haitian enterprises; see Department of State press release of May 5, 1941, *Foreign Relations*, 1941, vol. VII, p. 366.

⁶³ In a memorandum of May 22, 1946, Mr. Charles C. Hauch of the Division of Caribbean and Central American Affairs reported on a conversation with the Co-President, National Bank of Haiti, W. H. Williams, concerning Haitian financial questions and SHADA. He indicated that Mr. Williams, a member of the SHADA Board, felt that some scaling down of the SHADA debt should be effected when the notes came due and based this assertion on overcapitalization and unwisely planned and unsuccessful hevea rubber projects carried out by the first American management of SHADA. He added: "It was pointed out that the Haitians perhaps bore equal responsibility for any mismanagement which may have taken place, since former President Lescot gave complete backing to the first American management until it proved a failure and the three Haitian members of the six-man Board were most reluctant to speak out against the unwise projects being undertaken." (838.51/5-3146)

policy of withdrawing from direct participation in foreign development corporations. Acceptance of this change has been held up by President Lescot's dissatisfaction with the whole refunding plan. He has, moreover, expressed on several occasions his opposition to what he terms in effect "the Bank's attempt to withdraw from further responsibility for SHADA operations at a time when its previous mismanagement of SHADA is placing the Haitian Government in a difficult position with regard to repayment of the loans." Until his expression of dissatisfaction with the Government's refunding proposal, however, it was believed he would accept the Bank's withdrawal from direct participation in SHADA as part of the refinancing plan.⁶⁴

3. *Relations with the Dominican Republic.*

[Here follows comment on relations with the Dominican Republic, the political situation, and the Haitian negative reply to the Uruguayan proposal regarding the possibility of collective intervention in those American Republics which flouted fundamental human rights and international obligations.]

838.51/9-1846 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Tittmann)

CONFIDENTIAL

WASHINGTON, September 20, 1946—4 p. m.

272. Embs reports show govt revenues and foreign trade balance highest for many years and Dept sees no justification drastic proposal described urtel 384 Sept 18.⁶⁵ Please advise Foreign Minister informally Dept knows no reason Haiti should not make necessary arrangements meet contractual obligations in full except when specific arrangements previously made with creditors for departure from that principle, pursuant practice past years. This practice in case of

⁶⁴ The proposed refinancing plan had been sent by Ambassador Wilson to the Haitian Foreign Office in December 1945 and was being considered by the Lescot administration at the time of its fall on January 11, 1946; for documentation on the question of recognition of the Military Executive Committee which assumed control of the Government, see pp. 902 ff.

Ambassador Wilson noted in despatch 1415, April 15, that recognition of the Provisional Government of Haiti under direction of the Military Executive Committee rendered it possible to consider resumption of negotiations; he submitted data on the financial status of the Haitian Government and a proposal by Mr. Williams that the proposed Executive Agreement be modified so that the final payment of \$300,000 due in 1946 might be payable in July, August, and September instead of May, June, and July (838.51 Cooperation Program/4-1546).

⁶⁵ Not printed; in it Ambassador Tittmann reported on receipt of a note of September 16 from the Haitian Foreign Minister describing Haitian financial and economic situations and requesting a moratorium for the coming fiscal year on the 1922 loan, as well as J. G. White and SHADA obligations (838.51/9-1846).

6 percent bonds described Deptel 264 Sept. 13.⁶⁶ Instructions for formal reply will be transmitted to Embassy upon receipt of Haitian note.

Emb also requested inquire whether global budget mentioned urgram 321 Sept 10⁶⁶ includes expenditures for amortizations. Dept believes these amts should properly be included, pursuant article 5 para (a) Executive Agreement Sept 13, 1941.

CLAYTON

838.51 Cooperation Program/9-2646 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Tittmann)

CONFIDENTIAL

WASHINGTON, September 27, 1946—6 p. m.

282. Following is text of reply to Haitian Govts request for moratorium, which Emb may, at its discretion, present as note:

"I have the honor to refer to Your Excellency's note dated September 16, 1946,⁶⁷ requesting that my Government obtain agreements from the creditors for a 1-year moratorium upon service of the obligations described in the note mentioned, and to Your Excellency's note dated September 26, 1946,⁶⁶ stating that the moratorium requested would apply to amortization payments on the Series A and C bonds and to both interest and amortization payments on the Public Works obligations of 1938 and the so-called SHADA obligations.

"I am instructed to inform Your Excellency that my Government is unable to accede to the request of the Haitian Government as described above. My Government is unable to perceive any reason that the Haitian budget for 1946-1947, prepared in the manner set forth in the Executive Agreement of September 13, 1941, between Haiti and the United States, should not provide for interest and amortization payments on the Series A and C bonds as described in the Executive Agreement mentioned and on the Public Works obligations of 1938 as described in the contract now in effect relative to these obligations, inasmuch as no special arrangements for payments of different amounts have previously been made by mutual consent of Haiti and the creditors. My Government believes that it might be able to induce the representatives of the bondholders to accept amortization payments of \$700,000 in the Haitian fiscal year 1946-47 upon the same basis as such payments were made in 1945-46, but in view of the resources available to Haiti from 1945-46 and the outlook for Haitian revenues in 1946-47, and in consideration also of the spirit and purpose of the requirements for interest and amortization payments described in the Executive Agreement of September 13, 1941, my Government is not prepared to suggest that the bondholders accept amortization payments in 1946-47 totaling less than \$700,000. My Government further believes that, in the light of the resources and

⁶⁶ Not printed.

⁶⁷ Note from the Haitian Foreign Minister, described in telegram 384, September 18, from Port-au-Prince; neither printed.

revenues probably available to Haiti in 1946-47, the Export-Import Bank should not be asked by Haiti to accept payments for interest and amortization on the Public Works obligations less than those provided in the contract between the Haitian Government and the Export-Import Bank now in effect. With reference to the SHADA obligations, my Government is unable to understand on what basis the Haitian Government now requests a moratorium, since SHADA is a corporate entity in its own right and the Government's contingent liability for payment of SHADA's obligations does not assume importance unless and until SHADA is unable to meet them. No information has been received by the Export-Import Bank from SHADA that the latter is unable to fulfill its commitments and this Government knows of no reason that payments should not be made pursuant to the agreement with the Export-Import Bank.

"My Government strongly believes that it is to the best interests of Haiti that its financial prestige be maintained on a high level by payment of service on its obligations to the fullest extent within its power. In periods of high government revenues, like that of the present time, this policy presents an opportunity for reduction of the cost of public debt service by a program of regular amortization which would diminish the cost to be met in future periods, when revenues may be considerably less. My Government is confident that at the present time Haiti will be able to meet its obligations faithfully and at the same time to carry out a reasonable program of public improvements."

Sentence mentioning \$700,000 to be included only as last resort if Emb is convinced full contractual payment will not be forthcoming.

Dept authorizes Emb present foregoing as note or at its discretion, convey substance to Haitian Govt in formal note and supplement such note with informal conversation designed impress on Govt advantages reducing debt while revenues still high.

Foregoing will serve as reply to urtels 377 Sept 12, 394 Sept 23, 406 and 407 Sept. 26, and despatch 1697 Sept 19.⁶⁸

Reurtel 407 Sept 26 it is duty of Bank Board to formulate 1946-47 budget and set aside funds for debt service in accordance with terms Executive Agreement 1941.

CLAYTON

[The Haitian Foreign Office, in a note dated October 9, offered the following counterproposal for the 1946-47 fiscal year: 1) Payment in full of interest on both the AC and public works loans amounting to \$468,408.21; 2) amortization payments on AC bonds amounting to \$350,000; and 3) amortization payments on the public works loan amounting to \$400,000.]

⁶⁸ Telegrams 377, 406, and 407, and despatch 1697, not printed.

838.51 Cooperation Program/10-946 : Telegram

The Acting Secretary of State to the Ambassador in Haiti (Tittmann)

CONFIDENTIAL

WASHINGTON, October 11, 1946—7 p. m.

293. Pending receipt note⁶⁹ summarized urtel 430 Oct 9,⁷⁰ Emb requested inform Foreign Minister either formally or informally at its discretion,⁷¹ as follows:

(1) As stated in Emb note Oct 2, all agreements and contracts continue in full force and effect until modified by agreement. Since no such modification made to date Dept perceives no authority for giving notice to National Bank or approving any variation from terms of either Executive Agreement 1941 or Eximbk Public Works Loan contract.

(2) With specific reference amortization payments AC bonds, Emb requested refer to its note Oct 2 (based on Deptel 282 Sept 27) wherein it was stated this Govt not prepared suggest bondholders accept amortization less than \$700,000.

(3) Referring specifically amortization Public Works notes Dept believes Haiti in position to pay amortization \$800,000.

(4) Finally, Dept assumes omission of any reference to SHADA obligations in Haitian Govt's proposal is due to Govt's belief service these obligations current fiscal year will be met by SHADA itself. Should this not prove to be the case, Dept assumes Haitian Govt will fulfill terms of agreement with Eximbk.

However, with reference to both Public Works Notes and SHADA obligations Dept requests Emb call attention to outstanding offer stated in Emb note to Govt Sept 29, 1945 (see also Deptel 327 Sept 25, 1945⁷²).

ACHESON

⁶⁹ Note of October 9 from the Haitian Minister for Foreign Affairs was transmitted to the Department in despatch 32, October 10, not printed.

⁷⁰ Not printed.

⁷¹ Ambassador Tittmann advised the Department in telegram 482, November 8, 3 p. m., that the contents of the Department's telegram 293 had been conveyed in writing to the Haitian Government as an interim reply on October 14, and requested that a definitive reply be forwarded to the Embassy from the Department as it appeared the Haitian Government was waiting to take necessary budgetary action until a definitive reply was received. In response, Acting Secretary Acheson requested (telegram 317, November 14, 11 a. m.) that the Embassy draft note to Haitian Government along lines of interim reply contained in telegram 293 of October 11 as definitive reply. (838.51 Cooperation Program/11-846)

⁷² *Foreign Relations*, 1945, vol. ix, p. 1103.

838.51 Cooperation Program/11-946: Airgram

The Ambassador in Haiti (Tittmann) to the Secretary of State

CONFIDENTIAL

PORT-AU-PRINCE, November 9, 1946.

[Received November 12—12: 47 p. m.]

A-389. (1) Following is text of confidential memorandum, dated November 7, signed by Williams and Pearson and submitted to me for my information:

"Yesterday, November 6, Mr. Pearson and I were advised by the Minister of Finance that the President ^{72a} desired to see us. On our arrival, he opened the conversation by saying the Bank seemed to be blocking every proposal of his Government, and he had come to the conclusion that it was evidently following a definite policy. The President then opened up the question of using free balances (or surplus at the end of the last Fiscal Year) in the Treasury for agricultural projects, etc. He then went on to say that it was his understanding that after the Board of Directors of the Bank had set up the reserve to meet seasonal variations in revenues, that any additional amounts would be available to the Government for new projects. I told him the reason the Bank Board had suggested a delay in the spending program was that the expenditure budget for the present Fiscal Year had not been definitely established, nor could it be until the amount of the debt payments had been agreed upon by the two Governments.

"This brought on quite a bitter reply, that he was doing everything to cooperate, and not getting any results. He continued, sometimes I ask myself if it is the policy to keep this country as it is, and that you are carrying out that policy. He stated he was the rampart holding back the tide of Communism, and again inferred he was receiving no assistance. He had taken office with the determination to do something, but that if he could not, he would go to the Legislature and the people, and tell them that he could not accomplish anything, and the reason for it, meaning no assistance from us. He further stated that the Bank could help if it desired, etc.

"He seemed irritable, hostile, emotional, and inclined to blame the United States and the Bank for his inability to make a complete change overnight. With regard to the debt payment, which he again brought up, he said while he himself felt that they were entitled to ask for a complete moratorium, the Council of the Secretaries had felt they should make some payment; hence the counterproposal. He said he had had no reply, and regretted that he had made the offer, and added that it wasn't their fault that Haiti was in the Western Hemisphere. The impression we gather is that he is in the frame of mind where, if he cannot get some help to accomplish what he has set out to do, his reaction is unpredictable."

/signed/ W. H. Williams Thomas Pearson

^{72a} Dumarsais Estimé, elected President of Haiti August 16, 1946.

(2) Williams and Pearson called immediately to report the interview, and appeared considerably upset by President's attitude, since they did not feel that he had been altogether play-acting. They told me further that Estimé had also intimated to them that he was convinced Williams was under orders from United States Government to withhold funds needed by the Haitian Government for agricultural projects. Margron later confirmed this to Williams, adding that the President felt that we were endeavoring to exert pressure in this way in order to obtain changes in the proposed 1946 Constitution ⁷³ desired by us. Incidentally, on the same afternoon as Estimé interview, and apparently as result thereof, Bank Board ruled to release additional 2 million gourdes from budget surplus to Haitian Government for projects mentioned, the first million for this purpose having been released by Bank Board several weeks before.

(3) Pettigrew,⁷⁴ who is here for SHADA meeting, saw Estimé November 8, and reports same impression Williams and Pearson, namely, that President is in highly emotional state. During interview President told Pettigrew that workers on Plantation Dauphin, in which Pettigrew is interested, would have to be paid one dollar per day minimum wage, and that two thousand of the unemployed presently in Port-au-Prince would have to be transported immediately to the plantation and put to work there. Pettigrew stated requests were presented as kind of an ultimatum, with immediate reply demanded, etc.

(4) Both Margron and Estimé have informed Pettigrew that it is the intention of the Haitian Government to ask for the cancellation of the entire SHADA debt.

(5) I saw the President today, and found him composed. I took the occasion to correct any misconceptions that he may have had regarding the functions of Williams, and he seemed to be convinced by my statements.

TITTMANN

838.24/12-546

The Acting Secretary of State to the Haitian Chargé (Zephirin)

WASHINGTON, December 5, 1946.

SIR: I transmit herewith two copies each of Statement LL-9 and supporting schedules reporting charges made against the Government of Haiti during the period from March 1, 1946 through May 31, 1946 ⁷⁵

⁷³ For documentation on this subject, see pp. 912 ff.

⁷⁴ Robert L. Pettigrew, President and General Manager of the Société Haitiano-Américaine de Développement Agricole (SHADA).

⁷⁵ None printed; earlier statements showing charges made against the Haitian Government were transmitted to the Haitian Embassy in notes of May 16 and October 3, 1946 (838.24/5-1646 and /10-346).

for material transferred in accordance with the Lend-Lease Agreement signed on September 16, 1941⁷⁶ by representatives of the Republic of Haiti and the United States of America.

It will be noted that charges during the period under reference were \$5,899.10, and that charges through May 31, 1946 aggregate the grand total of \$1,413,836.92. Of the grand total the appropriate percentage now due on account is \$50,000. Since payments totalling \$40,000 have been received the balance now due is \$10,000.

It is requested that the enclosed statement and supporting schedules be treated by the Government of Haiti on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:

SPRUILLE BRADEN

838.51 Cooperation Program/12-1146

The Ambassador in Haiti (Tittmann) to the Secretary of State

[Extracts]

CONFIDENTIAL
No. 168

PORT-AU-PRINCE, December 11, 1946.

[Received December 12.]

SIR: With reference to the Embassy's telegram 485, November 12, I have the honor to submit below some observations which might be helpful to the Department in preparation for the forthcoming trip to Washington of the Haitian Finance Minister, M. Margron, for the purpose of discussing Haiti's debts with the American authorities.

In order that there might be no misunderstanding with regard to the terms of reference of Margron's visit, I handed him personally on November 30 last a copy of the following statement based on the Department's telegram no. 316.⁷⁷

"The Department of State and Export-Import Bank perceive no objections to the visit to Washington of the Finance Minister to discuss refunding the obligations of Haiti to the Export-Import Bank (Public Works and SHADA Loans), provided it is clearly understood that (a) he is making the trip on his own initiative; (b) his reception by the Export-Import Bank or Department of State does not imply willingness to consider debt reduction. The Department of State is not prepared to suggest to bondholders any proposal less favorable than has already been indicated (amortization of \$700,000).

"Furthermore, Export-Import Bank at this time is firmly opposed to any arrangement that would waive any portion of indebtedness to Bank. Therefore it would appear desirable that Haitian Government should not arouse false hopes or publicity regarding what might be accomplished on trip."

Respectfully yours,

HAROLD H. TITTMANN

⁷⁶ For text, see *Foreign Relations*, 1941, vol. VII, p. 319.

⁷⁷ Not printed.

At the close of his presentation of the Haitian point of view on its financial arrangements with the United States, as set forth in the note of December 23, he stated that Haiti wishes to be an active and full member of the Inter-American family, and feels it can best achieve this goal through a realization of full internal economic development.

Mr. Braden assured the Ambassador and his colleagues of this Government's willingness to cooperate with Haiti in all ways possible and of our sympathy for the objectives outlined by the Ambassador. He assured the Haitian representatives of the willingness of representatives of the Department and the other agencies concerned to discuss the several points presented in the Haitian note. Mr. Braden said that while fully desirous of cooperating with Haiti wherever possible, he was doubtful whether certain requests of the Haitian Government could be met. He referred specifically, in this connection, to the wish of the Haitian Government to have its privately held dollar bonds refunded by the Export-Import Bank and said it was his impression the Bank did not make loans for this purpose.

Mr. Braden mentioned that this Government's policy towards cooperation with friendly nations has been set forth in various public statements by Government officials. He referred particularly to the radio address in which he and Mr. Briggs had participated during the previous week-end, in which this Government's policy of closer friendship with regimes resting on the freely expressed consent of the governed had again been set forth. He reiterated that in conformity with this policy we were ready to examine United States-Haitian problems in the most friendly fashion. At the close of the meeting copies of this radio broadcast were given to the Haitian representatives.

Minister Margron concluded the discussion by stating that Haiti's financial obligations were too heavy a burden, and that without the help of this Government along the lines of the proposal set forth in the note, Haiti could achieve very little economically. After some discussion as to proper procedure for negotiations in connection with the note, it was decided that the Haitian representatives would return to the Department on Friday, December 27, at 2:30 pm for discussions on the several subjects of interest. The Finance Minister indicated that the mission has no special schedule in mind and that its plans depend on developments. He said that he might return to Haiti before the conclusion of negotiations, and then come back to Washington, perhaps accompanied by the Foreign Minister. It might be inferred from this lack of a definite schedule that the mission's program may depend on the turn of negotiations and the possible necessity of returning to Haiti for additional conversations with, and new instructions from, the President.

838.51 Cooperation Program/12-2446

*The Ambassador in Haiti (Tittmann) to the Secretary of State*CONFIDENTIAL
No. 200PORT-AU-PRINCE, December 24, 1946.
[Received December 26.]

SIR: I have the honor to refer to the visit of the Haitian Finance Minister and his colleagues to Washington for the purpose of discussing financial matters with the American authorities including possibly the so-called "Financial Liberation". There are submitted below certain observations, recommendations and suggestions which the Embassy considers pertinent to the subject of "Financial Liberation" and which it is hoped the Department will find useful should the Washington conversations turn upon that subject. In this connection reference should be made to the Embassy's despatch no. 168 of December 11, 1946, beginning with page 5.

It is the Embassy's belief that the Minister of Finance is the most influential member of the Haitian delegation and that it will be in reality his views which will prevail among the three. He is probably the only Haitian who is competent to discuss the situation with any degree of understanding, both from the standpoint of his mentality and training, as regards the full implications of what the Haitians are asking for. The fact that he has been trained for many years by the present American head of the Haitian National Bank and that he is particularly gifted in grasping the full implications of the national economic facts and possibilities which face Haiti, has made his choice as a negotiator a happy one for both parties to the discussions.

The Delegation will undoubtedly endeavor to discuss the revision (and perhaps even the complete abrogation) of the Executive Agreement of 1941. The portion of this agreement which is most offensive to the spirit of Haitian Nationalism is Article V. By this paragraph there appears no doubt to the Embassy but that the Haitian Government which signed the Agreement irrevocably delegated certain of its sovereign powers to the Board of Directors of the National Bank. In short, it terribly galls Haitian pride that their government has not the power of making its own budget (which is a function of the power of taxation) independently. Article V reveals with no possibility of misunderstanding the intent, when it states (a) the Board of Directors of the Bank shall estimate the expected revenues; suggest limits within which the various ministries, including the Garde d'Haiti, shall operate, and shall fix by agreement with the Government of Haiti the expenditures which are necessary for the operation of the Bank in its fiscal functions.

The sole power over its budget retained by the Haitian Government is (*b*) to estimate in detail the expenditures envisioned for each of the various ministries, including the Garde d'Haiti, within the limits suggested by the Board of Directors of the National Bank.

It is thus seen that the Haitian Government has in this Article V of the 1941 Executive Agreement delegated its sovereign power of the budgetary function to a power other than itself, a power that is, by international agreement, composed of one-half foreigners. Without the power to spend, the power of taxation (the very heart of Governmental power) is useless. In short this represents perhaps not taxation without representation, but a form of dependence which is just as distasteful to Haitians.

Based on the above observations the following are the recommendations of the Embassy which the Department may wish to take into consideration, with certain suggestions added:

Firstly, that the Executive Agreement of 1941 be revised so as to restore the full sovereign powers of budget making (and hence use of taxes after they are voted) to the Haitian Government.

Secondly, that the two Americans, now on the Bank Board, be retained in some capacity that will insure the monthly collection of the $\frac{1}{2}$ of the annual principal and interest due to the bondholders as stipulated in Article VI of the present Executive Agreement and perhaps in a to-be-agreed upon advisory capacity.

Thirdly, that adequate machinery be included in the new Agreement for again installing the present or similar system of control at any time the required payments fail to be collected for any reason whatsoever.

In addition to the above recommendations, the following suggestions are added:

(*a*) That there be included in the new Executive Agreement a provision to the effect that a competent Haitian be appointed to head the Haitian financial system and that such person must have prior approval of the American Government.

(*b*) That should such appointee fail to meet the requirements for adequate safeguards regarding the repayment of the series A and C bonds, he be recalled on the demand of the American Government.

(*c*) That a new appointment be made satisfactory to the American Government within a specified time.

(*d*) That in the case of failure of the two governments to agree upon a man by the end of the specified time, the situation should then revert to the status of the 1941 Executive Agreement until such time as the two governments are agreed upon a new person.

(*e*) That at all times when there is no Haitian acting as provided for in the new Executive Agreement, the two Americans, now on the Board and who will presumably be retained here in some capacity, shall fill the office to ensure that all functions are carried out efficiently in the interim.

(f) That the American Government suggest that Gaston Margron be the Haitian employee to fill the financial office, as he is perhaps the only Haitian at this time who is considered to have the capacity to grasp fully the operation of Haitian finances (including any sound revision of present tax laws or any new sources of taxes), and to employ the necessary protective measures against political intrusions.

The Embassy is of the opinion that Margron personally would welcome an arrangement along the above lines rather than the outright complete abrogation of the present Executive Agreement, for the simple reason that he knows that once the complete control of Haitian finances is returned to Haiti, politicians will control all appointments. In the latter case, after his release from his present post as Secretary of State for Finance, his old job in the National Bank now being held open for him, would vanish into thin air. It should not be overlooked that he is a career employee in the Bank, and that such employment would disappear and with it his own financial security upon the complete return of financial control to the Haitian Government.

Respectfully yours,

HAROLD H. TITTMANN

838.51 Bondholders/12-2746

*Memorandum of Conversation, by Mr. Charles C. Hauch of the
Division of Caribbean Affairs*

[WASHINGTON,] December 27, 1946—2:30 p. m.

SECOND MEETING

Subject: Haitian dollar bond obligations

Participants: Ambassador Joseph D. Charles—Haiti
Finance Minister Gaston Margron—Haiti
Dr. Georges Rigaud—former Minister of Commerce
and Agriculture, Haiti
Mr. Livesey—OFD Mr. Cady—ED
Mr. Stenger—ED Mr. Barber—CAB
Mr. Corliss—FN Mr. Price—CAB
Mr. Hauch—CAB

Ambassador Charles and Finance Minister Margron opened the discussion by presenting a note⁸⁰ requesting that during the negotiations now under way there be an amortization moratorium on the six per cent dollar bonds and the J. G. White credit. During such a moratorium period, Haiti would continue to meet all interest payments. Messrs. Livesey and Corliss⁸¹ stated that no one in the Department has

⁸⁰ Not printed.

⁸¹ Frederick Livesey, Adviser, Office of Financial and Development Policy, and James C. Corliss, Assistant Chief of the Division of Financial Affairs.

the authority to waive payments on the dollar bonds, and that this could probably not be done unless and until the present agreements are modified for this purpose. Finance Minister Margron stated that he felt consideration should be given to the proposal because (1) Haiti has always met its interest and (2) Haiti has paid more amortization than the schedule of repayment calls for as of this date. While agreeing with these factual statements of the Finance Minister, Mr. Corliss said that in order to retire the bonds by the maturity dates of 1952 and 1953, it would be necessary for Haiti to make heavy amortization payments. He added that even though Haiti is ahead of the repayment schedule at the present time, the recent schedule of amortization at \$700,000 per year would not permit retirement by the maturity dates. It was left that the Department would study the Haitian request for a moratorium during the negotiations and would advise the mission later.

Mr. Livesey then referred to the first Haitian request in the mission's note of December 23, namely, the proposal that the dollar bonds be retired through a refunding loan from the Export-Import Bank. He stated that under existing legislation and policy of the Bank, it was impossible for this debt to be converted into an intergovernmental obligation in the manner proposed by the Haitians. He said that the purchase of privately held foreign bonds is not within the power of the Export-Import Bank, and said that the desirable method of handling such a refunding operation would be to obtain a loan from a private bank and pay off all the bonds. Since there does not appear to be any immediate prospect of such a private loan, the only way for Haiti to retire its present dollar bonds is to pay them off. He stated that rapid amortization would be to Haiti's advantage, since they bear the relatively heavy interest charge of six per cent.

Finance Minister Margron said that Haiti did not necessarily expect the Export-Import Bank to refund the bonds itself and to assume the debt. He said that if the Bank would make Haiti a loan, the Haitian Government itself would carry out the refunding operation. Mr. Livesey stated that this likewise would be impossible under the Bank's powers, because the Bank can lend only for purposes of promoting foreign trade. The purpose of any loan must be declared, and the Bank has no authorization to make loans for the retirement of private bonds.

Ambassador Charles said that the Government of Haiti fully understood that in ordinary circumstances the Government of the United States would have no responsibility for amortization of private bonds. He said that the case of the Haitian loan was entirely different, however, since at the time the loan was contracted Haiti was under a military occupation and was compelled to accept the loan. He asserted the loan was not a regular business loan, but was a political loan. He

added that the American occupation, of which he considered the loan to be one phase, was supposed to have been in the interest of both parties, but he felt that the present status of the loan was certainly not in the interests of Haiti.

The Ambassador went on to assert that economic and health conditions in Haiti do not permit Haiti to get rid of this loan on its present terms. He said that because of the origin of the loan the United States has a moral responsibility to assist Haiti in working out a new arrangement for repayment. He also referred to statements by high officers of this Government that it is our objective to help democratic regimes. He said that Haiti simply could not afford to continue to pay six per cent interest on the private bonds and four per cent on the J. G. White loan. He appeared to be highly agitated and said that in sending the mission to Washington the Government of Haiti had had full confidence that the Government of the United States would assist in the solution of Haiti's financial problems.

Mr. Barber⁸² then said that the mission had been fully advised by Ambassador Tittmann before it left Haiti that the Government of the United States was ready at all times to discuss these questions with Haitian representatives, but that this did not necessarily indicate a willingness to accede to Haitian requests. Some discussion ensued at this point as to the meaning in English and in French of the word "confidence", which had been used by the Ambassador, specifically whether in the French language it carried the same extreme meaning it does in English. The Ambassador reiterated that Haiti expected the Government of the United States would help them in ridding themselves of the bad financial situation in Haiti.

Finance Minister Margron then stated it would be a mistake to view the problem economically, since the most important aspect of the situation is political. He said Haiti did not expect either its creditors or the Export-Import Bank to view the problem from this point of view, but did anticipate that the American people (by this he apparently meant the Department) would give sympathetic consideration to the political needs of the situation in Haiti. At this point Dr. Rigaud said that the present Government must do something to meet the basic economic needs of the country, and that if it does not, further political unrest and revolutions will take place and the Government will fall from power. He said that the American occupation had come to Haiti to stop revolutions, and added that 25 per cent of the Haitian budget was too much for debt servicing.

⁸² Willard F. Barber, Chief of the Division of Caribbean Affairs.

Finance Minister Margron asserted that Haiti has been getting along on what he termed a salary budget for the last several years. This does not leave sufficient funds for agricultural, public works, and other necessary developmental projects. He said that two classes of people particularly were suffering in Haiti, the city laboring group and the unemployed intellectuals. Both he and Dr. Rigaud said that it is not the producers and the peasants who are undergoing extreme hardship, but rather the two above urban groups.

Mr. Stenger⁸³ inquired as to how agricultural projects would help these classes. Finance Minister Margron said that these projects would take the unemployed labor element out of the cities and put them to work in the country.

Mr. Cady⁸⁴ inquired as to what per cent of the population fell into the class needing assistance. The Finance Minister estimated this group at ten per cent of the Haitian population. Dr. Rigaud emphasized the thirty to forty thousand intellectuals, who, he said, were young men of good education who could not find positions in Haiti and hence were potential political organizers and agitators. Mr. Hauch inquired whether a program of the type desired by the Haitian Government would benefit this group. Dr. Rigaud asserted that it would, and added that not only would agriculture be developed as a result thereof, but the general economy would be improved through an improvement in agriculture.

Mr. Livesey commented that it was somewhat strange that Haiti was seeking financial relief at one of the highest earning points in its economic history and stated that in this situation it appeared obvious that the desirable thing to do was to pay off six per cent obligations as quickly as possible. He asserted that Haiti was at the peak of its prosperity.

Finance Minister Margron said that Haiti was not at the peak of its prosperity for the following reasons:

1. Although Government revenues appear high, the purchasing power of the gourde has been reduced in recent years by one-half to two-thirds;
2. The seemingly high Government revenue figures have been caused in part by the imposition of high and undesirable taxes; and
3. Certain absolutely necessary expenses of the Haitian Government have increased and it is impossible to reduce them.

Ambassador Charles reiterated that the political phase of the program was the most important, that the new Government was imbued

⁸³ Jerome J. Stenger, Special Assistant, Division of Investment and Economic Development.

⁸⁴ John C. Cady, Assistant Chief of the Division of Investment and Economic Development.

with democratic principles, but that if it failed the situation would be very bad. He added that democracy would fail in Haiti unless this Government assists Haiti in its financial problems.

Mr. Stenger said that we appreciated receiving this background on the Haitian financial situation, but the specific point at issue at this part of the discussion concerned the Haitian request that the Export-Import Bank make a loan for retiring Haiti's dollar bonds, and as had been already pointed out, the Bank lacked power in this connection. Ambassador Charles again reiterated that Haiti was coming to the United States because the United States Government had, in effect, guaranteed the loan contracts of 1922 and 1923, and hence Haiti had the moral right to ask the United States Government for help. Mr. Barber said that this had been the procedure in the past, and that this Government had acted as an intermediary between the Haitian Government and its bondholders. He stated that we have gone to the bondholders to ask for a reduction in amortization when conditions in Haiti are bad. He said that it would be to Haiti's advantage to pay off its debt with what amounted to "cheap money", when, in fact, the debt had been contracted at a time of "hard money". Mr. Livesey said that in view of the impossibility of refinancing the bonds through the Export-Import Bank, the situation boiled down to what was, from the Haitian point of view, a choice of evils: (1) continue to pay six per cent interest charges and heavy amortization payments, or (2) go into default. The latter alternative would simply prolong the period of the loan, including the necessity of paying six per cent interest. Consequently, he again said the best solution is to pay off these bonds as fast as possible.

Ambassador Charles requested the Department to make a counter-proposal on the dollar bond question, if the Haitian request for refinancing by the Export-Import Bank is not acceptable. The representatives of the Department said that they could not put forward any counter-proposal at this time, but would give the matter consideration. Mr. Hauch asked whether the Haitians had looked into the question of a private refunding loan recently. Finance Minister Margron replied that they had not. Mr. Livesey said he did not think Haiti could obtain a more advantageous loan of this type at the present time.

The meeting having consumed more than two hours, it was decided at this point to resume discussions on Monday, December 30, at 2:30 pm, at which time the remaining three points in the Haitian note of December 23, regarding Export-Import Bank credits, would be discussed.

838.51 Cooperation Program/12-3046

*Memorandum of Conversation, by Mr. Charles C. Hauch of the
Division of Caribbean Affairs*

[WASHINGTON,] December 30, 1946.

THIRD MEETING

Participants: Dr. Adolf A. Berle, Jr.
Mr. Raymond Pace Alexander—Haitian Mission
Ambassador Joseph D. Charles—Haiti
Dr. Georges Rigaud—Former Minister of Commerce
and Agriculture, Haiti
Mr. Livesey—OFD
Mr. Stenger—ED
Mr. Corliss—FN
Finance Minister Margron, Haiti
Mr. Cady—ED
Mr. Barber—CAB
Mr. Price—CAB
Mr. Hauch—CAB

The Haitian mission introduced Dr. Berle and Mr. Alexander as its advisers. Mr. Alexander is a negro attorney from Philadelphia.

Mr. Livesey then reviewed the previous meeting of December 27 regarding the possibility of Haiti's obtaining a loan from the Export-Import Bank to refund its dollar bonds. Dr. Berle asked whether there was not some agency of the United States Government empowered to refinance the loan. He said that the refunding could be done in Wall Street, but that Haiti preferred to deal with the United States Government.

Mr. Livesey said he was interested in hearing that the loan could be refunded through private channels, since his previous impression had been that this probably could not be done at the present time. He said that he did not know of any United States Government agency which could put out funds for this purpose, but said that we would make a careful check on this matter. Finance Minister Margron reiterated the Haitian statement at the previous meeting that the question of the 1922-23 loan was basically a political matter, since it had been forced on Haiti in the first instance. He said that in view of this circumstance Haiti wished the United States to do all it could with the Export-Import Bank or any other arm of the Government to help Haiti to retire the privately held bonds on favorable terms.

Mr. Alexander stated that the issue was also social, since it offered the United States an opportunity to put into practice the principle of support for democracy and human rights which we have stated is one of our objectives. He referred particularly to the happy effect assistance to a Negro republic would have on the colored races everywhere, and added that it would also be a method of combatting communism

in Haiti. He said he felt it would be very unwise and unjust for the Department of State simply to refer Haiti to the Export-Import Bank for a decision on the Haitian request for financial assistance and not to take an active and sympathetic interest in the matter.

Mr. Livesey reiterated his previously expressed view that the Department has no intention of not interesting itself in the situation and of simply referring Haiti to the Export-Import Bank. However, assuming that the Bank could do nothing about refinancing the privately held bonds the question of payment would continue to be of primary interest to the Foreign Bondholders Protective Council. The Council had assented to the arrangements made in recent years relieving Haiti of full contractual amortization, and felt that in view of Haiti's present favorable financial situation neither the Council nor the Department felt that the bondholders should be requested to accept this year treatment less favorable than that of the last two years. Finance Minister Margron stated that the financial situation was by no means favorable in Haiti and said that the seemingly high revenues were caused by the necessity of imposing additional and undesirable taxes. Mr. Livesey said that if Haiti were to pay less amortization during the current year than it has paid during the last two years, the American public concerned with financial questions would receive a very unfavorable impression of Haiti's credit. Dr. Berle stated that the current figures for Haitian bonds demonstrate that Haiti's credit is of the best, and he did not think the result of a partial moratorium would be unfavorable to Haiti's international financial position. Returning to the basic issue of an Export-Import Bank refunding loan for the dollar bonds, Dr. Berle then inquired whether the Haitians would have the sympathy and support of the State Department in presenting the question to the Export-Import Bank.

No direct answer was given to this question, and Mr. Cady suggested that the discussion proceed to the remaining points of the Haitian note of December 23, in order that the Department might have an over-all picture of Haiti's requests. Following this, the Department could give consideration to the requests and could decide what could be done on an over-all basis.

Ambassador Charles then discussed at length the second and third points of the Haitian note of December 23. With respect to the J. G. White credit, he asserted that the construction and public works carried out by that organization had been poorly done and that Haiti felt that "something should be done" about the interest and amortization on the Export-Import Bank credit advanced for this purpose. As for the SHADA credit, he stated that the Bank had advanced SHADA \$5,000,000 for war products such as sisal, hevea and cryptostegia, and that the Export-Import Bank had been in actual control of SHADA

and had been guilty of gross mismanagement. In this connection he cited the report of Mr. Reed Hill, a former SHADA officer, who left that organization after a disagreement with its management.

Ambassador Charles went on to say that the Haitian Government had not been permitted to exercise any control with respect to SHADA. He also said that former President Lescot had wanted to demonstrate that the United States had the confidence, full support, and friendship of the Haitian people in the war effort. He said that the Haitian people had not wanted to interfere in any way in the management of SHADA because it had been said in the past that they were unwilling to cooperate with the United States and that there was considerable anti-American feeling in Haiti (*Note: The Ambassador's remark that Haiti had refrained from interfering with the management of SHADA would appear somewhat inconsistent with his first remark that the Haitian Government had not been permitted to realize any control of SHADA's activities*). The Ambassador then went on to present the usual Haitian claim that SHADA had expropriated lands, destroyed crops, cut down trees, and not compensated the peasants for their losses. He said that as just compensation for these losses the Haitian Government felt that the United States Government should cancel Haiti's obligation to repay the entire SHADA loan, since Haiti considered that the injury it had suffered as a result of the program was its contribution to the war effort and that it should not be asked to assume any additional burden in this connection. He closed his remarks by emphasizing the extreme political and economic need in Haiti for cancellation of this credit.

Mr. Cady inquired as to the use to which Haiti would put additional funds which might be made available through a reduction of debt service charges. Ambassador Charles replied that these funds would be used for agricultural, drainage, and irrigation purposes.

Mr. Stenger then asked for a clear exposition of just what Haiti wished with respect to the two present Export-Import Bank credits. Finance Minister Margron replied that on the J. G. White credit Haiti was not asking for a reduction of the loan, even though it felt the work had been poorly done. He said that Haiti wanted a reduction of the interest rate and an extension of the period of amortization, since the present interest and amortization charges are too heavy. As for SHADA, he asserted that Haiti has lost more than the Export-Import Bank and the Rubber Development Corporation combined had put into SHADA's activities. He said that the loss to the Haitian economy was at least \$15,000,000, as against the Bank's and the RDC's investment of approximately \$13,000,000. He repeated the Ambassador's position that a proper adjustment would be to write off the SHADA credit.

Mr. Stenger stated that since the J. G. White and SHADA credits were loans from the Export-Import Bank, the Department could not take any action with respect to these credits without full consultation and agreement with the Bank. Finance Minister Margron stated that he was not asking the Export-Import Bank alone to cancel the SHADA credit, but was rather requesting that the Government of the United States, quite apart from any of its individual agencies, write off its share of war loss in Haiti. Aside from the SHADA credit, he said that what Haiti wants is a consolidation by the United States Government of its other debts into one credit with a more normal interest rate and an extended amortization schedule.

Dr. Berle then reiterated all the Haitian arguments in favor of a cancellation of the SHADA loan and asserted that SHADA has been and is a virtual failure. Mr. Barber said that Finance Minister Margron, as a member of the SHADA Board, is well aware that at the present time SHADA is operating at a profit. Mr. Margron said that this was true at the present time, but that he doubted whether this would continue during future years when amortization repayments become heavy.

Dr. Rigaud then said that it was in the cryptostegia phase of SHADA's activities that the loss to the Haitian economy had taken place. Mr. Hauch stated that no repayment of money used for cryptostegia was expected of SHADA or the Haitian Government, since the funds expended on this program were entirely RDC money and neither SHADA nor the Government of Haiti was expected to repay one cent. Some discussion then took place regarding the alleged damage to the Haitian economy from the cryptostegia project. The Haitian mission also stated that it was impossible to separate the cryptostegia phase of operations from the other activities of SHADA. Messrs. Hauch and Barber pointed out that a liberal arrangement had been agreed to by SHADA and RDC, with the approval of the Haitian Government, at the time the cryptostegia program was terminated in 1944 and that our position is that the cryptostegia question is closed. They also said that in order to assist Haitian landholders to restore cryptostegia lands to cultivation of food crops, this Government through the Institute of Inter-American Affairs had sent to Haiti an agricultural assistance field party. Messrs. Margron and Rigaud declared that Haiti was very grateful for the help given by this field party, but asserted that due to the very meager funds which the United States Government had contributed, the group had only been able to scratch the surface in helping to ameliorate distress caused by the cryptostegia project.

Mr. Alexander quoted from a bulletin of the Food Supply Division of the IIAA which had set forth the dislocation in the Haitian econ-

omy which had precipitated the sending of a food supply mission to Haiti. Mr. Alexander did not continue on with a statement with what the food supply mission had done to ameliorate this situation, and, therefore, Messrs. Barber and Hauch brought this to his attention.

During this discussion on cryptostegia, reference was made to the fact that various exports of Haiti had increased in volume during the period of cryptostegia operations and in the ensuing years. Although the Haitians made no statement that sugar exports had decreased during this period, Mr. Barber took the opportunity to refer to the decrease in Haitian sugar exports. The Haitians said that any decrease in exports was simply caused by the fact that there was less sugar to export, and that the British were continuing to receive the entire exportable surplus. Mr. Barber said that there was some indication in fact that some sugar not actually consumed in Haiti was not going to the British but was being disposed of in other ways, i.e., through black market operations. This the Haitian representatives denied.

The Haitian mission declared that if an impartial group of experts were to visit Haiti and make a survey of the damage caused by the cryptostegia program, their findings would corroborate the position of Haiti on this matter. At another point in the discussion, in response to Mr. Cady's inquiry as to whether the mission had complete statistics and facts to support their claim that Haiti requires an easing of the debt burden, the mission replied that they did not have such material and if it were required they would have to return to Haiti to do a research job on this subject. However, they felt that such statistical information and facts should not be required by this Government because the essence of the problem was political and they thought it was somewhat irrelevant to place it on the basis of economic facts and statistics.

Mr. Stenger pointed out that any action by the Government in granting a new loan is now a subject for discussion and must be approved by the National Advisory Council on Economic Foreign Policy. He explained that this is a body composed of representatives from all United States Government agencies concerned with our economic foreign policy. The Department and the Export-Import Bank are, of course, represented, but they alone cannot decide such questions as granting new loans. The Haitian representatives said they appreciated this fact, but felt that the Department could and should advocate the Haitian case before the Council.

Dr. Berle said it was obvious that the Department should consider the Haitian requests and come forward with a long run plan for Haiti's economic and financial future.

It was agreed that the next step should be for the Haitians to discuss their requests with the Export-Import Bank, and that representatives of the Department would accompany the Haitian mission for this purpose. Such a meeting had been arranged for 11 am Monday, January 6. In the meantime officers of the Department would give further consideration to the Haitian position.

The two and one-half hour meeting was then adjourned. Immediately following the departure of the Haitian representatives, the officers of the Department present informally discussed the Haitian requests. A tentative preliminary view was that it would probably be impossible to accede to Haitian requests on the dollar bonds and the SHADA credit at this time, but that the Bank might be willing to extend the J. G. White amortization schedule if it appeared that Haiti's financial and economic picture justified such an extension. This possibility would be explored with the Bank.

HONDURAS

THE QUESTION OF MILITARY COOPERATION WITH THE HONDURAN REGIME AS AFFECTED BY THE UNITED STATES' ATTITUDE TOWARD DICTATORSHIP

815.00/2-146 : Airgram

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

CONFIDENTIAL

TEGUCIGALPA, February 1, 1946.

[Received February 6—11:22 a. m.]

A-23. General Tiburcio Carías Andino today completed 13 years of continuous service as President of Honduras. This is without precedent in Honduran history: with the exception of General Luis Bográn (1883-1891) no other Honduran President held power continuously for as long as 8 years, and the average tenure was scarcely 2 years. In the 112 years from the Declaration of Independence in 1821 to the accession of Carías in 1933, some 12 Presidents were overthrown by violence, several others were forced to resign under pressure, and one was murdered; various others were faced with rebellion (which is to say unsuccessful revolution) during their terms of office.

President Carías soon put an end to this chaos, although he never applied the death penalty to a political opponent. He has now been without effective internal opposition for several years and, aside from the possibility of death from assassination or natural causes, has a reasonably good chance of completing his tenure on December 31, 1948.

Honduras is one of the few countries on earth in a better position today than in 1933. President Carías has halved the national debt, stabilized the exchange value of the currency, and put the country on what is virtually a pay-as-you-go basis; even schoolteachers are paid promptly, and in cash rather than by means of the Government Warrants (I.O.U.'s) so often used during previous administrations. All this has been accomplished through the exercise of the old-fashioned orthodox virtues of hard work and frugality, without recourse to screwball economics. There is no income tax, nor are there any excessive taxes of any kind; only 22 percent of the national revenue is derived from import duties.

There is no unrest among the laboring classes. Monetary and real wages seem to be somewhat higher than in neighboring countries, and there is no unemployment. The well-to-do classes must have confi-

dence in President Carías and in his ability to install an eventual successor without major disorders, since Tegucigalpa is enjoying an unprecedented building boom. There is scarcely a block in the city where new houses are not being constructed or old ones remodeled; adobe is being replaced by reinforced concrete and stucco. The central part of Tegucigalpa now has an adequate system of underground sewers and is well-paved (for the first time since its foundation in 1578), and such improvements are being continued towards the outskirts.

In the international field, President Carías has attended strictly to his own business; he has crossed no frontiers, rattled no sabers, nor interfered in any way in the affairs of his neighbors. His attitude toward the United States has been fully cooperative at all times, and he broke relations with Germany by expelling its Chargé d'Affaires (Zinsser) several months before the attack on Pearl Harbor! Several years previously he had been wise enough to refuse permission for the establishment of a Japanese colony of alleged cotton growers in an area along the Gulf of Fonseca!

ERWIN

815.001 Carías Andino, Tiburcio/4-346

The Chargé in Honduras (Faust) to the Secretary of State

No. 2260

TEGUCIGALPA, April 3, 1946.

[Received April 11.]

SIR: With reference to the Department's telegram No. 39 of March 13, 1946, 3 p. m., concerning its attitude toward the Carías regime, I have the honor to submit the following considerations in the hope that it may be reconsidered.

The Carías dictatorship is of the well-known personal type, entirely uncomplicated by Fascist "ideology" or Nazi metaphysics, and similar to numerous others which existed in Latin America long before Mussolini and Hitler were born. As Latin American dictatorships go, it is far better than most; a trifle less enlightened, perhaps, than some.

Since the Department cannot seriously believe that Carías has any totalitarian taint, its objection to him would appear to rest on two facts: (a) that he perpetuated himself in office by irregular means, and, (b) that he suppressed freedom of speech and other liberties by imprisoning his political opponents.

The changing of a Constitution to permit the reelection of a Chief of State is not uncommon in Latin American politics; according to the American newspapers, steps are now being taken along the same lines

even in the State of Georgia, U. S. A. The fact that Carías remained in office without a general election, merely by having a Constituent Assembly extend his term, is somewhat more serious, but is likewise not without precedent. Since this first happened in March 1936, it seems a bit late to object now. He will relinquish office on December 31, 1948.

It is unfortunately true that under the Carías regime citizens can be, and too frequently have been, arrested without proper judicial warrant and imprisoned for months and even years without open trial. But the number of such victims has been greatly exaggerated and it seems doubtful if there ever were more than 600 "political" prisoners in jail at any given moment. (The total population of Honduras is approximately 1,250,000.) As has been reported in various despatches in the past few months, most of the so-called "political" prisoners have been released, and even the most rabid oppositionists have been unable to supply a list of more than 80 claimed to be still under detention. (Since the Embassy has no facilities for ascertaining if all the persons whose names were supplied actually are in jail—or even if all of them really exist—it is obvious that the situation has improved materially.)

Honduran oppositionists now devote considerable lip service to "freedom". But there was very little real freedom in Honduras between the Declaration of Independence in 1821 and the advent of Carías in 1933. Citizens were "free" to plant crops, raise cattle, or engage in business, but the fruits of their labors were frequently "requisitioned" by a guerilla chief in the name of some revolutionary movement or merely seized. Resistance often meant instant death. . . .

Honduras could scarcely be described as a "going concern" when Carías assumed office in 1933; the Treasury was empty, and political chaos had generally prevailed during the previous 112 years. His amazing accomplishments were outlined in the Embassy's A-23 of February 1, 1946 and need not be recapitulated here. In brief, he ended chaos in Honduras and the Department is aware that the measures he now takes are less harsh than those employed some years ago.

Recorded history has few examples of democracy developing directly from chaos; the usual sequence has been chaos, strong-man dictatorship, and then a gradual softening towards democracy. Since President Carías is at least moving in the same direction, and as nothing better is in sight, I would be derelict in my duty if I did not suggest that the Department reconsider the view expressed in its telegram under reference. President Carías is a great and patriotic Hon-

durán, entirely without ambitions beyond his own frontiers. He deserves more sympathy than has been given him up to now.

Respectfully yours,

JOHN B. FAUST

815.248/5-2846

*Memorandum by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)*⁹

WASHINGTON, June 3, 1946.

The Honduran Ambassador in a note dated May 28, 1946¹⁰ requesting the Department's cooperation in obtaining AT-6's had posed a question which may make desirable a review of the Department's position with regard to two major policies which would appear to be, at least in part, incompatible, namely: (a) The withholding of arms and ammunition from the dictator countries in order that they may not be in a position to use them against their own people, thus perpetuating their regimes; and (b) The military cooperation with the other American Republics with a view to standardization of equipment and to a better and more unified defense of the Hemisphere.

The Honduran Ambassador in presenting his note (which pointed out that the Honduran Government had not only failed to obtain the permits but had been given no reason for their non-issuance) stated "off the record" that he had learned that the planes were being kept from Honduras for "political reasons".

General Considerations—

As regards the two policies under reference, the following points might be considered:

A. Factors making continuance of withholding of arms desirable:

1. This has been one of the most effective means of bringing our disapproval to the attention of the dictatorial regimes and of encouraging and reinforcing those local democratic elements which we should like to see succeed the present dictators.

2. Our record remains clear and we cannot be accused either by our own people or by the dictators' victims of supporting or making possible the continuance of dictatorships through supplying arms susceptible of use by a dictator against his own people.

3. We remain faithful to our general professions of the basic reasons for which we fought the war.

4. Should we supply arms to one of the dictators, we will be in a position of having to do likewise to the others.

5. Should the present policy be modified it would probably be in-

⁹ Addressed to the Assistant Secretary of State for American Republic Affairs (Braden) and to the Director of the Office of American Republic Affairs (Briggs).

¹⁰ Not printed.

terpreted by the public in dictatorship countries as support for and approval of the dictators.

B. Factors Adversely Affecting Continuance of Policy of Withholding Arms:

1. Failure to supply equipment requested weakens and may nullify the military cooperation and standardization program. The question has already been raised in Central America of the utility to the receiving country of American military missions when equipment is withheld; and there is at least one example (Dominican Republic) of a country which having failed to receive arms from the U.S., sought and obtained them elsewhere.¹¹

2. Possibility of effectiveness of withholding programs being nullified by other powers. Even assuming British cooperation in withholding arms from any given country, we cannot count on similar cooperation from Russia which might supply arms either directly or through a third country such as Argentina.

3. Resentment resulting from failure to obtain arms would facilitate Russian infiltration and possible formation of anti-American blocs.

4. There is a striking discrepancy between the attitudes taken to date towards the American dictators and the Russian dictatorship. Notwithstanding obvious explanations for the discrepancy, our inconsistency exposes us to charges of hypocrisy and ulterior motives.

5. Our policy to date has not succeeded in bringing about the removal of any American dictator.

6. The program of military cooperation contemplates the supplying of equipment in accordance with the needs of each country and the contribution which it may make to continental defense, at the same time taking into consideration the necessity for preventing such countries from becoming a menace to their neighbors. In short, the program envisages a form of control and limitation although not total withholding, as is now the policy with regard to certain countries.

7. Such limited equipment as might be given to dictatorship countries under the program would not necessarily alter the ability of a dictator to perpetuate his regime. Most present American dictatorships already have sufficient arms to control their people unless there is a disaffection among the military elements. Additional equipment would not, therefore, materially affect the present situation.

Specific Problem of Honduras—

When Ambassador Cáceres presented his request to Mr. Cochran on May 28, he was accompanied by Colonel Stewart, who is in charge of pilot training in Honduras. The latter states that were he to obtain six AT-6's he would ground nine other planes, including five Vultees. He emphasized that the sole reason for the request was to provide more suitable equipment for training purposes, pointing out that Honduras

¹¹ For documentation on this subject, see pp. 816 ff.

already had sufficient equipment to take care adequately of any disturbances which might arise.¹²

Should the Department reject the Honduran application, it would appear desirable to inform the Ambassador of the reasons therefor as was done in the case of the Dominican request for arms. Unfortunately, we would have greater difficulty in this instance in presenting as good an explanation since Carías (probably as a result of our present policy) has permitted the opposition press to function, has at long last released political prisoners and observed other democratic forms which might enable him to make, what would be on the face of it, a fairly effective reply.

Recommendation—

After considering the various factors involved it is recommended that the AT-6's be released to Honduras. However, although the specific request under consideration is not of outstanding importance in itself, it should be fully understood that acceding to it would probably involve a similar change in policy toward supplying arms to other dictatorship countries of the Hemisphere since it would be difficult to draw the line between Carías and, for example, his neighbor dictator, Somoza,¹³ or other more objectionable dictators.

815.248/5-2846

*Memorandum by the Chief of the Division of Caribbean and Central American Affairs (Cochran)*¹⁴

WASHINGTON, June 3, 1946.

The Honduran memorandum expresses Honduras' interest in obtaining six AT-6 airplanes, and the Ambassador made it clear that he wanted a reply explaining why export licenses were refused (should they be refused). It is unfortunate that the issue is drawn in a case not clearly involving combat aircraft (experts can argue interminably as to whether an AT-6 is, or is not, a tactical plane). The request nevertheless squarely poses the dilemma: which is to prevail, our

¹² Chargé Faust, in a letter of May 14 to Acting Secretary Acheson, stressed this opinion: "Unless the United States is prepared to give real assistance in standardizing Honduran military equipment, the Mission might as well be withdrawn; obviously, it cannot do its work properly unless given the necessary tools. The Department's fear that Carías might strengthen his dictatorship if given modern equipment appears to be without basis. He already has virtually 100% control and does not need modern arms to defeat the sporadic attempts of oppositionist elements to overthrow his regime. His several thousand rifles of the type used by American forces in the First World War constitute far better equipment than any which his opponents are likely to obtain." (711.00/5-1446)

¹³ Gen. Anastasio Somoza, President of Nicaragua.

¹⁴ Addressed to the Assistant Secretary of State for American Republic Affairs (Braden) and to the Director of the Office of American Republic Affairs (Briggs).

policy of arms standardization or our refusal to assist non-democratic régimes?

1. Should we hold that the arms standardization program is to prevail, there is no further point to our private diatribes against the dictators. If Honduras is to receive AT-6 planes, we must also make them available to Somoza in Nicaragua. To supply military equipment to either régime will not, at this late date, convince Carías or Somoza of our love; but it will serve to disillusion the peoples of both countries, and of others, as to the purity of our purposes, or the sincerity of our devotion to democratic principles.

Is Honduras a dictatorship? Less so, than the tyranny of Somoza. Some political prisoners have been released. The press is freer than a year ago. But it is still true that the people have not been called upon to elect a President since 1932. Similarly, the 1936 "elections" for a Constitutional Assembly (whose members later became the Chamber of Deputies under the new Constitution of that year) were uncontested by the "Liberal" (opposition) party; which also refused to vote in the 1942 congressional elections. Thus, the legislature is a rubber stamp, and there is no real freedom to criticize or to oppose the Carías régime. Carías has promised to retire in 1948 (so did Martínez¹⁵ in El Salvador, only to ignore this commitment). There is no legal and effective way for the people to turn out a government of which they disapprove. It cannot be seriously held that there is freedom of speech, freedom of association, freedom of organization or real freedom of the press.

It is unfortunate that Honduras should arise as the test case, because it has no history or tradition of democratic practice—on the contrary, its story is one of turbulence and selfish demagogues, resorting freely to revolution to attain power. Its peace has come from its dictator. But that peace has been the peace of oppression. And whether or not democracy is the answer to Honduras' political problems, in the light of its political, economic, cultural and educational backwardness, it must be remembered that whatever we do in this case, we must also do in Nicaragua, where conditions are quite different and where there is a widespread and an organized demand for freedom.

2. Should we hold that "no aid to the dictators" is to be the overriding consideration, we are true to the principles which made our country great. We are true to the postulates for which we said we were fighting in World Wars I and II. We are true to the hopes which so many oppressed peoples of the world have placed in us.

¹⁵ Maximiliano Hernández Martínez, President of El Salvador, 1931-1944. For documentation on the 1944 revolution in El Salvador and the United States policy of recognition, see *Foreign Relations*, 1944, vol. VII, pp. 1087 ff.

At the same time, we risk impairing the policy of standardization. Countries refused arms by us may obtain them elsewhere. They may refuse our military missions, and turn to other countries for them. We may split the hemisphere, and find ourselves with Argentine military men and arms in Nicaragua, Honduras, the Dominican Republic. But if it is true that democracy and peace are indivisible, we must still hew to the line of the former, or our hopes for the latter will be illusory. And a hemisphere solidarity based on playing bedfellow with the arrant dictators, such as Trujillo¹⁷ and Somoza, is a patent fraud.

Continuance of the "no aid to dictators" policy may not prevent the tyrants from obtaining arms elsewhere. But it will avoid the shooting of Dominicans, Nicaraguans and Hondurans with equipment supplied by the United States.

Furthermore, nothing could so effectively drive the downtrodden masses of the hemisphere to turn to Russia, as our abandonment of them. To support the dictators is to deny our sympathy and our help to every liberal movement, to every cry for freedom. To support the dictators is not to deliver the masses of this continent to Communism by default; it is to force the peoples to turn to Russia as their only hope. That would really "split the hemisphere".

It has been pointed out that our policy to date has not effected the removal of a single dictator. To that, I reply: the policy is young, and almost unknown; it has not yet been fully and publicly applied; but neither has it been ineffective—Somoza is badly worried, Trujillo is seriously alarmed, and Carias has freed his political prisoners, relaxed his hold on the press. Time and its effective application will make the policy even more efficacious. And to give planes to Honduras now is to abandon the policy upon its second test.

I note further that to refuse aid to Honduras parallels our publicly-announced policy in Europe, where we have suspended assistance to Poland because of that country's failure to hold free elections; and where we have made our attitude quite clear in similar situations in Rumania, etc. Thus, consistency also counsels our continuing to refuse aid to the dictators in this hemisphere.

I do not see that those so-called realists who ever counsel expediency have accomplished much to prevent wars. At least, the injection of a little idealism and principle into our foreign policy can do no worse.

I recommend that the Honduran request be rejected, in the terms of the attached draft.¹⁸

¹⁷ Rafael L. Trujillo, President of the Dominican Republic.

¹⁸ Not printed.

To support this recommendation, I quote from Secretary Byrnes' recent testimony on the arms standardization bill: he said that approval of the bill will be an indication . . . "That the United States desires to go forward with such collaboration subject to overriding considerations of our general foreign policy—particularly our support of the United Nations . . .". He also said that activities under the bill will be governed by the basic objectives of our policy of . . . "assistance to our sister American nations . . . in progressively greater achievement of political, economic and cultural objectives of a democratic society."

W[ILLIAM] P. C[OCHRAN, JR.]

815.248/5-2846

The Secretary of State to the Honduran Ambassador (Cáceres)

The Secretary of State presents his compliments to His Excellency the Ambassador of Honduras and has the honor to acknowledge the receipt of his note of May 28, 1946,¹⁹ with regard to the desire of the Honduran Government to purchase six AT-6 airplanes, and requesting that export licenses be granted for this equipment.

It is regretted that the Government of the United States is not in a position to make these airplanes available to the Government of Honduras at this time.

WASHINGTON, June 17, 1946.

815.24/6-446

The Acting Secretary of State to the Honduran Ambassador (Cáceres)

WASHINGTON, August 9, 1946.

EXCELLENCY: I have the honor to refer to Your Excellency's note of June 4, 1946 and to my acknowledgment dated June 20, 1946²⁰ concerning the desire of Your Excellency's Government to obtain from the United States specified lists of material for the Honduran armed forces. . . .

The material requested in Your Excellency's note comprises both arms and ammunition and supporting equipment which is non-military in character. This Government is not at this time in a position to supply the Honduran Government with the arms and ammunition requested. It is none the less suggested that some of the non-military equipment may be procured directly from the War Assets Administra-

¹⁹ Not printed.

²⁰ Neither printed.

tion, which is charged with the disposal of such material. As Your Excellency will of course realize, the extremely critical supply in the United States of certain of the items desired, such as trucks, may make it difficult to obtain these items from the War Assets Administration.

Please accept [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

815.20/9-446

Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, September 4, 1946.

Participants: Señor Dr. Don Julián R. Cáceres, Ambassador of Honduras
Spruille Braden, Assistant Secretary
Robert Newbegin, Assistant Chief, Division of Caribbean and Central American Affairs.

Ambassador Cáceres called to present to Assistant Secretary Braden, a note ²¹ requesting the assistance of this Government in effecting the reorganization of the Honduran Army. The Ambassador referred to his conversation of August 13 with Mr. Braden when he had requested assistance in obtaining military equipment and was informed that it was not available at that time. He explained that following this conversation, the note which he was delivering together with its enclosure, signed by Dr. Silverio Laínez, Minister of Foreign Affairs, and Dr. Juan Manuel Galvez, Minister of War, was prepared in cooperation with the American Military Mission. Mr. Braden told him that he would be glad to study the note and its recommendations.

R[OBERT] N[EWBEGIN]

815.24/9-446

*Memorandum by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)*²²

WASHINGTON, September 19, 1946.

There is attached a note from the Honduran Embassy, together with a routine draft reply,²³ regarding the solicitation by the Honduran

²¹ Not printed.

²² Addressed to the Director of the Office of American Republic Affairs (Briggs) and to the Deputy Director (Trueblood).

²³ Neither printed.

Government of our cooperation in reorganizing the Honduran Army. The note is accompanied by an organization chart and while the amount of new equipment which would be required by this Government is not shown, it is undoubtedly considerable. The Honduran authorities, according to Ambassador Cáceres in his conversation with Mr. Braden on September 4, had the cooperation of the American Military Mission in drawing up the plan.

The Honduran request points up the necessity for us to reach a definitive conclusion as to our attitude with regard to the supplying of further equipment to the Honduran Government and the related problem of our Military Mission. This opinion is shared by Mr. Dreier as will be noted by his memorandum to me and Mr. Spencer which is likewise attached.²⁴ Dreier points out that, in general, the plan seems reasonable and generally corresponds with the conclusions reached during the bilateral staff conversations. In connection with our failure to supply arms to the Hondurans, as well as the somewhat anomalous position of our Military Mission, I am attaching a report from the Military Attaché at Tegucigalpa²⁵ which indicates that the Mexicans are interested in superseding us in the supplying of arms to Honduras and in exerting an influence in Honduran military affairs. The Military Attaché reports President Carías as being impatient with the unexplained delay on the part of the United States in furnishing equipment.

It appears to me that whatever our final decision in the matter, either alternative leaves much to be desired. If we fail to supply equipment to Honduras, there is the possibility above mentioned that others may do so, to our ultimate disadvantage, and that the Hondurans may question the further utility of a military mission. Furthermore, I cannot feel that our line of conduct is completely honest if we continue to furnish a military mission at Honduran expense while withholding the necessary implements for that mission to function effectively. On the other hand, if we supply arms to Honduras, we are most definitely adding to the means at the disposal of the Honduran Government with which it can continue to impose its dictatorship and we lay ourselves open to criticism as supporting the dictatorship ourselves. In short, either alternative leaves us in an unsatisfactory position. I believe, however, that the time has come for us to decide which course of action is the most desirable as, obviously, we cannot have it both ways very much longer.

²⁴ Memorandum of September 9 by John C. Dreier, Acting Chief of the Division of Special Inter-American Affairs, to Mr. Newbegin and George O. Spencer, Divisional Assistant, Division of Special Inter-American Affairs, not printed.

²⁵ Report of August 8 by Lt. Col. Nathan A. Brown, not printed.

815.24/12-2646

Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)

WASHINGTON, December 26, 1946.

Participants: Señor Dr. Don Julián R. Cáceres, Honduran Ambassador
Mr. Briggs
Mr. Newbegin

The Honduran Ambassador called this afternoon in connection with his request of December 23 that Colonel Adams²⁸ of the Military Mission be authorized to accompany Colonel Bertrand²⁹ to the United States on what was presumed to be a military purchasing mission. Ambassador Cáceres stated that he had received telegrams from the Honduran President, Secretary of War and Foreign Minister urging prompt action in this regard. Mr. Briggs explained that we had only the most friendly feeling towards the Honduran people and towards the Ambassador himself with whom we had had such cordial relations over a period of many years. He said that he felt that the only proper approach to current problems was a frank, open and friendly discussion. Accordingly, he wished to point out that this Government had a more friendly feeling and a greater desire to cooperate with those Governments which were based on the periodically and freely expressed will of the people. He mentioned that there had been no such elections in Honduras since 1933 and that this fact influenced our approach to the question of military cooperation. Mr. Briggs asserted that we were unwilling to supply military equipment to Honduras for this reason, although we were most happy to cooperate in all other fields.

Ambassador Cáceres expressed his appreciation of Mr. Briggs' frankness. He said that he had received some time ago from military sources an indication that the Department did not approve supplying military equipment to Honduras and assumed that its reasons therefor were (1) that there would be criticism in the press and from public opinion were arms and ammunition made available; (2) that the furnishing of military equipment might be used to retain President Carías in power.

The Ambassador then digressed into a long discussion of the Honduran political situation, stating that while there had been no election,

²⁸ Lt. Col. James Y. Adams, Chief of the United States Military Mission.

²⁹ Col. Francisco Bertrand, Honduran Army.

nevertheless Carías was legally and constitutionally in power even though his retention of his position was reached through a loophole in the constitution which permitted the calling of a new constitutional assembly. He alleged that Carías had the support not only of his political party, but of the great mass of the people to whom tremendous benefits had accrued as a result of the peace obtaining during the Carías regime. He stated that a country could not be judged on legal grounds alone, but the state of its civic and material progress must be given full emphasis. In this connection he asserted that Honduras was definitely behind the times. It did, however, have the advantage and tradition of two long-established political parties. The difference between the two parties was insignificant and no general advantage was obtained by the people from a change in party control. Such benefits as the people obtained depended essentially upon the character of the President rather than the party he represented.

He suggested that it was not sound to criticize or judge an undeveloped country like Honduras by the standards which apply to the United States. Mr. Briggs replied that he wanted to make it particularly clear that we were not criticizing or judging Honduras and the Honduran Government which was a matter entirely within the province of Honduras. He was merely explaining why we were unable to cooperate in a military sense.

With specific reference to the proposed plan for the reorganization of the Honduran armed forces as drawn up by the Military Mission and the Honduran authorities,³⁰ the Ambassador pointed out that many of the items were not strictly speaking military, and that it might be desirable for Colonel Adams to come to the United States and review the current Honduran situation with the Department. It was pointed out that should Colonel Adams accompany Colonel Bertrand the trip might be subject to misinterpretation and convey the impression that the United States was in fact willing to give military support to Honduras. It was agreed that the Ambassador would communicate with his Government and the Department with the Embassy at Tegucigalpa in an effort to obtain clarification and fuller details with regard to the objectives of the trip and that the matter would be discussed again when such information was forthcoming.

The Ambassador pointed that his government was particularly anxious to obtain replacement parts for equipment which it already possessed. Mr. Briggs stated that the Department would give consideration to this request.

³⁰ See memorandum of September 4, p. 964.

815.24/12-3146 : Telegram

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

CONFIDENTIAL

TEGUCIGALPA, December 31, 1946—5 p. m.
[Received January 1, 1947—6:25 a. m.]

190. Have discussed with Colonel Adams subject matter Deptel 153 December 31, 7 p. m.³¹ He understands clearly policy regarding withholding military equipment. The request of Ambassador Cáceres referred to engineering equipment such as bulldozers, tractors, graders, cranes, shovels, pumps, scrapers, welding equipment, trucks, et cetera. (For exact list of equipment required refer to table of organization and equipment 5415 less armaments).

Military Mission is not now advocating additional armaments for Honduras but on the contrary advocates reduction of arms to fit a small table of organization principally engineers. To accomplish this and the War Dept aim of standard US armaments throughout the hemisphere Military Mission suggests exchange of large stock of various foreign makes of arms now owned by Honduras for standard US makes.

The chief need of Honduras according to Adams is engineering equipment for road building, reservoirs and sanitary facilities in order to advance a program of civic and economic betterment. President Carías has assured Military Mission head that adequate financial arrangements for payment to the US Govt will be made.

Col. Beams' [Adams'] projected trip to US was solely for the purpose of exploring possibilities of securing non-military equipment from surplus stocks available in Pacific area. Bertrand will not make trip to US with Adams who may proceed alone for consultation with appropriate authorities.

ERWIN

³¹ Not printed; in it Secretary Byrnes informed Ambassador Erwin concerning the Department's reply to Ambassador Cáceres with regard to his request of September 4 for assistance in reorganizing the Honduran Army, and his request of December 23 that Col. Adams be authorized to come to the United States with Col. Bertrand to purchase military supplies for Honduras (815.24/12-2446); see memorandum of December 26, *supra*.

MEXICO

UNITED STATES POLICY OF NONINTERVENTION IN THE MEXICAN PRESIDENTIAL CAMPAIGN

812.00/1-746

*The Ambassador in Mexico (Messersmith) to the Assistant Secretary
of State for American Republic Affairs (Braden)*

MEXICO, D.F., January 7, 1946.

[Received January 16.]

DEAR SPRUILLE: I am sending you herewith a copy of my despatch no. 27,889¹ with further reference to Lombardo Toledano's² statement that imperialistic interests in the United States are smuggling arms to Mexican Sinarquists³ in order to foment revolution. In this despatch I report the press reaction to the statement from Washington made by the Department,⁴ and authorized by the Mexican Government to the effect that they had made a thorough investigation and found no basis for the statements made by Lombardo in his December 16th speech. It will be noted from the despatch that the press reaction was inadequate and that *El Nacional*, which is the semi-official government newspaper here, did not even publish it and that *El Popular*, which is Lombardo's paper, also did not publish it. The other newspapers in Mexico City carried it but did not give it the display which the circumstances warrant.

The reason for this, I believe, is quite obvious. There has been this terrible incident at León where troops shot on innocent protestants and there was really a small-scale massacre. Some 50 in the crowd were killed and over 500 wounded and most of them in the back. The Government is in an increasingly embarrassing position. While Lom-

¹ Not printed.

² Vicente Lombardo Toledano, President of the Confederation of Workers of Latin America (CTAL). According to a memorandum on the Communist movement in Mexico, transmitted in Embassy's despatch 1074, September 5, 1946, speeches made by Lombardo Toledano revealed strict adherence to principles of Marxism and Leninism, intense devotion to the objectives and foreign policies of the Government of the Soviet Union, and strong anti-United States sentiments. (812.00B/9-546).

³ The anti-communist Sinarquistas were described in despatch 2,167, December 11, 1945, from Mexico, as the principal groups to keep alive all the traditional Mexican anti-American sentiments and to distort facts, thus encouraging uninformed people to express anti-American opinions (711.12/12-1146).

⁴ For a press release of January 5 on investigation by the Mexican Government of charges against American firms, see Department of State *Bulletin*, January 6 and 13, 1946, p. 39.

bardo is not a member of the Government he is supporting the government candidate for the Presidency ⁵ and for the Mexican Government to have had to take the action that it has done has been a very difficult thing for it and is causing it a good deal of uneasiness.

The León incident on top of this is exceedingly embarrassing to the Government and to the supporters of Alemán. I do not think that the Government had anything to do with ordering the shooting on the crowd at León, but the officer in charge there thought he was doing what he was expected to do when he permitted or ordered his men to shoot on these innocent people.

I have no definite knowledge that there was any instruction to the newspapers to soft-pedal the reply of the Mexican Government to us to the effect that its investigation had shown that there was no basis for Lombardo's statement but knowing how things are done here, I would not be surprised, and I am inclined to believe, that some indication was given to the press to soft-pedal the statement.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

812.00B/1-1246

The Ambassador in Mexico (Messersmith) to the Chief of the Division of Mexican Affairs (Carrigan)

[Extracts]

SECRET

MEXICO, D.F., January 12, 1946.

[Received January 17.]

DEAR CARRIGAN: I wish to refer to my letter of January 10, 1946,⁵ with which I sent you a clipping from *La Voz de Mexico* of the issue of January 9, in paragraph (7) of which the Communist party and this paper state that the Government of the United States should be petitioned that I be removed and replaced by a proven partisan of democracy and of the Good Neighbor policy, as there exist accusations against me to the effect that I am working with the Sinarquists and that these accusations are based on "confessions" of Sinarquists.

I also wish to refer to a Communist meeting which took place in Mexico City on the evening of December 21, during which meeting a Communist speaker made an attack against the United States and against me, stating that I should be removed, etc.

I am bringing all the foregoing together because it is an indication of the definite Moscow and Communist interest in attacking us here in

⁵ Miguel Alemán.

⁶ Not printed.

Mexico, and of course one of the most natural ways is to attack me. There is a good deal of resentment here in Mexico over these Communist attacks on me, and over the statements which Lombardo has made in private against me but has so far not dared to make regarding me in public. The extreme Communist interest in holding meetings recently in which we are always attacked, and the English in the second place, and in which I am attacked, is significant because it is an indication of the interest which Soviet Russia has in sowing discord in Mexico and in Latin America, and in developing resentment against us. We can't escape the fact that Soviet Russia does not like inter-American collaboration and they want to break up this collaboration between Mexico and the United States, for they consider Mexico a key country in this whole American picture.

I think I should tell you that there is a great deal of resentment here, even among people who are not particularly my personal friends, over these attacks and this mention of my being recalled. . . .

. . . I think the feeling is put in the most succinct form in a statement of the President of Mexico to a close friend the other day when they were undoubtedly discussing these attacks on me by Communists and Lombardo, and when the President said "I know the history of my country and I know the actuation of American Ambassadors here and I know the actuation of the present Ambassador, and I am convinced that Mexico has never had a more sincere friend in the American Embassy, or a person more understanding of every phase of Mexico's life". . . .⁷

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

812.00/1-1246

*The Ambassador in Mexico (Messersmith) to the Acting
Secretary of State*

SECRET

MEXICO, D.F., January 12, 1946.

[Received January 17.]

[Extracts]

DEAR DEAN: In a series of despatches we have continuously kept the Department informed concerning the developments in the electoral

⁷ Ambassador Messersmith reported in Despatch 28,192, January 29, that an article planned for publication on January 26 by *La Voz de Mexico*, the Communist newspaper in Mexico City, attacking him and the American Embassy had not been published, because, according to the editor, he had received a letter from the Mexican Ministry of Gobernación warning him not to publish any articles of criticism against any diplomatic mission or Chiefs of Mission in Mexico (812.00/1-2946).

situation in Mexico, in view of the importance of the presidential election this year. . . .

The term of the President in Mexico is six years, and the term of President Ávila Camacho expires in December 1946. The election is to be held on July 7, 1946. . . .

It has been a very difficult matter for this Embassy and for our Government to be kept out of this electoral struggle but it is absolutely essential. There is no question that we have a very definite interest in the outcome of this election, but we are entirely powerless in the matter. The type of man who is elected as President of Mexico will determine the course of events internally for years to come. It will determine the course which Mexico will take in her relationships with us and in the world picture. . . .

The most serious danger in the election of Alemán is that if he is elected, Lombardo and the extreme Left elements in Mexico will claim the credit for his being so, and, as they are the strongest and most resourceful and vociferous elements, it is easy to foresee who would be guiding Mexico's internal and external policies. The close connection between Lombardo and Soviet Russia is daily more obvious. The interest of Soviet Russia in the Mexican elections is indicated by recent Soviet broadcasts from Moscow which have been reported to the Department and in which developments in the Mexican situation are completely misrepresented. Soviet Russia professedly stands for the masses and the expression of the will of the masses, but these broadcasts from Moscow try to make it appear that the León massacre was due to the attack of Fascist elements on the Government. If we are not taking any interest in the Mexican elections, there isn't any doubt that Soviet Russia is.

Considerable pressures have been brought on American firms here to make contributions to the Alemán campaign, but I have taken the position quietly and unobtrusively, and American firms have taken the position that they cannot contribute to either side. . . .

. . . this election is of such tremendous importance to us. There is no doubt that Alemán believes that good relations with the United States are necessary, and he knows that he needs our support in many ways for his presidency to be a success. . . . The one thing that we can do is to make it clear that we stand for free elections everywhere

just as we do in Rumania and Bulgaria, and just as we do in the Argentine. If we make it clear at appropriate times, in statements which have no specific reference to Mexico but which can be so worded that their implication will be readily understood here, that we are interested in free elections and the will of the people being given effect everywhere, it will have a very strong effect and in the right direction in this country, and no exception can be taken to such statements. We haven't hesitated to say freely and definitely how we feel about the situation in Bulgaria and Rumania, and we have made clear our opposition to imposition there. We have made clear, and properly so, our attitude with respect to the Argentine. While I do not think we can be as specific with respect to Mexico at this time as we have been with respect to those countries, or at least I do not believe it would be advisable at this time, I must tell you frankly that there is a growing opinion among thoughtful people here that we seem to be too complacent about this situation in Mexico. They don't want us to interfere but, at the same time, they want us to make our principles clear, and I think the worst thing that can happen is for the impression to get currency here in Mexico that no matter who is elected and that no matter how he is elected, and no matter how he may be imposed and no matter how the will of the people is thwarted, we will accept such a situation and recognize such imposed candidate. That is more or less the feeling here now—that no matter what happens, we will recognize the *status quo* and the imposed candidate. I am giving careful thought to this situation because, as I have said so many times, very real issues are at stake so far as we are concerned, as well as Mexico, in this election. I should like to repeat that the wrong kind of man in the Mexican presidency can completely change the internal situation in Mexico, can and will change her orientation in external affairs to our disadvantage and hers, can tremendously influence developments in all of the other American Republics, and can greatly complicate our problems in this Hemisphere and in the rest of the world. . . . If there is a free election, we need have no fears, because the candidate elected will not be one who is committed to a policy so contrary to all that we stand for in the world picture today.

I would appreciate your bringing this letter to the attention of the Secretary on his return from London, and I think it would be advisable that the Secretary or you, at a convenient opportunity, give the President a brief statement of my present estimate of the situation.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

812.00/1-1246

The Under Secretary of State (Acheson) to the Ambassador in Mexico (Messersmith)

SECRET

WASHINGTON, February 13, 1946.

DEAR GEORGE: Thank you very much for your letter under date of January 12, 1946, in which you review the Mexican political situation and our relationship to it. . . .

There are certain principal points that have occurred to us upon careful study of your letter and of certain subsequent developments which you have reported in other communications.

(1) [Here follows comment on the incident at León, Guanajuato, as it concerned the Mexican political situation.]

(2) The belief which you state prevails in Mexico that, no matter what happens, irrespective of the methods used in the elections, we will necessarily recognize any imposed winner may yet force us into taking some steps to clarify our position.

We have of course in many recent speeches made our position perfectly clear. In part, it was contained in essence in the paragraph of our secret circular of November 1, 1944,⁸ respecting:

“the self-evident truth that the Government and the people of the United States cannot help but feel a greater affinity and a warmer friendship for these Governments which rest upon the periodically and freely expressed consent of the governed.”

The rest of the position may be stated, in brief, as our firm feeling that these political matters are purely domestic to Mexico, and that we have no right, nor intention, to take any part therein. Nevertheless, it would be unfortunate to have to make a statement of this sort pointed at Mexico.

(3) While the Department has made clear its position with respect to contributions being requested of or being made by firms owned by American citizens, it appears from your letter that contributions may have been made by certain Americans, even though these may be few in number.

As you are aware, we feel very strongly that no American citizen or company should be permitted to make campaign contributions or otherwise to intervene in domestic Mexican political affairs. We should accordingly welcome your suggestions in regard to handling the cases of those few irresponsible individuals who may be currently involved—whether by reiterating our stand in a public speech, issuing an Embassy press release, calling in the individuals in question, or otherwise.

With many thanks for your letter, believe me,

Sincerely yours,

DEAN ACHESON

⁸ Not printed.

810.001/2-1946

*Memorandum of Conversation, by the Chief of the Division of
Mexican Affairs (Carrigan)*

SECRET

WASHINGTON, February 19, 1946.

Participants: Assistant Secretary Spruille Braden
Mexican Ambassador Espinosa de los Monteros
John Carrigan, MA

Ambassador Espinosa de los Monteros called, at his own request, on Mr. Braden at 5:30 today.

He started out the conversation by referring to the fact that 1947 would be the hundredth anniversary of this country's war with Mexico. He said that this would be a critical year in view of the general political situation in Mexico and the wartime betterment of relations with this country, since we were at a crossroads which would either bring about a continued improvement in our relations or a deterioration. He said that he had noticed that in similar circumstances, in history, an unwritten agreement appeared to have been entered into by the two countries concerned whereby they approached such anniversaries on an identical basis: they either made mutual attempts for emphasizing the anniversary or for playing it down. He expressed his opinion that Mexico and the United States should make such preparation. He said that, irrespective whether we decided to play it up or to play it down, the opening gun of the year would be the inauguration of the next administration on December 1. He referred to Mr. Carrigan's conversation with Counselor Sánchez Gavito of the Embassy a few hours before, in which Mr. Carrigan, with Mr. Braden's permission, had told Mr. Sánchez Gavito of the contemplated abandonment of the practice of naming special ambassadors for inaugurations in this hemisphere. He said that, while he was completely in agreement with the technical wisdom of such a step and while he appreciated that it was exceedingly delicate for him to make any suggestions in this connection, he nevertheless felt so strongly about this anniversary year that he did wish Mr. Braden to know how vital he felt it would be for such a special ambassador to be appointed in the case of the inauguration in Mexico. He said that he was sure that Ambassador Messersmith was so good a friend to Mexico that he would himself be the first to agree with such a recommendation.

He said that, if a special ambassador were not so named, it would be taken as a definite break with the new administration, and that even the publication of the decision at this time would be taken as significant of a deterioration in our common relations. Mr. Carrigan pointed out that he understood there was at least one other inaugura-

tion between now and December 1 and that it occurred to him that the edge of this matter might be taken off by this previous inauguration. The Mexican Ambassador said that he was perfectly certain that our decision would be interpreted in Mexico as having a bearing on the Mexican political situation: he remarked that it must be realized that there were those in Mexico who were seeking every opportunity to foment difficulties between the two countries and that they would jump at this opportunity to make statements misinterpreting our real position for their own ends.

Mr. Carrigan said that it was also possible, in view of Leftist attacks upon our Embassy in Mexico City, that these same elements might seize upon the naming of a special ambassador as warrant for maintaining that the Government of the United States is not in sympathy with its Embassy. The Mexican Ambassador said that any person in political life was always subjected to attack: he cited an article in *Time* of February 11 attacking the wife of the President of Mexico. He then reverted once more to his earnest opinion that 1947 represented a very serious crossroads in our common history; that the opening gun was the inauguration in question; and that he earnestly hoped that we would find it possible to name a special ambassador for the inauguration in Mexico City.

Mr. Braden assured the Mexican Ambassador of his appreciation of the problems which the Mexican Ambassador had brought up and assured him that we would give this matter every consideration.⁹

JOHN WILLARD CARRIGAN

812.00/6-2546

*Memorandum by the Chief of the Division of Mexican Affairs
(Carrigan)*¹⁰

WASHINGTON, June 25, 1946.

USA AGAIN BEING BROUGHT INTO THE MEXICAN ELECTORAL PICTURE:

Over the past few months, and since Lombardo Toledano's unwarranted allegations concerning arms-running, the USA has, relatively speaking, not been mentioned in the Mexican electoral campaign leading up to the July 7 Presidential elections.

⁹ For a Department of State press release of November 7, 1946, concerning President Truman's appointment of Mr. Walter Thurston as Special Ambassador for the inauguration of the new President of Mexico on December 1, see Department of State *Bulletin*, November 17, 1946, p. 919.

¹⁰ Addressed to the Assistant Secretary of State for American Republic Affairs. (Braden) and to the Director of the Office of American Republic Affairs. (Briggs).

Recently a statement was made by Padilla ¹¹ which was interpreted by his opponents to imply that the United States should supervise or otherwise verify the legality of the forthcoming elections.

Padilla, in essence, only said that we would have the right to make up our own minds whether or not to recognize the announced result of the elections. This was carefully blown up by the opposition to Padilla to the allegation Padilla wanted to turn Mexican electoral procedure and sovereignty over to the USA.

There is no need for any comment on our part, and, for that matter, any comment would be misinterpreted. However, if any specific questions are asked I believe we should say that Mexican elections are Mexico's business, likewise United States policy is United States' business.

JOHN WILLARD CARRIGAN

812.00/6-1946

*The Acting Secretary of State to the Ambassador in Mexico
(Thurston)*

CONFIDENTIAL
No. 50

WASHINGTON, July 8, 1946.

SIR: Receipt is acknowledged of your despatch no. 18 of June 19, 1946,¹² regarding the conversation you had with Dr. Ezequiel Padilla and his request that you speak to President Avila Camacho, expressing the interest of the United States in free and fair elections in Mexico.

The Department approves of your reply to Dr. Padilla to the effect that you could not take the action he requested. However, if in private conversation the President should make reference to his remarks regarding the election, you are authorized, in your discretion, to express to him this Government's continuing interest and hope that the authority of all governments be derived from the will of the majority of the people through regularly and freely expressed fair and democratic processes.

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

¹¹ Presidential candidate Ezequiel Padilla (former Mexican Minister for Foreign Affairs). According to a memorandum of July 1, 1946, by the Divisional Assistant of the Division of Mexican Affairs (Hughes): "Alemán is backed by the Government, Lombardo Toledano, labor, and other leftist elements; Padilla by the more conservative groups. Alemán has been attacked by his opponents as a tool of the Communists, while Padilla has been accused as being a tool of the United States, to which his opponents say he 'sold out'." (812.00/7-146)

¹² Not printed.

[Miguel Alemán was elected President of Mexico on July 7 for a 6-year period beginning December 1, 1946.]

DISCUSSIONS OF THE PROBLEM OF LEND-LEASE OBLIGATIONS OF MEXICO TO THE UNITED STATES¹³

812.24/5-246

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

No. 29,319

MEXICO, D.F., May 2, 1946.

[Received May 8.]

SIR: I have the honor to inform the Department that on the evening of April 26, 1946, the Minister of Foreign Relations of Mexico, Dr. Castillo Nájera, requested me to call at the Ministry. He said he wished to discuss the Lend-Lease obligations of Mexico towards the United States. He then went on to read me the text of a memorandum which he had prepared covering a conversation which he had had recently in Washington with President Truman and with Secretary Byrnes. It will be recalled in this connection that Dr. Castillo Nájera recently spent some weeks in the United States to attend the meetings of the Security Council in New York City and later several days in Washington during which time he had this conversation with President Truman and Secretary Byrnes. Dr. Castillo Nájera said that under instructions of the President of Mexico he had taken this opportunity to discuss the Lend-Lease obligations of Mexico.

The memorandum which Dr. Castillo Nájera read to me was a relatively long one. It went on to refer to the original Lend-Lease agreement between Mexico and the United States.¹⁴ It then went on to refer to the circumstances surrounding the second Lend-Lease arrangement,¹⁵ in which the amount available for Lend-Lease to Mexico was considerably increased. The memorandum covered the conversations which Dr. Castillo Nájera had had with the late President Roosevelt but more particularly the conversation with former Under Secretary Welles. In the memorandum Dr. Castillo Nájera specifically states that when the second Lend-Lease conversations took place, primarily with then Under Secretary Welles, he desired to fix the total amount at \$71,000,000.00; that Dr. Castillo Nájera as the then Mexican Ambassador in Washington stated that Mexico could not undertake an obligation in that amount as she could not possibly

¹³ For previous documentation on Mexican lend-lease, see *Foreign Relations*, 1945, vol. ix, pp. 1109 ff.

¹⁴ Signed March 27, 1942; for text, see *Foreign Relations*, 1942, vol. vi, p. 485.

¹⁵ Agreement of March 18, 1943; for text, see *Foreign Relations*, 1943, vol. vi, p. 397.

repay it; and that then Under Secretary Welles stated that it made little difference what the amount stated was or what amount might be used under the agreement as Mexico would not be requested to repay it. The memorandum goes on to recite that in spite of this statement of then Under Secretary Welles, Dr. Castillo Nájera as the Mexican Ambassador in Washington indicated that the amount should be set for a smaller sum.

The memorandum then sets forth that this information was conveyed to President Truman and to Secretary Byrnes by Dr. Castillo Nájera during the conversation recently, under reference, and that President Truman stated that this was the first time that he had heard anything about the matter and turned to Secretary Byrnes and asked him what he knew about it. The memorandum states that Secretary Byrnes replied that he knew nothing about the matter but would inform himself.

The memorandum then goes on to state that after leaving the White House, Secretary Byrnes indicated to Dr. Castillo Nájera that while he would go into this matter he thought it was desirable that the Mexican Ambassador in Washington should be authorized to discuss this matter with Assistant Secretary Clayton in the Department of State who had matters of this kind particularly under his consideration and the memorandum further states that the Mexican Ambassador then indicated that this would be done.

The Department will note that the foregoing is a brief résumé of the memorandum which Dr. Castillo Nájera, the Mexican Foreign Minister, made of his recent conversation with President Truman and Secretary Byrnes for the President of Mexico and which he read to me but of which he did not furnish me a copy.

Dr. Castillo Nájera then went on to say that he had presented this memorandum to the President of Mexico and that appropriate instructions would be sent to Mr. Espinosa de los Monteros, the Mexican Ambassador in Washington, to discuss this matter with Assistant Secretary Clayton. Dr. Castillo Nájera said that Mexico was desirous of meeting these obligations which she had undertaken but he saw no way that she could do so. There were other obligations which she had which were considered of greater importance to meet and that sometime in the future Mexico might be able to meet these obligations but presently she could not. He then referred to the notes which the Mexican Embassy in Washington had been receiving from the Department of State with regard to the installments due and said that the Mexican Government had made no reply thereto as it was in a very embarrassing position, and it was in order to present the Mexican situation that he, under instructions of the President of Mexico, had

sought this conversation with President Truman and Secretary Byrnes. He said that the President of Mexico had asked him to inform me of the foregoing.

I then went on to say to Dr. Castillo Nájera that while Licenciado Padilla had been Foreign Minister of Mexico the question of these installments due on the Lend-Lease obligations of Mexico had arisen in an informal way just as it had arisen in an informal conversation with him (Dr. Castillo Nájera) some time ago. I said to the Minister that he would recall that I had said in an entirely informal way to Licenciado Padilla and to him that I had no information of a definite character with regard to the ultimate attitude of our Government on these Lend-Lease obligations of the American Republics but that I had in various communications to my Government informed it that, in my opinion, these Lend-Lease obligations of the other American Republics should be canceled as a matter of equitable treatment and in view of the inability of these Republics to pay in anything like the foreseeable future the whole or a considerable part of these Lend-Lease obligations. The Minister asked whether in his instructions to the Mexican Ambassador in Washington he could mention that I had approached the Department of State on this matter and made recommendations with respect to the Lend-Lease obligations of the American Republics. I said to the Minister that as my recommendations were a matter of record in the Department of State, I saw no reason why the Minister and the Mexican Government should not know of what recommendations I had made.

The Foreign Minister then went on to speak of the financial situation of the Mexican Government of the desire which it had shown to put its financial house in order, of the very successful action that it had taken in recent years to put its house in order. He spoke of the difficulty in raising increased revenues for the Government and of the demands of the social programs which the Mexican Government had to carry through. He reiterated that the Mexican Government had undertaken to pay the appropriate part of the amount of Lend-Lease deliveries as fixed in the Lend-Lease agreements but that presently the Mexican Government was not able to make such payments and continue to carry through its payment on other external obligations and its internal programs which were necessary to the stability and to the development of the country. I said to the Minister that I personally had, out of the very full knowledge which I had of the Mexican economy and the Mexican situation, an understanding of this situation but that I naturally could not make any observations further than that I would continue to make certain recommendations to my Government in the same sense that I had already done.

[Here follows a review of Ambassador Messersmith's recommendations on lend-lease made to the Department in 1945 communications.]

Since I made this recommendation in the communications mentioned in this despatch that the Lend-Lease obligations of the other American Republics should be canceled, the world situation is even more somber than it was at the time. While I am one of those who still have confidence in the ultimate success of the World Security Organization I still remain one of those who believe, as I did from the outset, that the keystone of our security and defense in this hemisphere lies in the closest collaboration in the political, economic, social and defense field among the countries of this hemisphere. I also maintain that there is no inconsistency between such close collaboration between the countries of this hemisphere and a world security organization. This latter idea seems to be now definitely accepted in principle but in practice it has not yet been adequately implemented.

In the meantime, it is my understanding that the Joint Chiefs of Staff of our Armed Forces have made a very clear and definite statement to the effect that the closest collaboration among the countries of this hemisphere is the keystone of our security and defense. Among every one of the American Republics, as in our own country, there is fully understood this need for collaboration in every field including the defense field among the American Republics. If there is lack of understanding of the importance of this collaboration in every field in certain sections of Government in our country and of certain others of the American countries there is no lack of understanding of it among the people of the United States or of the other American Republics, and the world situation is so grave that under no circumstances can Governments deceive the legitimate aspirations of the people of this hemisphere with respect to the appropriate measures of our security, our defense, and our peace. It is usually necessary for Governments to lead the peoples in the molding of public opinion in matters so basic as this. It is an interesting thing that at this time, it is the peoples of the American Republics who are more advanced in their thought than certain circles in Government in some of the American Republics.

The basis of the sound conduct of foreign relations must be that of equity and understanding as well as collaboration for without equity and understanding there cannot be collaboration. It would be most unwise to conceal from ourselves that there has been a deterioration in the American picture. The basic sentiment for collaboration among the American Republics and recognition for the necessity for our leadership has never been greater. This is true among the peoples of every one of the American Republics including our own. There is, however, a certain sense of deception. There is a feeling that in the economic field we have kept in mind more the needs

of other areas of the world than we have the needs of the American Republics. There is a widely-spread feeling that in economic decisions we permit ourselves to be influenced by certain internal considerations rather than those based on equity and collaboration. This applies particularly to the handling of certain commodity problems such as sugar and coffee and tin. There is the feeling that so far as the defense arrangements are concerned, we are not adequately realistic in recognizing the impoverished condition of the other American Republics for the most part, the still relative instability of their economies and, therefore, of their political structure. There is the feeling that although democratic processes are making progress in all of the American Republics we expect them to have grown up faster than is possible and do not take into account adequately political and economic and social factors which these countries in their relative measure have to struggle with day by day.

So far as Lend-Lease is concerned, the other American countries know that there was returned Lend-Lease from Britain in particular. They know that, however, for most of the countries to which Lend-Lease assistance was extended, not only in the form of military material but in the form of food and medical supplies and all sorts of materials no return of any kind has been received or will be expected. The other American countries feel that although they were not actively engaged in the war as were some of the countries which received Lend-Lease assistance that the assistance which was rendered under Lend-Lease in this hemisphere was particularly in the form of military material which was essential to give morale to their Armies and military establishments and to their people. They feel that the total amount of Lend-Lease assistance for such military material which was extended was small and really insignificant as compared with the Lend-Lease extended to other countries in more distant parts of the world. They feel that as a matter of equity they should not be asked to pay for this Lend-Lease material.

It should be borne in mind that the American Republics have not expressed this thought openly and in most cases not officially. Some of them have endeavored to meet their installments. Brazil has met her installments in considerable measure, but it will also be recalled that the overwhelming part of the total of Lend-Lease extended to the American Republics went to Brazil which received more than all of the other American Republics together. Even in the case of Brazil, although she has made these payments, I am sure that if Brazilian opinion is properly consulted it will be found that Brazil feels that the amounts which she has already paid should be refunded and that the total amount should be canceled for her as for the other American Republics. It is not a thought which Brazil would ad-

vance unofficially or officially at this time, but it would be most unwise for us not to recognize that this is the actual thought of the peoples and Governments of every one of the American Republics.

Now that the Mexican Ambassador is going to receive instructions to discuss this matter with the Department of State, this matter is coming up for consideration by our Government and will have to have it. It is for this reason that I have referred in this despatch to the previous despatches which I have written on this matter and am writing this despatch. I think that in our conversations with the Mexican Ambassador or with any other Government of the American Republics we must be most careful to avoid the implication that we are not at least considering cancellation. Any attempt to state that it is equitable to ask them to pay these obligations will be most unhappy and cause us very serious damage. I wish at this point to state that while I do not recall having discussed this matter of Lend-Lease obligations of the other American Republics with then Under Secretary Welles, I do recall a conversation with the late President Roosevelt during the course of which these Lend-Lease obligations came up and during which I stated that I thought as a matter of equity we would not in the end have to ask these Republics to repay these obligations. I do not recall the exact words of the late President Roosevelt, but I do recall in the most definite way that he dismissed the matter as one which was certain—that is in the sense that the American Republics would not be asked to repay these Lend-Lease obligations any more than we would expect repayment of the Lend-Lease obligations of the other many countries to which it had been extended. I do not refer more specifically to this conversation with the late President Roosevelt because I do not adequately definitely recall the terms in which he spoke, but I do recall his reference to our experience with the debts after the First World War and that we must avoid the unhappy consequences which grew out of some of our attitudes in that connection.

I also wish to note that the Mexican Foreign Minister, Dr. Castillo Nájera, in the memorandum which he read to me of his conversation with President Truman and Secretary Byrnes stated that both indicated that they had no knowledge of this matter. I think it is quite understandable that in view of the many occupations of the President and of the Secretary that this matter may not have been taken up with them by the appropriate officers of the Department but in view of the extreme importance of the matter, I think it is essential that full consideration in the broad light of the basic factors involved be given to the matter now. It can no longer be delayed.

We are interested in a defense pact among the other American Republics. The people of our country are interested in it. The people

of every one of the American Republics are intensely interested in it. The Governments of most of the American Republics, I believe all, even the Argentine, are interested therein. The military establishments of our own country and of the American countries have shown their understanding of the need thereof. I wish to express the considered opinion that it is useless for us to think of a defense pact which will have any more meaning than a piece of paper and pious declarations if it is not supported by the most realistic attitudes in the political and economic field as well as in the defense field and this means full implementation of inter-American policy in every field. One of the fundamental factors which we have to overcome is that presently in, I believe, every one of the American Republics there has been a growing feeling and there is now almost a conviction that we as a Government are more interested in more distant parts of the world than we are in this hemisphere and that other parts of the world can expect more equitable and understanding treatment than can the countries of this hemisphere. It is obvious that this impression must be removed in the political, economic, and defense field if inter-American unity is to mean anything and to be the bulwark of security and defense and peace that we all recognize it has to be.

There are many things to be considered in the implementation of this policy, but I confine myself in this despatch to the one phase which is, in my opinion, imperative necessity of our taking action in the near future leading towards the cancellation of the Lend-Lease obligations of the American Republics. I am confident that the American people, if properly informed, will not only be in complete accord with but will applaud such action as understanding and equitable. I am confident that if the matter is brought to the attention of the Congress that there will be the most complete understanding there and that any other course will be considered inequitable and completely lacking in understanding of our primary interests. It is a matter in which, because it is a matter of relationships, the Department of State must take the initiative. The initiative does not belong in any other agency of the Government. It belongs in the Department of State and the time has now come for us to take that initiative.

What I wish to emphasize particularly is that this matter is not one which can be dealt with by technicians or by financial experts or on legal grounds. It has to be dealt with from the broad basis of national policy, national security and national interest and at the highest levels of Government. It is a decision which has to be made at the highest levels of Government and a decision in which the preliminary advice of technicians is not necessary and can only lead to hampering discussions which will in no way change the ultimate decision but such

discussions can do much harm to the basic interests of our country. I have long served our Government, and I hope faithfully and constructively. It is for this reason that I bring so strongly to its attention this matter of immediate consideration and attention to the question of cancellation of Lend-Lease obligations of the American Republics. In the case of those Republics which have made small or fairly substantial payments such as Brazil, there is no reason why reimbursement in one form or another based on discussions with that country may not be made.

Respectfully yours,

GEORGE S. MESSERSMITH

812.24/7-246

*The Assistant Secretary of State for American Republic Affairs (Braden) to the Mexican Ambassador (Espinosa de los Monteros)*¹⁶

WASHINGTON, July 2, 1946.

MY DEAR TONY: I refer to our conversation of Friday, May 3, in my office in the Department regarding the matter of the payment of Lend-Lease furnished Mexico under the agreements executed in 1942 and 1943. A very careful and exhaustive search has been made of the record of the negotiations covering these agreements, and neither the record nor the recollection of those engaged in the negotiations indicate any intention to waive the payments set forth in the agreements, nor that such payments were to be made from reparations due or received from the former Axis powers.

All of the Lend-Lease agreements with the American Republics were of substantially the same tenor, and payments due under the agreements have been received regularly from most of them over the past few years.

Sincerely yours,

SPRUILLE BRADEN

812.24/10-146

The Acting Secretary of State to the Mexican Ambassador (Espinosa de los Monteros)

CONFIDENTIAL

WASHINGTON, October 1, 1946.

EXCELLENCY: I have the honor to refer to recent conversations between Your Excellency and the Assistant Secretary of State for American Republic Affairs concerning the Mexican lend-lease account. In this connection I transmit herewith two copies each of statement

¹⁶ Handed by Assistant Secretary Braden to the Mexican Ambassador on July 8, 1946.

LL-8 and supporting schedules.¹⁸ This statement reports charges made against the Government of Mexico for the period from December 1, 1945 through February 28, 1946 for matériel transferred in accordance with the terms of the Lend-Lease Agreement signed on March 18, 1943 by representatives of the Governments of the United Mexican States and the United States of America.

It will be noted that the amount of charges during the period under reference is counterbalanced by credits to the net amount of \$278,480.54 credit, and that charges through February 28, 1946 aggregate the grand total of \$26,476,091.84. Of this grand total the sum of \$6,600,000 represents the appropriate percentage of reimbursement which is currently due on account under the terms specified in numbered paragraph 2 in the exchange of notes, dated March 18, 1943, referred to in Article VI of the Agreement.

It is requested that the enclosed statement and supporting schedules be treated by Your Excellency's Government on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:

SPRUILLE BRADEN

812.24/9-1246

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

No. 602

WASHINGTON, November 26, 1946.

SIR: I refer to your despatch No. 1167, dated September 12, 1946,¹⁸ concerning the possibility of applying Mexico's lend-lease obligation to the purchase of property and construction of buildings for the American Embassy in Mexico City, and to Ambassador Messersmith's despatch No. 29319, dated May 2, 1946, from Mexico, on the general subject of the Mexican lend-lease obligation.

It is the established policy of the United States Government to continue to require payment in full of sums due on account under the lend-lease agreements with the American republics. This is a definite policy which has been specifically reaffirmed and is not being considered for revision. It applies and will continue to apply in the case of Mexico.

In regard to Ambassador Messersmith's despatch concerning the Mexicans' contention that they would not be expected to pay, a thorough investigation of the Department files has revealed no evidence in support of this contention. Mr. Sumner Welles, the former Undersecretary, and others who participated in the negotiation of the

¹⁸ Not printed.

Agreement have been asked about this and have recalled no statements of any kind on the United States side implying that payment would not be required. In fact there would seem to have been no point whatever in specifying that payments would be required if such was not the intent since the Agreement was not made public. Officials of this Department discussed the subject with the Mexican Ambassador in May of this year and informed him that Mr. Welles could recall no commitment for cancellation of the Mexican obligation and that our policy continues to be collection of sums due. This position was affirmed in a letter dated July 2, 1946, to the Mexican Ambassador from Assistant Secretary Braden.

In view of the established policy, which is considered to be based on entirely valid grounds, the Department cannot consider at this time the suggestion that the Mexican lend-lease obligation should be reduced from the sum specified by the Agreement.

The Department is now exploring the possibility of allowing the Mexican Government to meet its obligation through the furnishing of real property and improvements of equivalent value for the foreign buildings program, as suggested in the reference despatch. Since no decision in respect to this suggestion has been reached, however, it would not be advisable to approach the Mexican Government in any way on this matter at the present time.

For your information in this connection, Mexico is required by the Agreement to pay 33 per cent of the cost of arms and armaments delivered under lend-lease, payments being scheduled over a period of years. The sum of \$6,600,000 is now due. Lend-lease agreements with the other American republics include similar provisions for reimbursement. The great majority of the other republics have paid sums due in part or in full, and in no case has an obligation been scaled down in any way. The few countries which have not paid, with the exception of Mexico, have declared their firm intention to pay when they are able to. It is believed that renegotiation of the Mexican obligation would open the United States to legitimate requests for renegotiation of any other outstanding obligations anywhere in Latin America or elsewhere in the world. This Department knows of no reason why the Mexican Government would be unable to liquidate its lend-lease obligation within a short period of time.¹⁹

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

¹⁹ In a memorandum of December 14, 1946, sent to the American Embassy in Mexico on December 16, the Minister of Finance and Public Credit, Ramón Beteta, indicated that the Government of Mexico was disposed to negotiate with the United States Government an equitable arrangement for the liquidation of the credits extended to his country during the war in accordance with the agreement concluded on lend-lease on March 18, 1943. (812.24/1-1747)

UNITED STATES-MEXICAN DISAGREEMENT ON THE TERMINATION
OF A 1943 AGREEMENT ON MILITARY SERVICE AND ITS EFFECT
ON MEXICAN RESIDENTS IN THE UNITED STATES ²⁰

811.2222(1940)/7-3146

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

No. 660

MEXICO, D.F., July 31, 1946.

SIR: I have the honor to refer to the Department's telegrams No. 95 dated January 18, 1943, and No. 115 dated January 22, 1943, and also to the Embassy's Despatch No. 6876 of January 23, 1943,²¹ on the subject of an exchange of notes with the Mexican Ministry for Foreign Affairs concerning the recruiting for the purposes of military service of the nationals of the United States in Mexico resident in the other country.²²

The Embassy has received a note from the Mexican Secretary for Foreign Relations dated July 22, 1946,²³ referring to Paragraph X of the Embassy's Note No. 960 to the Ministry dated January 22, 1943, which reads as follows: "The understandings in the foregoing arrangement shall be in effect as of today for the duration of the present war and six months thereafter."

The Secretary states that his Government desires to establish the period mentioned in Paragraph X and asks the Embassy to ascertain whether the opinion of the United States Government coincides with that of the Mexican Government that the period of six months pertains to the six months immediately following the cessation of hostilities. The Secretary suggests that in case the opinion of the United States Government coincides with that of the Mexican Government, the Agreement be rendered ineffective by an exchange of notes.

The Embassy believes that, if consistent with the policy of the United States Government and similar agreements with Canada and other countries, the desire of the Mexican Government that the agreement be terminated be accorded full consideration. An instruction is respectfully requested.

Respectfully yours,

For the Ambassador:

PAUL J. REVELEY,

Second Secretary of Embassy

²⁰ For previous documentation on United States-Mexican relations regarding military service, see *Foreign Relations*, 1943, vol. VI, pp. 396 ff.

²¹ None printed.

²² For agreement between the United States and Mexico respecting military service, effected by exchange of notes signed at Mexico City January 22, 1943, see Department of State Executive Agreement Series No. 323, or 57 Stat. (pt. 2) 973. For documentation concerning defense questions, see *Foreign Relations*, 1943, vol. VI, pp. 396 ff.

²³ Not printed.

811.2222(1940)/11-846

*The American Ambassador in Mexico (Thurston) to the Mexican Minister for Foreign Affairs (Castillo Nájera)*²⁴

No. 329

MEXICO, D.F., September 18, 1946.

I have the honor to refer again to Your Excellency's courteous Note No. 57298 of July 22, 1946, concerning the termination of the Military Agreement of 1943 between the Governments of Mexico and the United States, and to my acknowledgment thereof dated July 31, 1946,²⁵ in which Your Excellency was informed that appropriate instructions were being requested.

I am able now to inform Your Excellency that while it is the view of my Government that by its terms the Agreement does not terminate until six months after the conclusion of peace, immediate termination thereof by an exchange of notes, in conformity with the wishes of the Government of Mexico, is agreeable, and the necessary authority has been conferred upon me.

However, I am instructed to inform Your Excellency that termination of the Agreement will not relieve Mexican residents of the United States from their obligations under the Selective Training and Service Act. This is of special importance in view of present plans of the Selective Service System for further inductions into the armed forces during the month of September for which alien residents of the United States, including Mexican nationals, as well as citizens of the United States, will be liable.

I shall be pleased to receive an expression of Your Excellency's views and to be advised as to whether the Government of Mexico wishes immediate termination of the Agreement regardless of the consideration described in the preceding paragraph or prefers a postponement to a later date.

Accept [etc.]

WALTER THURSTON

811.2222(1940)/11-846

*The Mexican Minister for Foreign Affairs (Castillo Nájera) to the American Ambassador in Mexico (Thurston)*²⁴

No. 511053

MEXICO, D.F., October 9, 1946.

[Translation]

MR. AMBASSADOR: I have the honor to acknowledge the receipt of Your Excellency's courteous note number 329, received at this Min-

²⁴ Copy transmitted to the Department in despatch 1720, November 8, 1946, from Mexico City, not printed.

²⁵ Neither printed.

istry September 24th last, informing me that, notwithstanding the fact that, in the opinion of the Government of the United States, the Military Agreement of 1943 will not terminate until six months after the conclusion of peace, Your Excellency has been given authority to declare it terminated whenever this may be desired by the Government of Mexico.

Your Excellency informs me, however, that the termination of the Agreement will not exempt Mexican residents from the obligations binding upon them under the Selective Service Law.

In this connection, I consider it necessary to point out to Your Excellency that, in the opinion of the Mexican Government, whenever the Military Agreement of 1943 may be declared terminated—whether dating from the cessation of hostilities or the conclusion of the peace—the situation should be governed by the generally accepted principles of International Law and, specifically, by the Convention on the Status of Foreigners signed at Habana on February 20, 1928,²⁷ to which our two countries are parties.

Article 3 of the aforesaid Convention, as Your Excellency knows, reads as follows: "Foreigners may not be obliged to perform military service; but those foreigners who are domiciled, unless they prefer to leave the country, may be compelled, under the same conditions as nationals, to perform police, fire-protection or militia duty for the protection of the place of their domicile against natural catastrophes or dangers not resulting from war."

It is true that the Government of Your Excellency signed and ratified this Convention, "with specific reservation with regard to Article 3 thereof, relating to military service by foreigners in case of war"; but from the wording itself of the reservation it is deducible "a contrario sensu" that, excepting in that case, that is, when no state of war exists between Your Excellency's country and another or other countries, the United States accepts the principle that foreigners cannot be obligated to render military service.

It is the opinion of the Government of Mexico, therefore, that upon the termination of the Military Agreement of 1943 between Mexico and the United States the Selective Service Law cannot continue to obligate residents of Mexican nationality to render military service.

I beg you, Mr. Ambassador, to be so kind as to inform me if the Government of the United States is in agreement with these points of view.

I avail myself [etc.]

F. CASTILLO NÁJERA

²⁷ For text, see Department of State Treaty Series No. 815, or 46 Stat. (pt. 2) 2749; for documentation on the Sixth International Conference of American States, held at Habana, January 16 to February 20, 1928, and texts of the conventions adopted, see *Foreign Relations*, 1928, vol. I, pp. 527-621.

Mexico Embassy Files

The American Ambassador in Mexico (Thurston) to the Mexican Minister for Foreign Affairs (Torres Bodet)

No. 578

MEXICO, D.F., December 13, 1946.

EXCELLENCY: I have the honor to refer to the Ministry's courteous note No. 511053 of October 9, 1946, with further regard to the termination of the Military Agreement of 1943 between the Governments of Mexico and the United States, in which was presented the opinion of the Ministry that Mexican nationals residing in the United States should not be obligated to continue to render military service after termination of the Agreement.

The Ministry's views on the subject were transmitted to my Government; and I now am authorized to inform Your Excellency that the law and policy of the United States concerning the drafting of aliens are contained in the Selective Training and Service Act of 1940, as amended. Section 2 of that Act provides that, except as otherwise provided therein, "it shall be the duty of every male citizen of the United States and of every other male person residing in the United States" within the specified ages to register. Section 3 of the Act makes such persons "liable for training and service in the land or naval forces of the United States".

Article 3 of the Habana Convention of February 20, 1928, on the Status of Aliens exempting foreigners from the performance of military service was not ratified by the Government of the United States and, therefore, in the absence of ratification, would constitute no obligation on my Government.

As to its position with respect to the drafting of aliens in the United States, the Department is of the opinion that no inference may be drawn from such nonratification, particularly in view of Sections 2 and 3 of the Selective Training and Service Act referred to above.

Moreover, as previously indicated, my Government regrets that it is not in a position to accept the view of the Mexican Government that under generally accepted principles of international law it is prevented from drafting aliens residing in the United States. For the same reasons, my Government is unable to share the views of the Government of Mexico that upon the termination of the Military Service Agreement of 1943²⁸ Mexican nationals are not obligated to render military service under the Selective Training and Service Act.

Accept [etc.]

WALTER THURSTON

²⁸ According to a communication of January 26, 1953, to Mexico City (136/145), the Department regarded the Military Service Agreement of 1943 between the United States and Mexico as having expired on October 28, 1952, 6 months after the United States ceased to be in a state of war, that is, April 28, 1952, at 9:30 a. m., Eastern Daylight Saving Time, when the United States instrument of ratification of the treaty of peace with Japan, last country with which a state of war continued to exist, was deposited with the Secretary of State.

BREAKDOWN OF UNITED STATES-MEXICAN NEGOTIATIONS ON A
PROPOSED BILATERAL AIR TRANSPORT AGREEMENT

711.1227/6-1446

*The Acting Secretary of State to the Ambassador in Mexico
(Thurston)*

CONFIDENTIAL
No. 8753

WASHINGTON, June 17, 1946.

SIR: Conversations looking to the conclusion of a bilateral air transport agreement between the United States and Mexico will be resumed in Mexico City beginning June 24. Conversations of this nature originally were undertaken with Mexican officials in Washington in October, 1945, at which time they dealt with two matters; the text of a basic agreement on principles along the line of those drafted at the Chicago Aviation Conference,²⁹ and secondly, the allocation of international routes connecting the two countries. Agreement was not reached on the latter point because both countries wished rights over routes which the other would not grant.

The Civil Aeronautics Board has interpreted the Civil Aeronautics Act of 1938 to provide for a "regulated competition" among United States airlines in the international field, rather than monopolistic control by a single United States airline. All Executive Departments of this Government support this view. As you know, basic responsibility for the allocation of routes rests with the Civil Aeronautics Board, and the recent so-called Latin American decision of the Civil Aeronautics Board which authorized five United States airlines to operate into Mexico may be considered as a confirmation of this policy. For your information a copy of the Board's press release of May 22, 1946, regarding this decision, is enclosed.³⁰

As matters now stand in Mexico, Pan American Airways and the Compañía Mexicana de Aviación have an almost exclusive concession to international traffic between Mexico and the United States by their control of four of the five presently established Mexican gateways. The Compañía Mexicana de Aviación is not a legal subsidiary of Pan American Airways but the latter has a substantial, although perhaps not controlling, interest in the Mexican company. The only other carrier presently engaged in international air traffic with Mexico from this country is American Airlines which, until the recent decision, has

²⁹ For text of convention signed at the International Civil Aviation Conference, Chicago, November 1-December 7, 1944, see Department of State Treaties and Other International Acts Series No. 1591, or 61 Stat. (pt. 2) 1180. The Mexican instrument of ratification of the convention and the acceptance of the transit agreement (Department of State Executive Agreement Series No. 487, or 59 Stat. (pt. 2) 1701) was deposited with the Department of State on June 25, 1946.

³⁰ Not printed.

been operating on this route out of the United States under a temporary permit.

The Department is mindful that the subject of new routes in Mexico will probably create controversy. With this in mind you are requested at an early date to seek an appointment with the President and say to him that this Government's policy is to provide for regulated competition among United States airlines in the international field rather than monopolistic control by a single United States carrier. You should say further to him that it is believed that by this means the best service will be furnished both to Mexico and to the United States. You should express the hope that the Mexican Government will find it possible to reach an agreement as speedily as possible which will include the routes to be operated by the United States airlines in accordance with the recent decision of the Civil Aeronautics Board.

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

711.1227/7-2946

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

CONFIDENTIAL
No. 593

MEXICO, D.F., July 29, 1946.
[Received August 1.]

SIR: I have the honor to inform the Department that at the meeting held by the United States and Mexican delegations to the Bilateral Route Negotiations on July 25, it was agreed that no further purpose would be served through continuing the negotiations and, hence, these were suspended by mutual consent. The remaining members of the United States delegation left by plane for Washington on July 25.

The negotiations, which started on June 24, give cause for reflection, and the Department will wish to study the lessons to be drawn from them in order to avoid, in so far as possible, the pitfalls which may be encountered in connection with similar discussions to be held with other Latin American countries.

Shortly after the beginning of the negotiations, it became increasingly apparent that the Mexican delegation felt that the United States delegation had not come to Mexico to negotiate, but to implement the decisions previously arrived at by the Civil Aeronautics Board. This impression was not caused by any lack of tact on the part of the United States representatives, but arose from the unfortunate necessity for the CAB publicly to announce its decision in the Latin American case prior to the negotiations with Mexico.

I am fully cognizant of the reasons for the announcement of the decision, but the Department will wish to consider ways and means of

preventing this type of obstacle from affecting future negotiations in Mexico and elsewhere in Latin America. Had it been possible to inform the Mexican Government of the decision before it was given publicity in the United States and to explain the necessity of this procedure under our legislation, we could perhaps have avoided the feeling of imposition which the Mexican delegation so patently resented. However that may be, it was clear during the week ending July 6 that the negotiations were getting nowhere. In view of the approaching stalemate, I instructed the Economic Counselor³¹ to discuss the matter separately and informally with the heads of both delegations. A better atmosphere resulting, negotiations progressed and by July 17 there was every indication that a satisfactory agreement was in prospect. True, the Mexicans were adamant with respect to Route 1 (San Antonio and Laredo to Monterrey and Mexico City)³² but all other United States routes had been accepted in principle. Mexican opposition to the Braniff route was twofold: first, the fear that no Mexican line could operate in competition with American and Braniff in the same territory and, second, a deep prejudice against the business methods of Mr. Thomas E. Braniff. The Embassy is not, at the present time, in a position to express an opinion as to the merits of the second objection. The Mexicans, however, did not entirely close the door to the Braniff route and were agreeable to discussing an alternative entry within six months during which time the conduct of Mr. Braniff would be observed.

It was not until July 18 that the question of the division of traffic became serious. Although frequencies and capacities had casually been mentioned previously, the United States delegation had no inkling that the Mexican position would be as adamant and unyielding as later developed. In fact, one of the Mexican delegates, General Salinas Carranza, expressed his surprise at the injection of these questions into the discussions and stated privately that the Foreign Office was responsible for the position adopted by his delegation. Whether or not the Mexican delegation had been determined to stand on the right to a juridical division of traffic from the start is a debatable point, but once the question was injected, it found almost unanimous support, both on the part of the Mexican delegation and the Mexican Government itself.

As soon as it was clear that the delegations had reached a complete stalemate, I felt the time had arrived to make a final plea to the

³¹ Robert W. Bradbury, Senior Economic Analyst.

³² United States route No. 1, from San Antonio and Laredo to Monterrey and Mexico City, which the Civil Aeronautics Board had awarded to Braniff Airways, was firmly opposed by the Mexican delegation.

President.³³ I had purposely avoided injecting myself into the negotiations until such time as the issues were clear-cut and I felt that I could appropriately act. The interview which I had with the President was fully reported upon in despatch no. 52 of July 20, 1946, entitled "Transmitting Memorandum Presented to President Avila Camacho with Regard to Deadlock in Bilateral Route Negotiations."³⁴ (For convenience, a copy of the memorandum which I left with him is included as Enclosure No. 1.³⁵) The President's reply, made through the Foreign Office, will be found in Enclosure Nos. 2 and 3.³⁶

In view of the tenor of the President's reply, I discussed the situation with the United States delegation and it was agreed that no purpose would be served by further discussions at the present time. Hence, a final meeting was arranged for the morning of July 25 with the Mexican delegation, after which the United States delegation issued the press statement which forms Enclosure no. 4 to this despatch.³⁷ The Chief of the Mexican delegation³⁸ requested the Economic Counselor to call before the final session and it was agreed that at the meeting mutual expressions of regret would be voiced but that every effort would be made to prevent any controversial matters from arising. This in order that the Embassy and the Mexican authorities might continue discussions to see if the groundwork could be laid for a satisfactory agreement being reached in the near future. The statement issued by the Mexicans and published in the press of July 28 will be found in Enclosures nos. 5 and 6.³⁹ It will be noted that the Mexican statement, while clearly expressing the delegation's

³³ Manuel Avila Camacho.

³⁴ Not printed.

³⁵ Not printed; with respect to the question of limitations on traffic and services, that is, the Mexican proposal that traffic on any new route between the two countries should be divided equally between the respective Mexican and American airlines operating on such routes, each carrying one-half of the traffic, Ambassador Thurston noted in his memorandum to President Avila Camacho: "It is the view of my Government that there should be equal opportunity under international agreements for airlines to develop and attract the potential volume of air traffic, but it sincerely believes that any arbitrary division of traffic and capacity would seriously retard the expansion and consequent benefits of air transportation."

³⁶ Neither the Spanish text nor the translation printed. According to this memorandum, the pattern of air routes involved considerable advantages for the United States even though, because of numerical parity, it appeared to provide complete reciprocity. Under the original proposal, for example, three routes traversing Mexican territory would be granted the United States, while Mexico would obtain only one route across the United States (no. 6, Mexico City, San Antonio and Detroit to Canada). With respect to "limitations of air traffic and services" in the Ambassador's memorandum, the Mexican reply stressed that equality of opportunity could not exist when, given disproportion in existing resources, the weaker party was deprived of adequate protection, and maintained the right of Mexican civil aviation to collaborate with its resources of that time in the future development of air traffic between the two countries.

³⁷ Not printed.

³⁸ Juan Rebolledo Clement, Assistant Minister of Communications.

³⁹ Neither printed.

position, seeks to avoid acrimonious controversy, the same objectives which were kept in mind in drafting the statement issued by the United States delegation.

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In reviewing the negotiations, I am particularly struck by the need for evolving some method for preventing the wounding of Latin American sensibilities by prior decisions of the Civil Aeronautics Board in cases involving routes which are to be the subject of later negotiations with them. The Mexican reaction, while finally removed as a major obstacle, was never completely allayed as an irritant. Also, I do not believe that the Department should give too much weight to the question of routes in the failure of the negotiations. I am convinced that a satisfactory route pattern could have been worked out. The basic cause of the failure of the negotiations is to be found in the Mexican demand for juridical division of traffic.

. . . There could be no question that in the discussions regarding routes there was an undertone of individual interests at play, but the Embassy is fully convinced that the Chief of the Mexican delegation is completely sincere in his position that Mexico should have the juridical right to an equal division of traffic. The Economic Counselor has already pointed out to Señor Rebolledo that the position assumed by his delegation and his Government would appear to be contrary to the best interests of Mexico and that however logical the right to a division of traffic may appear on the surface, it is fundamentally unsound and uneconomic. The Chief of the Mexican delegation has expressed the definite desire that the Embassy present to him and the Minister of Communications⁴⁰ the reasons which lead us to believe that a juridical division of traffic would be against the best interests of this country. He stated, and we believe him to be entirely sincere in this respect, that if we could show him that he was wrong, he would assist rather than obstruct the reaching of an agreement. He re-emphasized the desire of his Government to reach an understanding with our own and expressed keen regret that the negotiations had failed.

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. . . I am inclined to believe that the wisest policy would be to continue conversations. In order to do this it would be necessary for the Embassy to be supplied with authoritative data showing:

[Here follows list of subjects on which information was requested.]

Respectfully,

WALTER THURSTON

⁴⁰ Pedro Martinez Tornel.

[In despatch 1409, October 7, 1946, Ambassador Thurston recommended that prior to undertaking to reopen formal negotiations a series of preliminary informal conversations should be held by Embassy officers with the interested Mexican Government officials in order to explore the various points of issue and to promote a fuller understanding by the Mexican representatives. Anticipating the commercial air policy of new presidential administration which was to take office on December 1, Ambassador Thurston noted:

“Whatever may be the composition of the new Ministries of Communications and of Foreign Relations, any radical and precipitate change in their points of view is not to be expected. The restrictions proposed at the conferences in July and August were a clear expression of the nationalism and protectionism which are the backbone of present Mexican economic policy, and no more than a very moderate swing away from these principles can reasonably be anticipated. Furthermore, it is clear that Mexico will not recede from the position taken by its delegation through any such idealistic considerations as the increased freedom of trade and communications or the ultimate benefit to the world economy of more liberal air transport policies. The only telling arguments will be those based on a conclusive factual showing that such a policy will be of concrete and immediate benefit to Mexican economy.” (711.1227/10-746)]

EXPORT-IMPORT BANK LOANS TO MEXICO FOR PURCHASE OF UNITED STATES EQUIPMENT, MATERIALS AND SERVICES FOR PUBLIC WORKS AND INDUSTRIALIZATION PROJECTS⁴¹

812.51/1-1446 : Airgram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

CONFIDENTIAL

WASHINGTON, January 14, 1946.

A-45. The Board of Directors of the Eximbank has been requested to authorize the extension of a line of credit to Aeronautical Radio de Mexico, S.A. in an amount not to exceed \$3,000,000 for the purpose of assisting in the purchase of United States equipment, materials and services on the following terms: (1) the line of credit to be outstanding until June 30, 1948; (2) interest rate 4%; (3) repayment of amounts drawn against the line of credit to be made in equal quarterly installments over a period not exceeding 7 years from the date of each withdrawal under the line of credit; (4) assurances satisfactory to Eximbank shall be obtained by the Company from the Government of

⁴¹ For previous documentation on Export-Import Bank loans to Mexico for the improvement of railway, road, and electrification systems, see *Foreign Relations*, 1945, vol. ix, p. 1163 ff.

Mexico regarding the availability dollar exchange required for the full payment of the interest and principal.

If credit is approved Eximbank would be financing approximately 90 percent of cost of new equipment, engineering survey and purchase of existing equipment. The Company would only have to raise approximately \$415,000, plus \$271,000 for new buildings and lands to meet its anticipated needs of \$3,685,251.

The Company states that while the average estimated life of the equipment is 7 years, it is expected that much of it will be useful for 10 years or more after installation. Through the Department of Commerce, a list of the equipment to be purchased has been submitted to technicians of CAA. After review of conditions under which this equipment is to be used in Mexico, Commerce informed the Eximbank that it was its opinion that the installation of low frequency equipment is suitable for purpose involved if proper radio frequency assignments can be worked out. However, Commerce recommended that such low frequency equipment should be replaced by VHF equipment wherever practicable within 5 years.

Eximbank states that Aeronautical Radio de Mexico will operate as a non-profit corporation with all costs of operations plus interest and amortization being made by service charges to stockholders or members on a contractual basis. This, in effect, means that the real security for credits to the Company (other than a possible lien on its physical assets) is the capacity of the service subscribers to meet their contractual obligations.

The Eximbank feels that since the principal subscribers are important subsidiaries of well-established and successful United States air transportation companies and since under their contracts with Aeronautical Radio de Mexico they appear to be jointly and severally liable for all its costs of operation including the interest and amortization on loans, as long as its services are utilized, there would seem to be justification for concluding that payments of credits can be met on schedule.

The Department questions the advisability of giving its approval to the extension of credit under the foregoing conditions.

The Embassy's comments are urgently requested.

ACHESON

812.51/1-2346 : Telegram

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

CONFIDENTIAL

MEXICO CITY, January 23, 1946—6 p. m.

[Received January 24—6:44 a. m.]

58. ReDepgram A-45 of January 14. This Embassy strongly recommends the Dept's support of application of Aeronautical Radio de

Mexico for line of credit of 3 million dollars to be extended by Eximbank. Aeronautical Radio de Mexico now has experimental concession from Mexican Govt, valid 5 years with indefinite extension if company successful. Leading airlines in Mexico have joined company as members assuming support of all leading airlines. Believe success of company important to US for following reasons:

1. Aeronautical Radio will assure use of American equipment and techniques in operation of airline communication system, traffic control tower operations, and airway navigational aids. This is of extreme importance in preventing non-American systems to be introduced and tends to aid our standardization program.

2. The use of American equipment and techniques will add to the safety of all airline operations in Mexico including American international carriers.

3. The standardization will tend to be of benefit as a matter of national defense, as communication engineers, control tower operations and airway technicians will all be trained in American methods.

4. Aeronautical Radio de Mexico will probably serve as a model for other similar organizations in the other American Republics and possibly in non-American countries.

This would be of great value to US in introducing American equipment and techniques.

Believe principal argument for granting of loan to be on national policy level but also feel that the loan is also reasonably sound from commercial viewpoint. While concession lasts only 5 years, there is no particular reason to believe that it will not be extended. Also while loan is of a 7-year duration and some of the equipment may become obsolete in 5 years and should be replaced by more modern equipment, this will apply to only a fraction of the total equipment installed and as the loan is to be repaid in quarterly installments throughout the life of the loan, the major portion of the loan will be repaid before 5 years. It is unlikely that individual companies will withdraw from cooperative agreement as cost of supplying individual facilities will exceed the cost of using the facilities provided by Aeronautical Radio. Those companies which already have part of the facilities needed are turning them over to Aeronautical Radio and so would be put to great expense to duplicate these facilities if they should decide to withdraw in the future.⁴²

MESSERSMITH

⁴² Secretary Byrnes informed Ambassador Messersmith in telegram 148, February 15, 8 p. m., that the application of Aeronautical Radio de Mexico had been approved February 13 by the Board of Directors of Eximbank with two conditions (812.51/2-1546). According to despatch 29,174, April 12, from Mexico City, those conditions had been fulfilled: Aeronautical Radio de Mexico had succeeded in getting the Government of Mexico to increase the term of its permit from 5 to 10 years, and all member companies had agreed to continue to make use of the services of Aeronautical Radio de Mexico and to share in the expenses thereof according to such agreement until such loan was fully paid (812.51/4-1246).

812.75/2-646

The Secretary of State to the President of the International Telephone and Telegraph Corporation (Behn)

CONFIDENTIAL

WASHINGTON, March 4, 1946.

MY DEAR COLONEL BEHN: In a letter of August 22, 1944, addressed to Secretary Hull by Mr. Frank C. Page⁴³ of your company, it was stated that the L. M. Ericsson Company had made a proposal to the International Telephone and Telegraph Corporation to acquire its interest in the Mexican Telephone and Telegraph Company, and inquired whether this transaction would be contrary to the policy of the United States Government.

In a letter of January 9, 1945, addressed to Mr. Page,⁴⁴ Mr. Stettinius stated that it was the considered judgment of the Government of the United States that the interests of the United States and of the Western Hemisphere would be afforded greater security and would be better served if such vital means of communication as the telephone system in Mexico were entrusted to Western Hemisphere interests.

Mr. Stettinius' letter was written, of course, while the United States was a belligerent in the war. Meanwhile the war has come to an end and the considerations of security which dictated the statement of policy enunciated by former Secretary Stettinius have undergone a change.

Consequently, no objection will be interposed by the Government of the United States to the sale or other disposition of your telephone subsidiary in Mexico.

Sincerely yours,

JAMES F. BYRNES

812.75/6-2846

*The Acting Secretary of State to the Ambassador in Mexico (Thurston)*⁴⁵

RESTRICTED

WASHINGTON, June 28, 1946.

No. 15

SIR: On March 4, 1946, the Department wrote to Colonel Sosthenes Behn, President of International Telephone and Telegraph, releasing his company from the request that the Department had made on January 9, 1945, that the IT&T not sell its Mexican properties to the Empresa de Teléfonos Ericsson. This was the result of a decision that the Department would not sponsor on general security and foreign policy grounds an Export-Import Bank loan to assist IT&T to acquire the Ericsson interest in the latter's Mexican properties.

⁴³ *Foreign Relations*, 1944, vol. VII, p. 1276.

⁴⁴ Not printed.

⁴⁵ Mr. Walter Thurston assumed his duties as Ambassador in Mexico on June 17, 1946.

The Department had written the letter of March 4th to Colonel Behn only after receiving letters from the War and Navy Departments ⁴⁶ indicating that those Departments did not feel that sufficient justification existed on national security grounds for the United States Government to give financial support through the Export-Import Bank for this transaction.

Shortly after the March 4th letter was sent to Colonel Behn, high officials of the War and Navy Departments called on Assistant Secretary Braden and explained orally that their earlier letters had not made clear their very real security interest in bringing about the elimination of nonhemisphere ownership of communications systems in this hemisphere. Following this meeting the Secretaries of War and Navy wrote to the Secretary of State expressing this security interest.

Mr. Braden made no commitments to the Army and Navy as to State Department opinion on their new recommendations other than to say that the Services' point of view would be considered if the question were brought to the Department's attention by the Export-Import Bank. So far this has not occurred.

If the Mexican Government or officials of the IT&T raise this question with the Embassy they should be informed that, although general discussions of the question of hemisphere security have taken place within the American Government, no actions or decisions reversing the previous position have been taken on the question of financing, through the Export-Import Bank, the acquisition of the Ericsson interests by the IT&T.⁴⁷

Very truly yours,

For the Secretary of State:
W. M. L. THORP

812.51/7-2646

The Acting Secretary of State to the President of the Export-Import Bank of Washington (Martin)

CONFIDENTIAL

WASHINGTON, September 11, 1946.

MY DEAR MR. MARTIN: I have been informed that there is again some discussion in Mexico regarding the interest of Petroleos Mexi-

⁴⁶ Letters of February 6 and 2, respectively, not printed.

⁴⁷ Ambassador Thurston informed the Secretary of State in despatch 667, August 2, 1946, that President Avila Camacho had informed Licenciado Luis Cabrera, the local attorney for the Mexican IT&T interests, that "he did not consider the merger of the two telephone Companies desirable" (812.75/8-246). In despatch 864, August 20, from Mexico City, Ambassador Thurston reported that a formal notification of the disapproval of the contemplated merger of the two companies named had been received by the Ministry of Communications from President Avila Camacho (812.75/8-2046). The Acting Secretary of State advised Ambassador Thurston, in instruction 414, October 2, 1946, to take no further action in this case, concluding, "in the circumstances this case may be considered closed." (812.75/8-2046)

canos⁴⁸ in securing a loan from the Export-Import Bank to finance the construction of a gas pipe line from Poza Rica to the Federal District. The reports which have reached me indicate that Señor Efraim Buenrostro, head of Petroleos Mexicanos, has stated that his organization did not desire any foreign technical or other participation in the building of the line but was interested only in securing foreign capital for its financing.

It is possible that the renewed Mexican interest in this pipe line may lead to some approach being made to this Government either through the Embassy at Mexico City or direct to you. It is the opinion of the Department, and it has so informed the American Ambassador in Mexico City, that the proposed Poza Rica-Federal District gas pipe line is a project to serve as carrier from a proven oil and gas field to Mexico City and is so closely related to the petroleum industry as to constitute an integral part of "commercial development of Mexican petroleum resources". U.S. Government loans for such "commercial development" were disapproved by the President, who on October 13, 1945, signed a State Department memorandum dated October 11, 1945.⁴⁹ I understand that you are cognizant of the content of this statement.

This decision was, of course, reached as a part of this Government's oil policy toward Mexico.

Sincerely yours,

W. L. CLAYTON

[A copy of the Acting Secretary's letter of September 11 to Mr. Martin, printed *supra*, was transmitted to Ambassador Thurston in instruction 287, September 12, which concluded as follows: "In the event that you are approached by representatives of the Mexican Government with regard to such a loan, you are authorized to inform them, in your discretion, that sympathetic consideration cannot be given to a loan for this purpose." (812.51/7-2646)]

812.51/10-2846 : Airgram

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

RESTRICTED

WASHINGTON, October 28, 1946.

A-1064. Board of Directors of the Export-Import Bank on October 23, 1946 approved a request from Nacional Financiera for an extension of the expiry date of the \$15,000,000 Mexican National Railways credit from December 31, 1946 to December 31, 1947. The Board

⁴⁸ The Government oil monopoly.

⁴⁹ *Foreign Relations*, 1945, vol. IX, p. 1159. The Acting Secretary was assured by Mr. Martin, in a letter of September 17, 1946, that the Export-Import Bank would be guided by the Department memorandum in any discussions which it might have regarding loans to Mexico (812.51/9-1746).

also approved a request from Nacional Financiera to transfer \$4,000,000 from the \$40,000,000 highway credit to the aforementioned railway credit. The increased credit is to be used for the purchase in the United States of railway equipment needed for the National Railways and the Mexican Railway.

In its request to the Bank, Financiera stated that they would only use about \$4,000,000 to \$5,000,000 of the \$10,000,000 still available for the purchase of road building equipment in the United States and badly needed additional funds for the purchase of railway equipment.⁵⁰

BYRNES

812.51/12-1746 : Airgram

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

SECRET

MEXICO, D.F., December 17, 1946.

[Received December 23—9:08 a. m.]

A-1713. Last evening I received a note from the Foreign Minister⁵¹ transmitting a memorandum from the Minister of Finance,⁵² dated December 14, 1946, which sets forth the subject matter brought forward by Lic. Beteta in his conversation on December 5, 1946 with Mr. Snyder, the Secretary of the Treasury.⁵³ The note and Memorandum are being translated and will be forwarded as soon as completed.⁵⁴ The Embassy in the meantime is making a technical and analytical study of the proposals and will forward this as soon as possible. The Embassy recommends that no action be taken or conversations be held with any Mexican officials until its analytical study is received by the Department.

The Memorandum discusses an omnibus, long-term, financing program covering total expenditures of foreign-secured funds during the next 6 years of 900,000,000 pesos (\$180,000,000 U.S. Cy), covering certain public works and industrialization projects, many of which are already familiar to the Department. It anticipates that 20-year foreign credits at 4% to cover the projects will be requested at a later date either from the International Bank for Reconstruction and Development or from the Export-Import Bank.

⁵⁰ In instruction 669, December 23, 1946, the Secretary of State transmitted to Ambassador Thurston copies of two amendatory agreements signed on November 15, 1946, between the United Mexican States, Nacional Financiera, S.A., and the Export-Import Bank, authorizing the transfer of \$4,000,000 from the \$40,000,000 highway credit to the \$15,000,000 credit for the Mexican National Railways (812.51/12-2346).

⁵¹ Jaime Torres Bodet.

⁵² Ramón Beteta.

⁵³ Mr. Snyder was in Mexico City attending the inaugural ceremonies of President Miguel Alemán, December 1.

⁵⁴ Copies transmitted to the Department in despatch 2238. December 18, not printed.

The views of our Government are sought on these principal points:

1. The total volume of loans which Mexico may expect.
2. To what extent the projects are regarded as of a nature appropriate to financing by an international agency.
3. Whether Mexico's loan applications would be considered as falling within the scope of Article 4, Section 3, Paragraph C, of the Articles of Agreement of the International Bank of Reconstruction and Development, which provides that parts of certain loans may be made available in gold or foreign exchange.

The Memorandum recalls that Mexico's foreign obligations are currently being serviced, and that the obligations contracted with the Export-Import Bank are being punctually complied with. It states that it is the intention of the Government of President Alemán to negotiate for the equitable liquidation of the Lend-Lease account.⁵⁵

It further states that the Government intends to maintain the present rate of exchange between the peso and the dollar, and to maintain the traditional freedom of the exchange market in Mexico. However, because of the rapid drain on the present gold and foreign exchange reserves (which have decreased from \$372,000,000 U.S. Cy. to \$256,000,000 in the past 8 months, or by something over 30%) a replacement of the funds by means of private capital investments or long-term loans is needed.

Briefly, the "public works" projects are as follows:

1. Certain irrigation and hydro-electric dams to supplement the Government's projected investment from its own resources of 1,500,000,000 pesos in irrigation works during the next 6 years. (395,000,000 pesos).
2. The development of the northwest region of Mexico, to be modeled on the TVA experiment in the United States, including the construction of irrigation dams and hydro-electric plants; the completion of the Kansas City, México y Oriente railway; and the development of the port of Topolobampo. (346,000,000 pesos).
3. Port works at Manzanillo and Tampico. (49,500,000 pesos).
4. Development of the Isthmus of Tehuantepec, including a trans-isthmian highway and an oil pipe line. (129,000,000 pesos).

The so-called "industrial" projects are the following, part of the costs to be financed locally:

1. A gas pipe line between Poza Rica and Mexico City. (38,000,000 pesos).
2. Ammonium sulphate plant to supplement Mexico's need of nitrogenous fertilizers. (37,000,000 pesos).
3. A coking plant to supplement the needs of Mexico's steel plants. (18,500,000 pesos).
4. Electrical and other installations in connection with the Colimilla Dam, owned by the Nueva Compañía Eléctrica de Chapala, which is controlled by the Mexican Government through the Nacional Financiera. (40,000,000 pesos).

⁵⁵ For documentation on this subject, see pp. 978 ff.

5. A gas pipe line between Reynosa and Monterrey. (14,500,000 pesos).
 6. The modernization of textile plants. (25,000,000 pesos).

THURSTON

812.51/12-1946 : Telegram

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

CONFIDENTIAL

MEXICO CITY, December 19, 1946—4 p. m.

US URGENT

[Received 8 : 17 p. m.]

1120. Minister of Finance informed me this noon that two projects had been omitted from his recent memo (see Embtel 1110, December 17 and despatch 2238, December 18⁵⁶). These relate to the highways which the Mexican Government desires to construct through the western area to Nogales and through the central area to El Paso. The total cost of these highways is estimated at slightly less than 50 million dollars. A supplementary memo regarding these projects will be submitted by Minister Beteta later this week.⁵⁷

Beteta stressed the economic and political importance of President Alemán's program and said that without foreign financial arrangements he will either have to abandon many urgently needed works or carry them out through difficult internal financing with the danger of further inflation, both of which courses he desires to avoid.

He expressed the urgent hope that we will reply as promptly as may be possible to the three numbered questions on page 1 of his memo,⁵⁸ a translation of which accompanied the despatch cited.

THURSTON

**UNITED STATES POLICY REGARDING THE PARTICIPATION OF
FOREIGN OIL COMPANIES IN THE MEXICAN OIL INDUSTRY⁵⁹**

812.6363/8-2746

*The Assistant Secretary of State for American Republic Affairs
(Braden) to the Ambassador in Mexico (Thurston)*

WASHINGTON, August 27, 1946.

DEAR WALTER: We are sending you an instruction⁶⁰ enclosing a memorandum on the policy of the United States Government with regard to Mexican petroleum.

⁵⁶ Neither printed.

⁵⁷ A copy and translation of the supplementary memorandum sent to Ambassador Thurston on December 23 were transmitted to the Department in despatch 2284, December 31; this memorandum discussed the two additional public works projects, specifically, the completion of the West Coast (Nogales-Guadalajara) and Central (Mexico City-Ciudad Juarez) Highways (812.51/12-3146).

⁵⁸ Not printed.

⁵⁹ For previous documentation on discussions between the United States and Mexico concerning operating problems of the petroleum industry, see *Foreign Relations*, 1945, vol. ix, p. 1159 ff.

⁶⁰ *Infra*.

You will understand, of course, that it is not intended that you should make any representations at this time to the Mexican Government, but that the memorandum is sent you for your information and for guidance in any discussions which you may have. I take it that the present administration will not take any decision on the future of Mexico's oil industry, but that this is a matter which will be handled by the new administration. Your letter of August 2, 1946, to Mr. Carrigan,⁶² relating a conversation between a representative of a foreign oil company with Señor Ramón Beteta⁶³ would seem to indicate that the new administration will realize the seriousness of the oil situation in Mexico and that it may seek to find a way to provide for future participation of foreign oil companies in the Mexican oil development in some manner or other. There are also other indications that the new administration is worried over the heavy drain which *Petróleos Mexicanos*⁶⁴ constitutes on the Mexican Treasury and that Señor Alemán will seek to find a way to permit foreign oil companies to operate again, probably on a contractual basis.

If foreign companies are permitted to operate on some basis in Mexico the new administration will attach much importance to "face saving". It will no doubt insist, first of all, that subsoil rights remain the property of the Mexican Government and also will probably try to keep away from mentioning the word "concession". We have heard rumors recently that Señor Alemán was under the impression that the United States Government would grant a loan to Mexico for the commercial development of its petroleum resources. If the subject should come up with any Mexican officials or with persons who appear to be connected with the new administration, you may make it clear to them that this Government will not make such a loan to the Mexican Government.

It is reported that the Standard Oil may send Mr. Laurence Duggan to Mexico in the near future to make an impartial report on the possibilities of the return of American oil companies to Mexico, or at least their participation on some basis in Mexican oil industry. The thought in this connection appears to be that the Standard Oil representatives think in terms of the company's former operations in Mexico and that Mr. Duggan might have the advantage of being able to look at the situation objectively and submit a more impartial report. If Standard should decide to ask Mr. Duggan to go to Mexico, the Department will make no objection.

With particular reference to the instruction mentioned above, I should mention that in the first paragraph on page 3⁶⁵ the thought is

⁶² John W. Carrigan, Chief of the Division of Mexican Affairs (appointed First Secretary and Vice Consul at San José, July 17, 1946); letter not printed.

⁶³ Under Secretary of the Treasury and Public Credit.

⁶⁴ *Petróleos Mexicanos* (Pemex), the Mexican Government's oil monopoly.

⁶⁵ Paragraph beginning "First, it would be desirable . . .", p. 1010.

not that the United States is precluded from taking any initiative, but that if any arrangement should be reached whereby American companies could participate in the Mexican oil industry it should appear in any publicity given the matter that the initiative came entirely from the Mexican Government. In the fourth paragraph on page 3, it is desired to maintain the principle that all foreign companies at least have the legal right to participate. On page 4, under the heading of Mexican Requirements, these are merely some of the points which will probably be emphasized by the Mexican Government, which may of course state other conditions. The statement in paragraph 2 (c) on page 5 may not be entirely clear. This is meant to apply, of course, only to American participation and is a point which probably would not need to be mentioned in any discussions.

The Department of course favors no one particular American company as far as participation in the Mexican oil industry is concerned. There are indications that some of the American companies would like to stage a triumphant return to Mexico. It appears that the Mexicans will attach great importance to face saving and that they will probably insist on avoiding a general impression that the foreign oil companies are "coming back". We of course have no thought that any of the American companies should participate in the oil industry in Mexico under a subterfuge, but it appears likely that if they do take part in the development of the industry it will have to be on a contractual basis in such a way that the Mexican Government can avoid the appearance of granting outright concessions to foreign interests.

We are enclosing for your information and as a sort of commentary on the formal instruction, a draft record of a meeting⁶⁶ which was held in Mr. Clayton's office on August 19, 1946 with representatives of five of the companies most likely to be interested in the Mexican situation. As the record will show, the companies are not altogether convinced that there is any practical basis at the present time for a satisfactory re-entry into Mexico. There appeared, however, to be no insuperable substantive points in their minds which could not be met by the Mexican Government in the process of detailed negotiations if the Mexicans really want the Americans to participate in their oil industry.

I assume that we will be receiving further comments both orally and in writing from some, if not all, of these companies; and also from certain other companies whose offices were too remote to permit them to participate in the meeting, but who have been provided with copies of the agenda and the record and who have been asked to comment.

⁶⁶ Not printed.

Any further advice that we receive will be promptly transmitted to you with our comment, if any is needed.

With all good wishes,
Sincerely yours,

SPRUILLE BRADEN

812.6363/8-2746

*The Acting Secretary of State to the Ambassador in Mexico
(Thurston)*

SECRET

WASHINGTON, August 27, 1946.

No. 209

SIR: Reference is made to the Department's instruction no. 100 of July 24, 1946 forwarding a copy of a letter dated July 8, 1946 from Mr. Leonard F. McCollum, of the Producing Department, Standard Oil Company of New Jersey,⁶⁷ outlining his company's position with respect to the possibility of its re-entry into Mexico as an oil producer.

This instruction made further reference to the Department's interest concerning the re-opening of informal negotiations with the Mexican Government in the matter of petroleum and stated that the Department would prepare, for the Ambassador's information and guidance, a comprehensive memorandum covering the salient points of the United States Government's policy regarding petroleum in Mexico. This memorandum, entitled "United States Government's Policy Regarding Mexican Petroleum", is enclosed herewith.

Very truly yours,

DEAN ACHESON

[Enclosure]

SECRET

WASHINGTON, August 23, 1946.

UNITED STATES GOVERNMENT'S POLICY REGARDING MEXICAN
PETROLEUM

On March 18, 1938 the Mexican Government, by decree of expropriation, took over the properties of certain foreign owned petroleum companies.⁶⁸ Subsequently after an exchange of notes, a basic agreement was reached on November 19, 1941 between the United States and Mexican Governments⁶⁹ involving the question of just compensation to be paid to American nationals whose properties, rights or interests were affected to their detriment by acts of the Government of Mexico subsequent to March 17, 1938.

⁶⁷ Neither printed.

⁶⁸ For documentation on this subject, see *Foreign Relations*, 1938, vol. v, pp. 720 ff.

⁶⁹ For text, see Department of State Executive Agreement Series No. 234, or 55 Stat. (pt. 2) 1554; for documentation on this subject, see *Foreign Relations*, 1941, vol. VII, pp. 371 ff. *passim*.

The initial step in the implementation of the agreement of November 19, 1941 was the preparation and submission of the joint report of April 17, 1942⁷⁰ by two experts—Morris L. Cooke, for the United States, and Manuel J. Zevada, representing the Republic of Mexico. This joint report placed an evaluation of \$23,995,991.00 on the losses sustained by American nationals, including all elements of tangible and intangible value, and provided further for interest at three per cent per annum from March 18, 1938 to the date of final settlement, on all balances due.

After deducting the \$9,000,000.00 deposited in cash by the Government of Mexico at the time of the signing of the agreement of November 19, 1941, the balance due was \$20,137,700.84. Thus on September 30, 1943 the Ambassador of Mexico⁷¹ presented to the Acting Secretary of State⁷² the Mexican Government's check for \$3,796,391.04 representing the amount due at that time under the exchange of notes on September 29, 1943,⁷³ implementing the agreement of November 19, 1941. The Mexican Government is paying the balance due in four equal annual installments, each of \$4,085,327.45, and it is expected that final payment will be made on September 30, 1947.

Under instructions from this Government the American Ambassador at Mexico City has been carrying on informal conversations with the President of Mexico,⁷⁴ the Foreign Minister,⁷⁵ and other officials, looking to an arrangement whereby foreign petroleum companies may again participate in the development of Mexico's oil resources.

These conversations have been carried on at a high level, with complete frankness and in the most friendly spirit, and during this period the Ambassador has kept in close touch, on a consultative basis, with the petroleum experts and other interested officials of the Department as well as with some of the representatives of the American oil companies in Mexico City.

In his talks with the President and Foreign Minister of Mexico Ambassador Messersmith has, on frequent occasions, stressed the following points:

(a) *Petróleos Mexicanos* (the government oil monopoly) has shown that it is incapable of developing the country's oil resources either efficiently or profitably.

⁷⁰ Department of State *Bulletin*, April 18, 1942, p. 351.

⁷¹ Francisco Castillo Nájera.

⁷² Dean Acheson.

⁷³ For text of agreement between the United States and Mexico on payment for expropriated petroleum properties, effected by exchange of notes signed at Washington, September 25 and 29, 1943, see Department of State Executive Agreement Series No. 419, or 58 Stat. (pt. 2) 1408.

⁷⁴ Manuel Ávila Camacho, President of Mexico December 1, 1940–December 1, 1946.

⁷⁵ Foreign Ministers Ezequiel Padilla (1940–July 12, 1945), and Francisco Castillo Nájera (September 21, 1945–December 1, 1946).

(b) In the event that the Mexican Government sees fit to invite foreign capital to return to Mexico to assist again in the development of Mexico's oil industry, it is important that all American or other foreign companies or other legitimate responsible private interests have equal opportunity.

(c) Mexico would soon face a decline of revenue from other industries as a result of the termination of the war. Mexico was also undergoing a severe drain on its financial resources as a result of the inefficient and unprofitable development of its oil industry by Pemex. Mexico could, if assisted substantially by foreign capital, recoup these losses through a more efficient and profitable development of that industry.

(d) When the Mexican Government has made a statement of oil policy, after a full and frank exchange of views between the two Governments, it is contemplated that it will then implement its policy by appropriate legislation. The United States Government does not contemplate taking any part in any agreements which would subsequently be entered into between the Mexican Government and through *Petróleos Mexicanos* with the United States oil companies and United States private capital.

About 10 months ago Ambassador Messersmith recommended, and the Department concurred, that it was inopportune to carry on these conversations, owing to the confused Mexican political situation.

Following the inauguration of the new President of Mexico on December 1, 1946, it is very possible that the important question of petroleum may be one of the matters brought up for early consideration by the new administration. Consequently the Department deems it advisable that the Ambassador receive a clear exposition of its views well in advance of this date.

First, it would be desirable that the initiative come from the Mexican Government, and that special emphasis be placed on the fact that the United States Government has never entertained any desire to interfere in any way with the freedom of the Mexican Government to determine its own oil policy, and has always been fully cognizant of the sovereign right of Mexico in this respect.

Second, it should be pointed out that the United States Government is naturally anxious to see the potential petroleum resources of Mexico developed and utilized to the furtherance of the financial and industrial well being of Mexico, as well as in the interests of hemisphere security in which both countries are mutually interested.

Third, it should be made clear that the Government of the United States does not take the initiative in recommending, on an inter-governmental basis, any change in the basic Mexican Constitution as it affects the subsoil rights of the Mexican Nation, nor any change in existing petroleum legislation related to those rights. The Government of the United States recognizes the sovereign right of the Mexican Government to determine its own oil policy and legislation. However, the Government of the United States draws the attention

of the Mexican Government to the fact that by its present nationalization of its oil industry, it is not carrying out the spirit of Articles 2 and 6 of the Economic Charter of the Americas signed at Chapultepec on March 7, 1945.⁷⁷

Fourth, special emphasis should be placed on the fact that, in the event foreign capital is re-admitted, the door would be open to nationals of all countries, not merely to American companies.

Fifth, any future informal discussions by the United States Government with the Mexican Government shall, with the same intentions expressed in the past, be held for the purpose of assisting the Mexican Government to work out a solution of its petroleum problems.

Sixth, it should also be made clear that the United States Government's interest in the solution of Mexico's petroleum problems is partly that of a friendly neighbor, offering advice based on experience and knowledge, and partly that of a country holding an important place in world oil affairs with a direct responsibility for the efficient and orderly utilization of world petroleum resources.

Seventh, in the light of very attractive opportunities for development operations in other parts of Latin America, as well as in the Middle East (where American interests are known to be very large), it is questionable whether there is much enthusiasm on the part of American oil companies to return to Mexico or to enter there for the first time. Therefore, if the Mexican Government wants to secure the benefit of American or other foreign oil capital and technical skill, it is incumbent on the Mexican Government to make clear-cut, well-defined proposals that hold some reasonable prospect of being attractive to the American or other companies.

Eighth, it is apparent that Mexico's position and prestige in the Western Hemisphere as a world petroleum producing country have declined relative to other Latin American producing countries, such as Venezuela, Colombia and Peru. Consequently a desire on the part of Mexico to improve its national economy, recoup its losses from other industries coinciding with the termination of the war, and increase its known and potential reserves of petroleum, might suggest to the Mexican Government the wisdom of a change in its attitude towards inviting foreign capital back to Mexico to assist in developing its petroleum resources.

In studying a plan of action for re-opening the negotiations on petroleum with the Mexican Government, and reviewing the various methods of approach to the problem, it might be advisable to outline briefly here the basic requirements of the three principal entities in-

⁷⁷ For text, see *Report of the Delegation of the United States of America to the Inter-American Conference on Problems of War and Peace, Mexico City, Mexico, February 21-March 8, 1945* (Washington, Government Printing Office, 1946), p. 120.

terested, namely, (1) the Mexican Government, (2) the United States Government, and (3) the foreign oil companies.

(1) *Basic Requirements of Mexican Government:*—

(a) the subsoil rights and titles to petroleum must remain perpetually in Mexican hands.

(b) the domestic distribution and marketing should also remain Mexican, and domestic demands for petroleum must be fully satisfied at reasonably low prices, before any petroleum is exported.

(c) Mexico must receive an equitable share in all benefits derived from the development of its petroleum industry.

(d) the development and production must proceed in an orderly fashion with no avoidable waste of Mexico's natural resources.

(e) Mexico must receive technical, financial and commercial assistance in the development of its petroleum industry, and its nationals must receive the maximum of training and employment at fair rates of compensation.

(f) any plan adopted must be face-saving to former President Lázaro Cárdenas, Labor Leader Vicente Lombardo Toledano, and at the same time palatable to the Mexican public.

(2) *Basic Requirements of the United States Government:*—

(a) United States private industry should be permitted to contribute to the development of crude production and reserves in Mexico and to the distribution of exportable Mexican surplus production to foreign markets, at least to the extent of United States capital, capabilities, and technical skill.

(b) in case of an emergency and in connection with hemisphere defense, in which both the United States and Mexico are mutually interested, the United States should have first call on all surplus production (over and above Mexico's needs) so that the utilization of this oil may be mutually beneficial to the defense of both countries.

(c) any plan adopted, and all contracts under such a plan, must be in harmony with the political and economic policies of the United States Government.

(3) *Basic Requirements of the American Oil Companies:*—

(a) the companies must have security of title to any rights acquired whether by concession or by operating contract, and a corresponding security for their investment over a long period of time.

(b) the companies must have the opportunity to earn profits commensurate with their investment and with the risks involved; and they must be free to remit such profits to their home offices.

(c) the companies must have reasonable time, during the exploration and exploitation periods, to develop any oil they may discover, along economic and efficient lines, as required by the best modern practice.

(d) the company would, under its contract, employ the maximum amount of Mexican labor consistent with efficient operation, and would train and advance its Mexican personnel in all phases of its operations. However, the relationship between the company and labor must be satisfactory and mutually beneficial both to the company and to labor, and regulations covering this relationship must be such that the petroleum industry may rapidly reach a goal of high productivity beneficial to both the Mexican Nation and to foreign capital.

Several plans for the re-admission of foreign oil companies into the Mexican petroleum industry have been discussed informally during the past three years between the Ambassador and Mexican officials on the one hand, and between the Ambassador and representatives of the oil companies on the other. There has been considerable exchange of correspondence between the Embassy and the Department covering these various plans or methods; however, it might be advisable to review them briefly here at this time pointing out their advantages and disadvantages.

[Here follows a review of three plans, their advantages and disadvantages: (1) the Wiechers Plan, (2) The Townsend 25-Year Plan and (3) the Thornburg Contracting Proposal.]

It will be seen from the foregoing that none of these plans has fitted satisfactorily into the framework of the Mexican petroleum situation.

There is one method, however, which has not been discussed and which would involve a type of operating management and participation contract between the foreign oil company and the Mexican Government.

This would not be a concession type of contract, and consequently would not in any way involve the question of subsoil rights. The highlights of this contract would be as follows:

(1) In accordance with a Presidential Decree, confirmed by the local congress, a prospecting zone of suitable size would be set aside, and the government would thereupon be authorized to enter into contracts for operations of petroleum prospecting for a term of years subject to the condition that the foreign contractor would periodically surrender, and free from the contract in say five, ten, fifteen or twenty years, etc., substantial portions of the zone which apparently did not give evidence of oil-bearing possibilities.

(2) The contract would provide for certain drilling obligations on the part of the foreign contractor within stipulated times governed by regulation.

(3) Two separate contracts would be used, one for the investigation or prospecting period and the other for the exploitation period.

The executive authority of the Mexican Government would be empowered to grant, under the investigation contract, exclusive rights for the foreign contractor to select individual prospecting zones, divided into claims of 10,000 hectares each. There would be no limitation on the total number of the claims constituting the zones of investigation.

Subsequently the contractor would be permitted to select individual exploitation areas of specified size, not to exceed a particular number of hectares per discovery well.

(4) The period of duration of the investigating contracts would be four years extendible for an additional four years, with the condition that at least one well shall have been started during the first four years.

(5) The period of duration for the exploitation contracts would be fifty years.

(6) Under the contract the executive authority would be empowered to credit to the account of the foreign contractor all investments made by him, which investments would either be reimbursed out of the product obtained or be cancelled in the event that the contractor should avail himself of the right granted to him to terminate his contract.

(7) The executive authority would be further empowered to establish in contracts, the apportionment that is to be made of the proceeds obtained so as to reimburse the investments made, cover the costs and expenses of exploitation, and leave a satisfactory compensation for the contractor, assuring for the Mexican Government a return of 35 per cent of the net profits of the exploitation, which return is approximately equivalent to the amount the Mexican Government would expect to receive from royalties and taxes.

(7a) As an alternative to the arrangement under (7) above, the following royalties could be used:

The contractor would deliver to the Mexican Government as royalty, during the first 15 years of exploitation, the following percentages of crude oil extracted, on the basis of the daily average of each month; from one barrel to five thousand barrels as the daily average in the month, 12 per cent; from five thousand and one to ten thousand barrels as the daily average in the month, 13½ per cent; and ten thousand and one barrels and upwards as the daily average in the month, 15 per cent.

Further, the contracts covering petroleum prospecting, investigation and exploitation would authorize the contractor to operate in the name and representation of the Mexican Government, as contractor of said operations, and to receive as compensation, after deduction of the royalty to be paid to the Mexican Government by said contractor the remainder of the gross petroleum extracted. (*Note*:—For the Embassy's information this section (7a) is taken, *in toto*, from the contract of October 1944 between the Union Oil Company of California and the Paraguayan Government.

(8) The foreign contractor would be exempt from all fiscal and municipal taxes.

(9) He would further receive exclusive control in the installation and exploitation of refineries and pipelines for the entirety of the petroleum products obtained by him, with the understanding that a percentage of the net profits from the operations of these facilities would go to the Mexican Government in lieu of any and all other charges, royalties, imposts or taxes.

(10) The foreign contractor would also enjoy absolute control of the administration of the enterprise.

(11) He would further be permitted to import, free of customs duties, such machinery and equipment that he deemed necessary for

the operation, and simultaneously be permitted to export, free of duty, petroleum and its derivatives over and above the internal requirements of the country.

(12) The executive authority would permit, upon request of the contractor, the immigration into Mexico of the foreign personnel necessary to carry on an efficient and economical enterprise.

The above stipulations represent the salient features of such a contract, which would, of course, also include a number of other general provisions usually found in contracts of this type, including arbitration clauses, rights of termination, surface taxes per hectare of land paid annually under both the investigation and exploitation contracts, *force majeure* clauses, etc., etc.

In this connection it is interesting to note that this general type of operation-management-participation contract is now being satisfactorily used by one of the American oil companies in the development of the petroleum resources in the Paraguayan Chaco.

It is quite evident that the word "concession" has become anathema to certain Mexican officials and to the Mexican public, and that probably the only way for foreign capital to return and participate in the Mexican petroleum industry will be under some form of contract similar to the one just described above.

The rights of a foreign company under this type of contract may not seem as secure, to the legal minds representing that company, as those usually granted in the past under the concession type of contract. However, the history of the expropriation of American capital by foreign governments during the past ten years indicates clearly that no rights, not even concessional ones involving an interest in the subsoil, are necessarily safe. Consequently it can be argued realistically now that the right to develop the petroleum resources of another country under a contract comprising operation, management and participation, as described above, will probably be just as safe for foreign capital as the concessional rights used in the past.

THE QUESTION OF A POSSIBLE LOAN BY THIS GOVERNMENT TO THE MEXICAN GOVERNMENT FOR THE DEVELOPMENT OF MEXICAN OIL RESOURCES

Reference is made to the Department's secret instruction no. 8098 of November 8, 1945⁷⁸ with which was enclosed a memorandum for the President from the Secretary of State, dated October 11, 1945.⁷⁹

That memorandum, which was approved and signed by the President on October 13, 1945, confirms the decision that no government loan

⁷⁸ *Foreign Relations*, 1945, vol. ix, p. 1161.

⁷⁹ Not printed.

can be considered by the United States Government for the commercial development of Mexican petroleum resources.

In conclusion, the salient points covered by this memorandum to clarify the Mexican petroleum problem as it exists today, and to outline the United States Government's policy regarding Mexican petroleum, may be summarized as follows:

Mexican economy, after nine years of inefficient and unprofitable management of its petroleum resources by Pemex, which exemplifies the heaviest drain on the financial resources of that country yet made, is badly in need of a revitalization of its petroleum industry. However, the initiative must come from the Mexican Government; and it is believed that the new Alemán administration will soon wish to open conversations with representatives of this Government for the purpose of working out a solution.

It is quite logical that Mexico should turn to the United States for assistance in the solution of this problem, first because of the geographic location of the two countries and the vital importance of hemisphere defense to both, and secondly because the United States has a real contribution to make due to the high degree of experience and skill developed in the United States and abroad in exploring for and producing oil. A further important factor is the supreme position of American manufacturers of oil well machinery and refining equipment.

Next, it is evident that no matter what move is made and decisions reached by Mexico, the United States Government and the foreign oil companies in reaching a solution to this problem, a minimum amount of political face-saving on the part of certain Mexican officials must be accounted for and appropriately provided.

It will have been seen from pages 5 and 6 of this memorandum that there exist certain basic requirements on the part of the Mexican and United States Governments and the foreign oil companies which are essential and vital to the interests of each. However, these requirements are not so far apart that they cannot be reconciled to the mutual benefit of each.

Finally, in the light of the above, it appears to the Department that a successful solution of this Mexican petroleum problem may eventually have to be based on the utilization of some form of operation-management-participation contract similar in general character to the one described previously.

ARRANGEMENTS BY THE UNITED STATES AND MEXICO REGARDING
THE TEMPORARY MIGRATION OF AGRICULTURAL AND OTHER
WORKERS INTO THE UNITED STATES⁸⁰

811.504 Mexico/1-346

The Department of State to the Mexican Embassy

MEMORANDUM

Reference is made to the Mexican Embassy's memorandum no. 16 of January 3, 1946,⁸¹ in regard to the clandestine entry into the United States of Mexican workers through the zone between Mexicali, Lower California, and San Luis, Sonora.

A copy of the memorandum has been transmitted to the Immigration and Naturalization Service of the United States for consideration, and the subject has also been discussed with a high official of that Service who participated in the conversations in Mexico referred to in the second paragraph of the memorandum.⁸² The official informally stated that the Service was much concerned over the same question because of the great number of Mexican workers entering this country in spite of the careful supervision maintained by that Service and in spite of the fact that approximately six thousand Mexican workers who have entered illegally, for the most part through the zone mentioned, are returned to Mexico each month at great expense to this Government. The official stated that the memorandum would be given every consideration but that it was his belief that successful control of this movement could only be brought about by the establishment of a parallel supervisory system by the Mexican Government in the zone under reference to prevent the departure of these workers from Mexico.

WASHINGTON, January 14, 1946.

⁸⁰ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1137 ff.

⁸¹ Not printed; it indicated that the Mexican Embassy requested cooperation of the United States in taking necessary measures of vigilance in the zone between Mexicali, Lower California, and San Luis, Sonora, through which it was reported that approximately 300 Mexican workers entered the United States illegally each day (811.504 Mexico/1-346).

⁸² In this paragraph reference is made to United States-Mexican conversations held in Mexico, May-June, 1944, resulting in an agreement, signed on June 2, 1944, that the Governments of both countries would increase their measures of vigilance to impede illegal migration of Mexican workers, and to return the illegal entrants from the United States to Mexico. For documentation on this subject, see *Foreign Relations*, 1944, vol. vii, pp. 1290 ff.

811.504 Mexico/1-3146

*The Ambassador in Mexico (Messersmith) to the Secretary of State*RESTRICTED
No. 28,212MEXICO, D.F., January 31, 1946.
[Received February 7.]

SIR: Reference is made to my Despatch No. 28,200 of January 29, 1946⁸³. . . regarding illegal entrants into the United States.

I now have the honor to inform the Department that at my request Mr. O'Donoghue⁸⁴ of the Embassy staff this morning called on Dr. Manuel Tello, the Under Secretary for Foreign Affairs and left with him an informal memorandum dated January 29, 1946, a copy of which is attached hereto.⁸³ Mr. O'Donoghue discussed the question of these illegal entrants into the United States with Dr. Tello and there is attached a copy of a memorandum reporting this conversation.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure]

*Memorandum of Conversation, by the First Secretary of Embassy
(O'Donoghue)*

[MEXICO, D.F.,] January 31, 1946.

I called at the Foreign Office this morning and left with Dr. Tello, the Under-Secretary of Foreign Relations, the original of the attached informal memorandum of January 29, 1946,⁸³ regarding Mexican nationals illegally in the United States. I told Dr. Tello that I felt sure he would recall the conversation we had had last year at the time the authorities of Baja California had closed the borders of that State to Mexican deportees and voluntary returnees from the United States unless they could prove that they had for six months prior thereto been residents of Baja California; I said that as a result thereof our Immigration Service had been returning a considerable number of such individuals to Mexico through the ports of El Paso, Texas, and Nogales, Arizona, but that even in such cases there had been difficulty in arranging for transportation over the Mexican lines to the interior of Mexico. I said that I recalled that some time this month the Mexican Embassy in Washington had protested or at least made representations to the State Department respecting the number of these Mexicans illegally in the United States and who it was desired should be returned to Mexico. I told Dr. Tello that there were more than 10,000 such Mexicans now estimated to be in the Imperial Valley in California where they were creating quite a civic problem; that the United States Immigration and Naturalization Service was doing what it

⁸³ Not printed.⁸⁴ Sidney E. O'Donoghue, First Secretary of Embassy.

could to return these individuals to Mexico and at the moment was having some success inasmuch as the authorities of Baja California had requested up to 3,500 such migratory workers for the cotton picking season. I added that this was all very well at the moment but that when this cotton picking season was over most probably Baja California would once again close its borders and refuse to permit the return of Mexicans illegally in the United States.

I said to Dr. Tello that we had recently received an exhaustive report in regard to this question and that it appears there is practically no Mexican immigration patrol on the Mexican side of the border for hundreds of miles in the area of Baja California; that it is obviously impossible for the United States Immigration Patrols to carry out this control by itself. I said I did not know what the solution of the problem might be but that it had occurred to me that if the President of Mexico should authorize the recruiting of agricultural labor for 1946, it might be possible to set up a recruiting center near, but not too near, the border where many of these Mexicans now illegally in the United States might be brought for contracting and permitted to enter the United States under perfectly legal conditions.

Dr. Tello said that he has been for some time concerned over the existing condition and that as long as I had brought these facts now to his attention he would talk with the Foreign Minister and also discuss the problem with the Ministry of Gobernación which is responsible for the patrols.

I have no hope that anything constructive will result from this conversation but I do feel that it gives us a little protection in view of the requests which the Mexican Embassy in Washington will most probably continue to make for the return of these aliens illegally in the United States.

S. E. O'DONOGHUE

811.504 Mexico/1-2546

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

RESTRICTED
No. 8387

WASHINGTON, February 13, 1946.

SIR: Reference is made to the Embassy's despatch no. 28,031 of January 25, 1946,⁸⁵ in regard to recruitment in 1946 of Mexican agri-

⁸⁵ Not printed; in it Ambassador Messersmith reported on discussions with respect to the recruiting program with the Mexican Foreign Minister, Francisco Castillo Nájera, President Manuel Avila Camacho, and the Minister of Labor, Francisco Trujillo Gurria, who stated that no objection was perceived to the proposed recruiting program providing it was made subject to certain conditions. A memorandum of January 23 enclosed in the despatch outlined the three conditions as follows: (1) No Mexican worker would work in the states of Illinois, Indiana, Michigan, Minnesota, Wisconsin, Colorado, Montana, and Wyoming; (2) changes would be made in the Individual Work Agreement, principally in those chapters relative to wages and medical attention; and (3) the number of special Mexican inspectors (collaborators) would be increased to 20 (811.504-Mexico/1-2546).

cultural workers under the agreement between this Government and the Government of Mexico, dated April 26, 1943.⁸⁸ The last paragraph of the despatch states that because of the conditions laid down by the Mexican Minister of Labor, Colonel Wilson R. Buie of the Office of Labor of the Department of Agriculture, who had been in Mexico to arrange for recruitment in 1946, had returned to the United States to clear the three conditions placed by the Mexican Government as a prerequisite to authorizing further workers for the United States.

In telephone conversations with an officer of the Division of Mexican Affairs, Mr. Howard Preston of the Office of Labor has informed the Department that the first condition prohibiting the use of workers in nine States was causing considerable embarrassment to the Department of Agriculture in view of the fact that Congressional authorization of funds was made with the cooperation of representatives of the States listed, who understood that labor needs of those States would be given appropriate consideration in the distribution of Mexican agricultural workers. Mr. Preston further stated that the Department of Agriculture would no doubt wish to request the assistance of the Department and the Embassy to the end that the condition in regard to the use of workers in those states be withdrawn by the Mexican Government. To date, such a communication has not been received.

There is enclosed, however, for your information a copy of a memorandum of telephone conversation which took place on February 8, 1946,⁸⁹ between Senator Robert M. La Follette, Jr., of Wisconsin, and an officer of the Department in regard to the above-mentioned condition as it refers to the State of Wisconsin. It will be noted in the memorandum that Senator La Follette asked the Department to request specifications from the Mexican Government as to the nature of the discrimination or other circumstances which gave rise to the restriction, and that he also expressed the hope that the condition would be removed as Wisconsin was in need of labor and hoped to secure some relief through the bringing in of agricultural workers under the Agreement of April 26, 1943. It is very probable that other members of the Senate or of the House of Representatives will approach the Department on the same subject, and you will be promptly informed if such is the case.

The Department has been informed by telephone that Colonel Buie and Mr. Preston intend to return to Mexico City about February 16 to discuss the conditions of recruitment further with you and with

⁸⁸ For text, see Department of State Executive Agreement Series No. 351, or 57 Stat. (pt. 2) 1152; for text of original agreement of August 4, 1942, see Executive Agreement Series No. 278, or 56 Stat. (pt. 2) 1759; for documentation on the negotiation of these agreements, see *Foreign Relations*, 1942, vol. vi, pp. 537 ff., and *ibid.*, 1943, vol. vi, pp. 531 ff.

⁸⁹ Not printed.

the Mexican Government. In view of the circumstances set forth above, the Department is of the opinion that it would be very desirable for you, in your discretion, to give every appropriate assistance toward the removal of this condition and to secure an explanation thereof which can be communicated to Senator La Follette and others interested in this problem. The Department of course has no objection to your discussing this matter informally with officials of the Mexican Government prior to the arrival there of Messrs. Buie and Preston if you consider such a step preferable to handling the matter while they are present.

You are also authorized, in your discretion, to request the Mexican Government formally for permission for the Department of Agriculture to conduct recruiting, during 1946, for the maintenance of up to 54,000 workers at any given time in the United States.

If you take the matter of the condition up with representatives of the Mexican Government prior to the arrival of the representatives of the Department of Agriculture, you may be asked about this Government's attitude as to the second and third conditions laid down, as listed in the memorandum of January 23, 1946, which was the enclosure to the Embassy's despatch no. 28,031, under reference. These two points have been discussed by telephone with Colonel Buie's office, which has stated that you may make the following statements if you so wish :

The Department of Agriculture does not know just what the Mexican Government has in mind in regard to wages, but its representatives, upon arrival in Mexico City, will be glad to discuss the question thoroughly with the representatives of the Mexican Government with a view to reaching a mutually satisfactory understanding. In regard to medical attention, the Department of Agriculture feels that the medical care made available to the Mexican workers is of a high caliber and that there have been relatively few complaints, which have originated through the failure of some employers to understand the benefits to which the Mexicans are entitled. The Department of Agriculture is prepared to redouble its efforts to see that the medical care provided is made available to all workers. In regard to the last condition, the increase of Mexican collaborators to twenty, the Department of Agriculture indicates that if condition one is sustained, the use of Mexican workers will be confined to so limited an area that it is of the opinion that additional collaborators would not be needed. However, if condition one is removed and if the Mexican Government feels that the use of additional inspectors or collaborators is necessary, the Department of Agriculture will be prepared to make provision for them.

The text of this instruction has been cleared with the Office of Labor of the Department of Agriculture by telephone in order that there may be no question as to the viewpoint of that office.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

Under Secretary of State

811.504 Mexico/2-1646

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

No. 28,528

MEXICO, D.F., February 16, 1946.

[Received February 22.]

SIR: Reference is made to my despatch No. 28,279 of February 12, 1946,⁹⁰ respecting the unfavorable publicity being given by the local press to the desire of the Department of Agriculture to recruit Mexican agricultural workers for employment in the United States under the Agreement of April 26, 1943. It will be recalled that this publicity was in part the result of the publication in the United States of a letter from Secretary of Agriculture Anderson to Senator Wheeler of Montana respecting the Mexican prohibition on the employment of Mexican labor in that State among others.

I now have the honor to transmit herewith a clipping from *Excelsior* of February 15⁹⁰ giving the substance of an Associated Press despatch of the day previous from Washington. It will be noted that in this despatch quotation is made from a letter addressed by Secretary Anderson to Representative Crawford of Michigan and, further, certain quoted statements in a tone somewhat disparaging to Mexico are attributed to Representative Crawford.

I am also transmitting herewith another clipping from *Excelsior* of today's date⁹⁰ containing a statement issued by Licenciado Trujillo Gurria, the Minister of Labor. Licenciado Trujillo Gurria gives the reasons impelling him to prohibit the employment of Mexican labor in certain States in the United States, these being the fact that the salaries paid to Mexican workers in those States had been less than those paid to American labor, the subterfuges of employers in computing wages of the Mexican workers, lack of medical attention, and poor living conditions.

As I stated in my despatch under reference the undue publicity given in the United States to letters from Secretary Anderson respecting the possibility of the employment of Mexican agricultural workers cannot help but have an adverse effect upon the possibility of being able to contract Mexican labor during 1946.

⁹⁰ Not printed.

I have now officially asked the Mexican Government for permission for the Office of Labor, Department of Agriculture, to contract Mexican agricultural workers and to maintain in the United States up to 54,000 of such during the present calendar year. I believe that it will be possible to obtain the Mexican Government's consent to this contracting, always provided that the matter is discreetly handled. However, in view of the recent publicity emanating from Washington and appearing in the local press, I doubt very much if it will be possible now to obtain permission to employ Mexican workers in Illinois, Indiana, Michigan, Minnesota, Wisconsin, Colorado, Montana, and Wyoming.

When Colonel Buie, the Director of the Office of Labor, Department of Agriculture, was in Mexico in the latter part of January, he conferred with Licenciado Trujillo Gurria, at which time the Mexican Minister of Labor had insisted that no Mexican workers would go to any State in the United States where sugarbeets were grown. After much discussion, the Minister was persuaded to recede from this stand to the extent that the prohibition would only apply to the States mentioned above. At the time of this conference Colonel Buie was informed as to the reasons why the Minister would not permit Mexican labor to go to the States in question.

Respectfully yours,

GEORGE S. MESSERSMITH

811.504 Mexico/2-2146

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

No. 28,561

MEXICO, D.F., February 21, 1946.

[Received March 1.]

SIR: Reference is made to the Department's Instruction No. 8387 of February 13, 1946, and related correspondence in connection with the desire of the Department of Agriculture to contract up to 54,000 Mexican workers during 1946 under the Agreement of April 26, 1943. A formal request was made to the Foreign Office on February 12 to this end and requesting that the prohibition of the employment of Mexican workers in certain States be eliminated or at least eased.

I now have the honor to transmit herewith a copy and translation of a Note dated February 16, 1946,⁹¹ from the Ministry for Foreign Affairs stating that the Mexican Government is agreeable to this recruiting by the Office of Labor of the Department of Agriculture provided certain conditions with respect to employment and the individual contracts are cleared between representatives of that Office and the Ministry of Labor. The Note states, however, that so far as lifting the ban on employment in certain States is concerned, that

⁹¹ Not printed.

"the statements made by officials and representatives of the United States published in the press of this capital yesterday and to which the Minister of Labor referred in his statement of today, lead me to the belief that the inclusion of the mentioned States will not now be possible".⁹³ The statement made by the Minister of Labor was transmitted to the Department with my Despatch No. 28,528 of February 18 [16], 1946.

Mr. Howard Preston, the Deputy Director, Office of Labor, Department of Agriculture, is now in Mexico and within the next few days will discuss with officials of the Ministry of Labor the necessary amendments to the Individual Work Agreement to which reference has been made. The Embassy will continue to give Mr. Preston all assistance possible to the end that his visit may be a successful one.

Respectfully yours,

GEORGE S. MESSERSMITH

811.504 Mexico/3-846

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

No. 28,742

MEXICO, D.F., March 8, 1946.

[Received March 15.]

SIR: Reference is made to the Embassy's despatch no. 28,704 of March 2, 1946, entitled "Recruiting of Mexican Agricultural Workers Under the Agreement of April 26, 1943"⁹⁴ with which were transmitted a memorandum of a conversation between Ambassador Messersmith and Colonel Buie of the Department of Agriculture as well as two memoranda of amendments to the individual worker's agreement and administrative measures prepared by the Mexican Minister of Labor for discussion prior to the inauguration of the recruiting program.

I now have the honor to inform the Department that Colonel Buie left Mexico for Washington this morning in order to inform the Secretary of Agriculture as to the results of his negotiations with officials in the Ministry of Labor. Colonel Buie has informed the Embassy that following his last conversation with Licenciado Fernández del Campo of the Ministry of Labor he inquired whether he could inform Secretary Anderson that agreement had been reached on all the points raised by the Minister of Labor and was told that he could so advise Mr. Anderson. Colonel Buie added that the only question still out-

⁹³ In despatch 28,675, February 27, from Mexico City, Ambassador Messersmith reported that the Embassy had received a note of February 21 from the Mexican Foreign Office in response to the Embassy's note requesting that the ban be lifted against the States of Illinois, Indiana, Wisconsin, Minnesota, and Colorado. The Mexican note indicated that the sending of workers to the five states named would not be permitted, but that the 54,000 workers might be contracted. (811.504 Mexico/2-2746)

⁹⁴ Not printed.

standing was that of the minimum wage guarantee. The Mexicans had suggested that this guarantee be placed at 50 cents per hour and Colonel Buie's counterproposal, which he thinks will be acceptable, is at the rate of 37 cents an hour.

Although Colonel Buie has returned to Washington Mr. Howard Preston, the Deputy Director of the Office of Labor, Department of Agriculture, is still in Mexico and will clear up final details of the negotiations.

Respectfully yours,

For the Ambassador:
SIDNEY E. O'DONOGHUE
First Secretary of Embassy

811.504 Mexico/3-1846

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

[Extracts]

No. 28,798

MEXICO, D.F., March 18, 1946.

[Received March 22.]

SIR: I have the honor to refer to recent correspondence . . . with respect to the recruiting program of Mexican agricultural workers under the agreement of April 26, 1943.

I now have to inform the Department that on March 15 I had the opportunity to have a long conversation with the President of Mexico in his home at Los Pinos. . . .

. . . I emphasized particularly the food situation throughout the world and the tremendous burden falling on the United States and the sacrifices which we were making to make grains and fats available as well as other foodstuffs. . . . I emphasized the importance of the collaboration of Mexico in this program and brought out the fact that Mexico was still a deficit country in wheat and corn and fats which deficits we were selling and intended to continue to sell to Mexico in spite of the shipments to other areas as we knew that Mexico was not importing a single bushel of grain or a single pound of fat beyond her minimum needs.

The President said that he had heard what I had to say with the greatest interest, particularly with regard to the world food situation. He was fairly familiar with this situation. He realized the importance of this situation. He said that I knew that when we had approached Mexico at the outset for workers during the war that he had immediately given the necessary instructions for the carrying through of such a program. He said that irrespective of criticism from many

sources in Mexico he had taken the energetic action which he had as a matter of principle and as a matter of collaboration and governed by no other considerations.

He said that when the war ended he thought it would be desirable to have the Mexican workers return on the expiration of their contracts in an orderly manner and that my Government had been in agreement and that my Government had been very helpful in bringing about that orderly return. He said that later when he got word from us that we needed more agricultural workers during 1946, he did not need any more than this word from us and he took it for granted that we needed them. He felt that it was necessary for Mexico to continue to collaborate in this program during 1946 as a matter of principle and as a matter of collaboration between the two countries, just as during the war.

He then went on to say that he had given the necessary instructions that the program was to be continued so far as Mexico is concerned during 1946. After he had given these instructions the Minister of Labor had indicated to him that he thought with the renewal of the agreement it would be desirable to make certain changes therein in order to correct certain deficiencies. The President said that he had given instructions that the Minister of Labor might seek and should, of course, seek proper improvements in the contracts, et cetera, but that the principal thing was for the program to continue.

The President then went on to say that he had noted what I had said concerning possible criticism of Mexico in the United States if this movement did not go on and particularly if Mexico would not send workers to the eight states mentioned in a note of the Foreign Office. He said that he had also noted that this vociferous comment in the United States would make it more difficult for our Government to see that Mexico got her deficits in wheat and corn and fats. The President then said that he knew that I knew that he had seen to it that this program went forward during the war and that he would see that it went forward during 1946, but that he was doing it as a matter of principle and of collaboration. He then made the significant remark that no matter what politicians and newspapers and others might say in Mexico, he would not pay any attention to it any more in the future than he had in the past. He said that he had the conviction that in the United States no matter what politicians and newspapers and interested persons might say we would act on principle and understanding and collaboration as we had in the past. He said no matter whether Mexico got any wheat or corn this program was going forward because he was permitting these workers to go as a matter of principle and collaboration. He said that he was sure that the Government of the United States in matters affecting wheat and corn for

Mexico and general problems in connection with the relations of Mexico would be governed by principle and by the spirit of collaboration rather than by talk of politicians on either side of the border.

. . . In his statements to me during the conversation under reference in this despatch, the President showed a really statesmanlike and most understanding attitude.

When I asked the President whether the statements had reference to workers going to the eight states excluded in the note of the Ministry of Foreign Relations as well as to the other states for which we are now negotiating, the President said emphatically that he had in mind those states as well. He said there had been adequate ground for Mexico to exclude these eight states mentioned in the note from the conversations in progress but that he wished the collaboration to be complete and he was confident that our Government would see that the workers going to these eight states received proper treatment and in every way equitable treatment. I said he could depend on this.

[Here follow indications of the intention of the President and the Ambassador to collaborate in expediting the program and in keeping down statements and comments in the press by Government officials in Mexico and the United States.]

I said to the President that the conversations now going on were proceeding satisfactorily but there remained the point of difference as to the minimum wage. I said that the present minimum wage in the contracts was 30 cents per hour. I said that we could not put more than 37 cents in the contract as the minimum hourly wage and explained to him the reasons therefor. I explained to him that it made small difference what sum was put into the contracts as the minimum wage for even when the amount in the contracts was 30 cents his own Ministry of Labor would be able to say to him that the overwhelming number of the Mexican workers had received 40 to 50 and 60 cents an hour. I said that the minimum wage that we put into the contract which we were now prepared to make at 37 cents was largely theoretical as the agricultural workers which would proceed to the United States would in almost every instance receive very considerably in excess of that minimum wage.

It is our hope that we may be able to conclude the conversations and arrangements for the movement of workers during 1946 within the next ten days so that recruiting can begin.

I cannot emphasize too strongly that in a very large measure it will now depend upon us whether we will get these agricultural workers during 1946. If there are unwise statements in the press at home

or here and particularly if there is reference to the eight states there is still the possibility and strong probability that the whole program will be lost.

At the close of our conversation the President indicated that he would on the conclusion of the conversations here make a statement, or have a statement made, to the effect that Mexico was continuing her collaboration with us through the sending of these agricultural workers in view of the food deficits in Europe and the imperative need for mass production and in view of the fact that the great burden for supplying these deficits would fall on the United States and it was, therefore, Mexico's duty to collaborate with the United States in meeting this burden by sending these workers. I told the President that if he made such a statement I was confident that the Mexican press and public would have a greater understanding than ever before of the program and that much of the criticism of the program would disappear.

The President remarked that it was in his opinion very important that there be as few complaints as possible coming back to Mexico with regard to discriminatory treatment, et cetera, of Mexican workers who would go to the United States. He said that he knew to what extent we were taking measures to see that only equitable treatment was given. He said, however, that every single case of discrimination or unequal treatment which was reported created grave difficulties here for the Government and that he was, therefore, very hopeful that our Government could take every possible measure, particularly in the eight states, to see that the most equal treatment was given to the workers in every way.

Respectfully yours,

GEORGE S. MESSERSMITH

811.504 Mexico/2-2546

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

RESTRICTED
No. 8478

WASHINGTON, March 18, 1946.

SIR: Reference is made to your despatches no. 28,200 of January 29, 1946,⁹⁵ and no. 28,212 of January 31, 1946, and to previous communications between the Embassy and the Department, regarding the clandestine crossings of Mexican nationals into the United States and the desirability of control measures. There is now enclosed for your information a copy of a letter dated February 25, 1946, from the Attorney General,⁹⁶ who stresses that the Immigration and Naturaliza-

⁹⁵ Not printed.

⁹⁶ Letter from the Attorney General of the United States, Tom C. Clark, not printed.

tion Service has cooperated in every possible way to remedy the existing situation and urges that efforts be made to have the Mexican Government first, lift the ban on deportation of Mexican nationals to Lower California, second, take such steps as may be possible to prevent the removal of Mexican nationals from the interior of Mexico to the border, and third, arrange in so far as possible for the transportation to their homes in the interior of Mexico of those Mexican nationals returned to Mexico by this Service. There are also transmitted for your information the enclosures⁹⁷ to the Attorney General's letter of February 25. One of those enclosures, it will be noted, is a copy of a letter dated January 24, 1946, which the Department received direct from the Immigration and Naturalization Service on the same subject.

In view of the fact that this difficulty in controlling clandestine border crossings is somewhat chronic and in view of the fact that the steps requested by the Attorney General are included in or stem from the special arrangement which was made in Mexico City in May and June of 1944, which have not been carried out by the Mexican Government, the Department questions the effectiveness of a further formal request to the Mexican Government on this subject at the present time. However, since the recent request to increase vigilance originated with the Mexican Government and since you have discussed the matter recently informally there, it might be desirable for you or some member of your staff to discuss the matter informally with responsible Mexican officials with a view to making clear to them that this Government is very actively working to control this movement, but that its efforts have not been successful in large part because the Mexican Government has apparently not taken the steps which it agreed to take in the understanding reached in 1944.

The Department will appreciate being informed of the nature of any conversations held on this subject and will also appreciate having your comments in order that the Department may prepare an appropriate reply for the information of the Attorney General.

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

811.504 Mexico/5-1446

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

No. 29,471

MEXICO, D.F., May 14, 1946.

[Received May 20.]

SIR: Reference is made to the Department's Instruction No. 8498 of March 25, 1946,⁹⁸ authorizing the Embassy to enter into an exchange

⁹⁷ None printed.

⁹⁸ Not printed.

of Notes with the Mexican Government in order to incorporate in the Agricultural Workers' Agreement of August 4, 1942, as amended April 26, 1943, between the Government of the United States and the Government of Mexico, changes in the Individual Work Agreement as well as in the International Agreement. It will be recalled that prior to this exchange of Notes the changes in question had been agreed upon informally by representatives of the Office of Labor, Department of Agriculture, and officials of the Mexican Ministry of Labor.

In this connection I have the honor to transmit herewith a copy of the Embassy's Note No. 4905 of March 26, 1946, to the Mexican Foreign Office respecting the changes to be made in the International Agreement, as well as a copy of the Embassy's Note No. 4909 of March 30, 1946, in regard to the changes effected in the Individual Work Agreement.⁹⁹

There are also transmitted copies and translations of two Notes, respectively, No. 3427 and No. 3248 [*3428?*] both of April 30, 1946,¹ agreeing to the proposed changes. . . .

Respectfully yours,

For the Ambassador:
SIDNEY E. O'DONOGHUE
First Secretary of Embassy

811.504 Mexico/7-146

*The Acting Secretary of State to the Ambassador in Mexico
(Thurston)*

RESTRICTED
No. 176

WASHINGTON, August 16, 1946.

SIR: Reference is made to . . . much previous correspondence between the Department and the Embassy on the subject of clandestine and illegal entries into the United States by Mexican nationals to seek agricultural employment.

In the communications under reference, the great problem presented to the Immigration and Naturalization Service by the large number of illegal entrants has been amply set forth, and to date the principal problem has been the detention and return to Mexico of such individuals who have been apprehended in the Imperial Valley. There is now enclosed for your information a further communication on this general subject, dated July 1, 1946, from the Attorney General, to-

⁹⁹ Notes not printed. Agreement was reached on the following changes in the Individual Work Agreement: (1) Guarantee of minimum wage of 37 cents per hour in lieu of 30 cents per hour; (2) guarantee of sufficient employment to earn a minimum of \$33.60 every two weeks; and (3) discontinuance of the savings fund provisions.

¹ Neither printed.

gether with a copy of a memorandum prepared by the District Director of Immigration of the Los Angeles District,² indicating that the San Diego area has become as great a problem in this regard as the Imperial Valley. The Attorney General stresses the necessity of immediate action because he considers that the situation along the Mexican border is becoming more aggravated daily.

Since the receipt of the letter under reference, the Immigration and Naturalization Service has discussed further developments in this matter with representatives of the Department by telephone. They have stated that further word has been received from the Immigration inspector in charge of the San Diego area that the Mexican immigration officials are refusing to receive Mexican nationals who have resided less than six months in Lower California through the Mexican ports of entry in Lower California. In view of the increasing number of individuals involved, this is placing a very heavy strain on the facilities of the United States Immigration Service. It calls for more detention capacity and the transportation of more individuals at great expense to Nogales, Sonora and to Ciudad Juárez. The fact that those who are returned to Mexico are apparently made the subject of no controls by the Mexican Government is of special concern since the individuals in question make their way back across the border within a very few days of the dates of their departure.

The Immigration officials point out, in regard to the voluntary deportation of Mexican individuals, that the Mexican federal law does not provide for any selective system such as the one being used in Lower California ports by Mexican officials. The Immigration officials consider therefore, that they are entitled to deliver all Mexican nationals apprehended while illegally in this country to the nearest Mexican port of entry without restrictions. At the same time they point out it is a waste of time and money to transport individuals apprehended in California to Nogales and El Paso for delivery to Mexico, in view of the fact that the Mexican Government has taken no steps to get such individuals away from the border or back to their homes in the interior of Mexico, but has permitted them full freedom as stated above, which has resulted in the early return of most of them to the United States in the same illegal manner.

The Department shares the concern of the Attorney General and the Immigration and Naturalization Service as to these illegal entrants, but as stated in instruction no. 8478^{2a} and previous communications it is not too confident that further approaches to the Mexican Government will bring about more than a very temporary solution of this perennial problem. It will be recalled that the conference in May

² Neither printed.

^{2a} Dated March 18, 1946, p. 1028.

and June of 1944, which was initiated by the Mexican Government, made a series of definite recommendations to both Governments with the unanimous concurrence of the Mexican delegation, the members of which individually promised to do everything within their power toward the carrying out of the recommendations. As the record will show, the Immigration Service has been most zealous in complying with both the spirit and the letter of those recommendations, while there is no indication of effective parallel action by the Mexican Government.

In view of the persistence of the undesirable situation in the Imperial Valley and the aggravation of the situation in the San Diego area, the Department considers it desirable to go on record again with the Mexican Government in regard to this matter.

You are therefore requested to prepare an appropriate note to the Mexican Foreign Office reviewing developments since 1944, or earlier, and pointing out that the Immigration Service of the United States has increased its border patrol and has taken many other measures to discourage and to prevent clandestine and illegal entrance into the United States by Mexican nationals. You should request that the Mexican Government give this matter every possible attention with a view to discouraging the movement of individuals toward the Mexican border, especially with California, and with a view to establishing the most active possible patrol service to prevent illegal departure of individuals from Mexico. You may also wish to invite attention to the possibility of the establishment by the Mexican Government of control measures at strategic points some distance from the border, this in view of reports that most of the individuals under reference proceed to Lower California through Santa Ana, Sonora, where transportation facilities are available from the Southern Pacific Railroad to said border ports.

The Department views sympathetically the desire of the Immigration and Naturalization Service to return Mexican nationals apprehended while illegally in the United States through the nearest Mexican port. Such action on the part of the Immigration Service, however, may be considered by the Mexican Government as at least a partial denouncement of the Agreement entered into in 1944 in spite of the fact that there has been little or no Mexican action under that Agreement. If, in spite of the circumstances which have developed, the Mexicans still have an interest in preserving the Agreement, it might be effective to inform them that unless there is immediate evidence of control action by Mexico it will be necessary to consider the Agreement no longer in effect. In your discretion you may, therefore, include in your note to the Mexican Government a statement along the above lines. If, however, it is your opinion that the Mexican Government no longer values the Agreement, you may limit yourself

to informing the Mexican Government that the Immigration Service plans to return workers in the future through the nearest Mexican port of entry. You may assure the Mexican Government that the Immigration and Naturalization Service of this Government will continue to take all possible measures to prevent the clandestine entrance of Mexican nationals into the United States.

The Department will appreciate being furnished at the earliest possible date with a copy of the communication which you address to the Foreign Office on this matter, in order that the Attorney General may be informed of the steps taken. The Immigration Service is especially anxious to proceed without delay with the return of all illegal entrants through the nearest Mexican port of entry because of the reasons set forth above. It would be very desirable, therefore, to have an early word from you on this point for the guidance of the Immigration Service.³

Very truly yours,

For the Acting Secretary of State:
SPRUILLE BRADEN

[An agreement between the United States and Mexico respecting Mexican non-agricultural workers, which terminated the agreement of April 29, 1943, was effected by exchange of notes signed at Washington November 15, 1946. For texts of notes, see Department of State, Treaties and Other International Acts Series No. 1684, or 61 Stat. (pt. 4) 3575.]

811.504 Mexico/12-3146

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

RESTRICTED
No. 2341

MEXICO, D.F., December 31, 1946.
[Received January 8, 1947 (?).]

SIR: I have the honor to refer to the Embassy's telegram No. 1147 of December 30, 1946,⁴ informing the Department that the Ministry of Gobernación of the Mexican Government advised the Mexican Minister for Foreign Relations that it would be necessary to close the ports of Tijuana and Mexicali because adequate facilities do not exist at

³ In despatch 1274, October 18, from Mexico City, Ambassador Thurston indicated that in response to this instruction an exchange of notes with the Mexican Foreign Office had taken place, which strengthened the conviction that no effective action would be taken by the Mexican authorities to assist in the curtailment of the illegal movement of its nationals across the border. It was proposed that vigilance of the border patrol be increased and that State Governments and immigration authorities be urged to impress workers with the need of giving Mexico the fruit of their labors. The only concession brought about by the exchange of notes, Ambassador Thurston noted, was qualified, in that the Mexican Government expressed its willingness to accept deportees at Tijuana and Mexicali, if they entered the United States through those ports. (811.504 Mexico/10-1846)

⁴ Not printed.

those places for lodging, feeding and transporting the Mexican workers who entered the United States illegally and who, according to the Mexican Foreign Office, are being deported by U.S. authorities through Tijuana and Mexicali at the rate of 100 a day.

It was also pointed out in the telegram that the Minister for Foreign Relations requested the Ministry of Gobernación not to close the ports forthwith, but to defer such action until the Foreign Office could take the matter up with this Embassy. In doing so, the Foreign Office requested that the American Government suspend deportations of Mexican workers through Tijuana and Mexicali until the matter could be discussed further between the two Governments. At the time this question was taken up by the Foreign Office, it presented an unnumbered memorandum dated December 30, 1946, of which a translation is enclosed herewith.⁵ In this connection reference is made to despatch No. 1274 from this Embassy dated October 18, 1946, entitled "Transmission of Copies of Notes Exchanged with the Mexican Government on the Illegal Entry of Mexican Citizens into the United States".⁶ The enclosures to this despatch, namely the Embassy's note No. 53 dated September 17, 1946, addressed to the Secretary for Foreign Relations of the Mexican Government, and his reply, note No. 510938 dated October 8, 1946, discuss thoroughly the point at issue between the two Governments, the difficulties of which appear not to have been surmounted on either side.

The Embassy believes that the Mexican Government, for reasons explained in its note of October 8, 1946, is unable to control the movement of workers across the frontier into the United States, which individuals apparently are determined to run repeated risks to obtain work in the United States. This may be due in part to the high remuneration which these workers received during and since the war, and may be due also to the knowledge of handsome wages received in the United States by the thousands of agricultural workers (*braceros*) who have returned to Mexico spreading the reports of their earnings. It appears, therefore, that grounds exist for the statement of the Mexican Government to the effect that at one time the United States were willing to have these workers in certain agricultural sections of California. It may be argued too that the importation by the United States of several hundred thousand agricultural workers from Mexico during the last few years has contributed to the zeal of those now seeking continually to cross the border and find work in the agricultural sections of California. In other words, the need of the United States for additional agricultural labor has contributed much to creating the problem that now exists.

⁵ Not printed.

⁶ See footnote 3, p. 1033.

Apparently, notwithstanding the agreement of 1944 made between the two Governments for the control of illegal immigration from Mexico to the United States, the Mexican Government has been unable to take effective measures to prevent workers from crossing into the United States. Nor does it appear that this clandestine immigration will cease until employment is no longer available for these workers in the United States.

According to the enclosures transmitted with the Embassy's despatch No. 1274 of October 18, 1946, above mentioned, both the American and Mexican Governments have agreed to take effective measures to control illegal immigration of Mexican agricultural workers to the United States. According to statements made by the Mexican Government and according to the reported number of workers rounded up daily in the United States by American authorities, it is evident that neither Government has been able effectively to control passage of these workers across the border, whereby an aggravating situation has been created for both the American and Mexican officials endeavoring to cope with this problem. It is obviously within the rights of the United States to round up these workers and return them to the nearest ports of entry, that is, Tijuana and Mexicali. However, since the Mexican authorities have no facilities for feeding, lodging and transporting the deportees, they are probably turned loose and find their way speedily back into the United States, whereby the official process of rounding them up and releasing them becomes a vicious circle. The situation has become so serious, according to oral statements made in the Mexican Foreign Office, that the Ministry of Gobernación considers that it will be necessary to close both of these ports if the American authorities continue to deliver the large number of deportees of which the Mexican authorities complain.

The Embassy believes under the circumstances, in view of the representations made by the Mexican Government, that only those workers should be returned through the ports of Mexicali and Tijuana where it can be proved that the respective individuals entered the United States in the vicinity of these ports, and that others should be returned through Nogales and El Paso.

It might be suggested, furthermore, in view of a situation which is becoming increasingly difficult and is apparently insoluble to both Governments, that consideration be given to the advisability of undertaking a program of recruitment of agricultural workers for temporary work in California, where it is judged, from the number of workers attempting to enter that State, that an extensive need for agricultural labor exists. The initiation of a positive program of this sort, at this particular time, might contribute substantially to the economy of the United States and avoid the difficulties which now exist.

The Embassy will be interested in learning what if anything may be done to meet the desires of the Mexican authorities in relieving the pressure on their offices at Mexicali and Tijuana. It will be appreciated if the Embassy may be advised as soon as possible as to the Department's attitude with respect to the request of the Foreign Minister as reported in telegram No. 1147 from this Embassy, dated December 30, 1946.⁷

Respectfully yours,

For the Ambassador:
RAYMOND H. GEIST
Counselor of Embassy

EFFORTS BY THE UNITED STATES TO REHABILITATE THE MEXICAN NATIONAL RAILWAY LINES

812.77/7-2246

*Joint Memorandum Relative to the Termination of the Cooperative Railroad Program Undertaken by the Government of the United States of Mexico and the United States of America*⁹

[MEXICO, D.F., July 5, 1946.]

This Joint Memorandum, made between Pablo Hernández, Director General of the National Railways of México, of the United States of México, and the Institute of Inter-American Transportation, an agency of the Government of the United States of America (hereinafter called "Institute"), represented by its President Robert J. de Camp, is entered into for the purpose of reporting the termination of the cooperative railroad program undertaken by virtue of an agreement entered into by the representatives of the Governments of México, and of the United States of America, as set forth in the diplomatic notes between the Minister for Foreign Affairs of the Mexican Government, and the Ambassador of the United States of America to México, dated November 18, 1942,¹⁰ and as modified and extended by notes dated September 21, 1944, December 13, 1944, December 29, 1944, April 17, 1945, December 20, 1945, and March 5, 1946.¹¹

The agreement was entered into at the time when the Mexican National Railways were being called upon to carry a traffic burden several

⁷ Secretary Byrnes informed Ambassador Thurston in telegram 73, January 17, 1947, 6 p. m., that this Government was willing to discuss deportation problems and to send a delegation to Mexico City for discussions "limited week Jan 27 or after Feb 10" (811.504 Mexico/12-3046).

⁹ Copy transmitted to the Department in despatch 497, July 22, 1946, from Mexico City; received July 24.

¹⁰ For exchange of notes signed at Mexico City, November 18, 1942, by the Mexican Minister for Foreign Affairs (Padilla) and the Ambassador in Mexico (Messersmith), see Department of State Executive Agreement Series No. 289, or 56 Stat. (pt. 2) 1824.

¹¹ For texts of notes, see *The United States Railway Mission in Mexico, 1942-1946: A Summary Report* (multilith), by the Institute of Inter-American Transportation (Washington, 1947). pp. 89-97. For documentation on this subject, see *Foreign Relations*, 1944, vol. VII, pp. 1234 ff., and *ibid.*, 1945, vol. IX, p. 1159.

times peacetime peak loads and it was necessary that certain basic changes and improvements be made in order that optimum efficiency in the operation of the railroads could be assured for the transportation of materials from Central America, and particularly México, vitally needed in the war effort. The Mexican Government and the Mexican National Railways, agreed to contribute a proportionate share of the materials and equipment, as well as direct its operating facilities toward the fullest realization of the rehabilitation program. The United States, on its part, agreed to supply materials and equipment, pay the cost of certain repairs and send to México a staff of technicians to be known as the United States Railway Mission. The United States carried out its obligations, first, through the Office of the Coördinator of Inter-American Affairs, and subsequently through the Institute of Inter-American Transportation.

CLAUSE I

The parties hereto declare in mutual agreement that there has been on the part of both parties complete and satisfactory compliance with the agreement in all of the provisions thereof, and especially desire to report the following facts:

A. The United States of México, through the National Railways, during the life of the program, expended in connection with the rehabilitation of the National Railways, the sum of approximately \$40,000,000.00 (U. S. Cy.), and in addition has contracted for the purchase in the United States of new equipment involving an additional large sum of money. The parties hereto take this occasion to renew their approval of the collaboration of the Government of México, and the National Railways, in carrying out the cooperative railroad program and ratify the activities of the Government of México, and the National Railways in connection with this program.

B. The Institute has contributed to the National Railways of México, the sum of three million six hundred eighty-nine thousand two hundred three dollars and twenty-eight cents (\$3,689,203.28—U. S. Cy.), and has also spent directly the sum of one million one hundred seventy thousand eight hundred thirty-four dollars and twenty-six cents (\$1,170,834.26—U. S. Cy.), making a total of four million eight hundred sixty thousand thirty-seven dollars and fifty-four cents (\$4,860,037.54—U. S. Cy.), for the purchase of materials, equipment and other costs of the railroad program as required by the agreement which terminated on June 30, 1946., and in addition as set forth in Clause II hereof, the Institute is committed to reimburse the National Railways a sum not to exceed a maximum of five thousand nine hundred thirty-five dollars and fifty-nine cents (\$5,935.59—U. S. Cy.). In addition the Institute has made available the services of the technicians of the United States Railway Mission called for in the agree-

ment, and has expended in connection therewith a sum estimated at one million eight hundred seventy-five thousand nine hundred and nine dollars and thirty-six cents (\$1,875,909.36—U. S. Cy.), making a total of six million seven hundred forty one thousand eight hundred eighty-two dollars and forty-nine cents (\$6,741,882.49—U. S. Cy.), contributed by the Institute to the railroad program. The parties hereto take this occasion to renew their approval of the collaboration of the United States Railway Mission, in fulfilling to the entire satisfaction of the parties its functions and responsibilities in cooperating with the National Railways, in carrying out the cooperative railroad program and to ratify their activities in connection with this program.

CLAUSE II

As a part of the operations of the cooperative railroad program, a number of commitments or projects were undertaken all of which were signed by the parties hereto, or their predecessors, in office. A list of the commitments or projects by number, description and funds reimbursed by the Institute to the National Railways or spent directly by the Institute is contained in Appendix "A"¹² to this memorandum. It is to be noted that there remain a few commitments or projects, for which reimbursement in full has not been made by the Institute to the National Railways, which commitments are set forth at the end of the same Appendix. It is understood that the National Railways, have in accordance with the commitments or projects last described spent funds for which they have not been reimbursed by the Institute. It is hereby understood and agreed that the National Railways of México may submit vouchers to the Institute showing expenditures in connection with the said commitments or projects and that the Institute will reimburse the National Railways, in amounts not to exceed the maximum of \$5,935.59, for the unpaid commitments as set forth in Appendix "A", provided that all vouchers for which reimbursement is to be made by the Institute, must be received from the National Railways by the Institute not later than July 15, 1946.

CLAUSE III

The Institute may continue to maintain personnel in the United States of México, for such period as may be necessary to conclude the affairs of the Institute, to liquidate its obligations and to carry out and complete such details as may remain to be done to conclude its obligations under the agreement referred to above. A designated representative of the Institute shall act on behalf of the Institute and shall be authorized to take all necessary action to effect speedy liquidation of the participation of the Institute in the cooperative railroad program.

¹² Not printed.

CLAUSE IV

This Joint Memorandum shall have the effect of a formal agreement completely binding upon the parties hereto.

IN WITNESS WHEREOF the undersigned execute the present Joint Memorandum in quadruplicate, in the English and Spanish language, in the City of México, México, this 5th day of July 1946.

P. M. HERNÁNDEZ

Director General National Railways of México

ROBERT J. DE CAMP

President Institute of Inter-American Transportation

DISCUSSIONS BETWEEN THE UNITED STATES AND MEXICO REGARDING MEXICAN IMPORT RESTRICTIONS AND TRADE AGREEMENT REVISION¹³

612.003/1-1846

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

CONFIDENTIAL

MEXICO, D.F., January 18, 1946.

No. 27,989

[Received January 28].

SIR: I have the honor to refer to my Confidential Despatch No. 27,658 of December 13, 1945,¹⁴ and to secret letters of December 14 and December 28¹⁵ addressed to Mr. Carrigan, the Chief of the Mexican Division in the Department, covering conversations which I had with the Minister of Foreign Relations¹⁶ and the Minister of Hacienda¹⁷ on the Trade Agreement between the United States and Mexico,¹⁸ and the recent Circulars of the Ministry of Hacienda placing various articles under import control.

It will be recalled that in my Despatch No. 27,658 of December 13, 1945, I informed the Department that I had stated to the Minister of Foreign Relations and the Minister of Hacienda that we would carefully follow in the Embassy the procedure of the Mexican Government in issuing licenses in order to determine whether the effect of the issuing of licenses would involve quantitative restrictions on imports from the United States, and particularly on such articles which may be included in Schedule 1 of the Tariff between the United States and Mexico.

¹³ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1173-1187.

¹⁴ *Foreign Relations*, 1945, vol. ix, p. 1178.

¹⁵ Neither printed.

¹⁶ Francisco Castillo Nájera.

¹⁷ Eduardo Suárez, Secretary of the Treasury and Public Credit.

¹⁸ For text of reciprocal trade agreement between the United States and Mexico signed December 23, 1942, see Department of State Executive Agreement Series No. 311, or 57 Stat. (pt. 2) 833; for documentation on this subject, see *Foreign Relations*, 1942, vol. vi, pp. 489 ff.

It will be recalled that in my despatch that I reported that the Minister of Hacienda, in the presence of the Minister of Foreign Relations, had stated in the most definite manner that the purpose of the import license requirement was to have a control in order to determine whether any quantitative restrictions would be necessary in order to protect Mexican industry, but that licenses would be granted freely and rapidly for American imports even though the articles were included on these Treasury Lists. It will be recalled that the Minister assured me that the appropriate machinery had been set up for the rapid examination of applications and the granting of the licenses.

We have gathered a very considerable amount of background material which shows that in practice licenses are not being granted "freely and rapidly" as the Minister of Hacienda informed me they would be. As presently being enforced, the licensing system is equivalent to restriction of imports including articles of Schedule 1 of the Mexico-United States Trade Agreement. Technically, there has already been what this Embassy considers a violation of the Trade Agreement.

I and my associates in the Embassy have felt that it would be better not to raise this question of violation of the Trade Agreement as this will precipitate a situation both for Mexico and us which will have undesirable repercussions. We have therefore prepared an informal and unofficial memorandum of which a copy is transmitted herewith, (Enclosure 1) which I left with the Under-Secretary of Foreign Relations, Dr. Tello, last evening. He was greatly concerned with the situation which I presented. I made it clear that the memorandum was unofficial and informal and that my conversation with him on the matter was presently off the record. I said that if I took up the matter officially with the Ministry, I would have to seek the appropriate instructions from the Department of State to approach the Ministry on the basis that there had already been violation of the Trade Agreement. I said to the Under-Secretary that I thought it was much better for us to endeavor to see if the Circulars could not be made to work as the Minister of Hacienda had indicated they would work. I said that if licenses were granted freely and rapidly, violation of the Trade Agreement would not come into question. It was my understanding that this was what the Ministry of Foreign Relations and the Ministry of Hacienda wanted—that is, that they did not wish any violation of the Trade Agreement and that they did not wish to place any quantitative restrictions on American merchandise unless such restrictions might be found essentially necessary in the protection of the Mexican industry and in such case notice would be given to my Government if the articles affected were within Schedule 1 of the Trade Agreement.

I said that I understood that it was difficult to set up such machinery, but that more than a month had elapsed and that adequate time had relatively elapsed to provide for the setting up of the machinery and that I could assure him in this off-the-record way that this had not been accomplished and that the machinery was not working.

In this same off-the-record manner I told the Under-Secretary that I had discussed this matter fully with the Minister of Hacienda, Mr. Suárez, when he had called on me that morning before leaving for the United States, and that he had expressed surprise that the machinery was not working. The Minister of Hacienda had expressed the desire that Mr. Bohan, the Economic Counselor of the Embassy, discuss these matters "license by license and article by article" with the Under Secretary of Hacienda, Mr. Herzog, without delay in order to bring about a correction of the situation. I said to the Under-Secretary of Foreign Relations, Dr. Tello, that I had requested Mr. Bohan to undertake these investigations immediately with the Under-Secretary of Hacienda, Mr. Herzog. I expressed doubt, in view of the experience in the last month, whether these conversations would have any real fruit, but that we wished to explore every avenue in order to avoid difficulty with respect to the Trade Agreement and in our trade relations.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure—Extract]

A careful review of all legislation concerned with the imposition of import controls indicates that the primary purpose of such legislation is to restrict rather than control imports. Thus, in the Decree of April 15, 1944, the terms *restrict* or *restriction* are invariably employed. Similarly, the Presidential Resolution of October 1, 1945, speaks of *restrictions on foreign commerce*. The circular of December 5, 1945, also emphasizes the restrictive character of the measures.

If our analysis as summarized above is correct, there would seem to be no question but that restrictions imposed under that legislation are, by their very nature, quantitative restrictions and hence subject to the terms of Articles III and X of the Trade Agreement between the United States and Mexico, since it would not appear that Article XVII could be invoked in the present case.

The position that the measures which have been taken are, in effect, quantitative restrictions is borne out by the many reports received from both importers in Mexico and exporters in the United States. These reports are to the effect that applicants for import licenses continue to experience onerous and time-consuming difficulties in connection with the application for import permits. These same reports

explain the situation as being due in part to the inadequacy of the mechanics of the licensing system and also apparently to a policy of making the requirements so onerous as to have the effect of discouraging applications. Unofficial information indicates that the situation became so chaotic at the beginning of January that it became necessary for the licensing authorities to declare a truce and make blanket arrangements for the importation of merchandise actually in Customs because of the congestion at ports of entry and the inability to review the tremendous number of individual license applications. Thus, while the situation with respect to goods actually in Customs at the time of the December 5 circular appears to have shown improvement, only a few cases have come to our attention of importers being able to secure licenses for new orders. . . .

It is believed that only by a full and frank interchange of views can the interests of both Mexico and the United States be truly served. The United States has amply proved its adherence to the principle of industrialization in Mexico. During the period of the war, it has made available critical machinery for the establishment and expansion of Mexican factories. It has likewise cooperated in the financing and development of those industries. There can be no question of any selfish "mercantilist" view on the part of the United States as concerns the present discussions with respect to the import control system now being so widely employed in Mexico. However, the United States is also committed to the principle that prosperity throughout the world cannot be achieved unless unnecessary barriers to international trade are removed. It is realized that occasions arise requiring the temporary protection of new industries. This principle, as you know, is recognized in the proposals which the United States Government has recently made for the expansion of world trade and employment.¹⁹ At the same time, unless such protection is determined only after a careful analysis of the cost differentials affecting the industries, the danger exists that protection may be given, not to sound industrial development, but to inflated prices, inefficient operations, monopolies and excessive profits.

¹⁹ For American proposals for expansion of world trade and employment, for consideration by an international conference, see Department of State *Bulletin*, December 9, 1945, pp. 913-929; the Department announced on December 6, 1945, that the Secretary of State had transmitted to the governments of other countries the texts of the American proposals.

612.006/1-2446 : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

CONFIDENTIAL

WASHINGTON, January 25, 1946—noon.

72. Urtel 54, Jan 22.²⁰ Ref projected import control discussions Mon. Dept recognizes fully excellent efforts of Emb but believes time has come for strongest formal representations to Mex Govt, particularly in view flood protests by affected U.S. interests.

Unless objection is perceived, therefore, formal note in strong terms should be prepared for presentation on Mon by Ambassador to MinFonAff. Copy could also be used by other Emb officers in projected discussions with other officials. Note should refer to specific provisions trade agreement, assurances given with respect to operation of controls, manner in which they have apparently not been carried out, US Govt expectation of firm statement by Mex Govt confirming intention to fulfill its international obligations under trade agreement, followed by action to that end. If Emb desires, draft text could be discussed with Dept by telephone.

Moreover, unless Emb perceives serious objection, Dept proposes to have high officer call on Mex Ambassador in near future to present strong note in similar terms as means of reinforcing Emb's efforts. Your reaction to this proposal requested urgently.²¹

ACHESON

612.003/3-1346

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

RESTRICTED

MEXICO, D.F., March 13, 1946.

No. 28,380

[Received March 20.]

SIR: I have the honor to inform the Department that the seventh and final meeting with the Ministry of Hacienda was held on March 8. The results of the conversations can be summarized as follows:

a) Of the 119 tariff fractions included in the circulars, 31 will be removed and 15 others, although remaining on the circulars, will not be subjected to the import license requirement;

b) The principle was established that products rather than tariff classifications should govern inclusion in the circulars, thus greatly reducing the number of products subject to control;

²⁰ Not printed; in it the Ambassador reported that the Mexican Under Secretary of the Treasury promised to discuss the entire question of import controls with Embassy representatives beginning the following Monday morning (612.006/1-2246).

²¹ In despatch 28.194, January 29, 1946, Ambassador Messersmith expressed his opinion that "no useful purpose would be served by making a formal protest at this time" and that by conversations with the Mexican officials they could secure elimination from the Treasury lists of most of the articles therein.

c) The Ministry of Hacienda has been convinced that many of the claims of local industrialists are exaggerated and it is believed that in the future more careful study will be given to appeals for protection before action is taken;

d) The mutual interchange of information will permit the trade negotiation conversations in Washington to be carried out against a factual rather than a theoretical background.

On the other hand, the Embassy feels that while it has convinced certain key officials of the Ministry of Hacienda of the undesirability of excessive protection, it did not succeed in its major objective of convincing the Ministry that the import control technique should be abandoned. The Ministry remains firmly of the opinion that during the transition period it must have a means for quickly and decisively meeting any threats to Mexican industry. At the same time, a back-fire has been set which will tend to combat the extreme demands for protection of any and all industries and without regard to quality or price factors. In fact, evidence has already reached the Embassy that the Ministry has adopted a strong attitude with respect to the prices charged by certain local producers of iron and steel products and is insisting that present inflated prices be reduced. Furthermore, it is apparent that the licensing authorities are showing better judgment in the issuance of import permits and conditions in this respect have improved noticeably during the past month.

The conversations should be likened more to a skirmish than to a battle for liberal trade principles. The battle itself will have to be fought in Washington. The Embassy is hopeful that the preliminary conversations have tended to introduce serious doubts in the minds of Mexican officials as to the soundness of the policies followed to date. However, it is not yet possible to determine to what extent the Minister of Hacienda may be opposed to the more liberal attitude assumed by his subordinates and it is likewise not yet possible to advise the Department specifically with respect to the attitude of the Foreign Office and the Ministries of Economy and Agriculture. As has been brought out in letters addressed by the Ambassador to Mr. Clayton,²² his conversations with other cabinet officers have done much to awaken opposition to the extreme protectionism of the Minister of Hacienda, whose policies have been almost identical with those promoted by the Lavin group of industrialists. In any case, progress has been made and the Embassy is hopeful that forces have been set loose which will cause the Government to follow a more moderate policy than has heretofore been the case.

The foregoing does not imply that other articles will not be placed under control. As a matter of fact, at least three other fractions may be soon subjected to import controls, i.e., locks, files and barbed wire.

²² William L. Clayton, Under Secretary of State for Economic Affairs.

However, unless it is greatly mistaken, the Embassy does not feel that large numbers of new fractions will be added to the restricted list and this in itself is a favorable development since the Ministry of Hacienda had originally planned to subject no less than 823 tariff fractions to control. (The enclosure to this despatch ²³ shows the action which the Ministry of Hacienda will take with respect to the fractions now subject to import control.)

In addition to import controls, there can be no question but that further tariff increases are on the horizon.²⁴ It is hoped that the Trade Agreement conversations may take place before the Mexican Congress reconvenes, since much can be done to bring home to the Mexican authorities the need for careful scrutiny and analysis of the requests which are being received from Mexican manufacturers for higher duties. It is in this field that the Embassy desires to suggest that the most careful study be given by the Department to the stand which it is to take with respect to tariff increases. Mexico cannot have factories unless those factories receive protection. This is true with respect to both old and new industries and it can be stated, without too much fear of successful contradiction, that no factory in Mexico could long exist without tariff protection. The Embassy believes that the Department could achieve more concrete and practical results by attempting to convince Mexico of the need for restricting protection to a minimum rather than to oppose tariff increases per se. The latter policy will inevitably force Mexico to employ other devices such as quotas and import controls. It will be found difficult during the conversations to be held in Washington to answer specific Mexican statements to the effect that if the United States must protect its manufacturers, there is even greater reason for Mexico to follow the same policy. In the course of the studies which the Embassy has carried out, it is interesting to note that whereas the approximate ad valorem equivalent of Mexican duties on plywood range from 2.5% to 18%, the American tariff has a rate of 40%, metal furniture in Mexico pays from 28 to 81% ad valorem, whereas the American rate is 45%; refrigerators pay from 9 to 13% in Mexico as against 25 to 45% in the United States; sanitary ware duties range from 16 to 40% in the case of Mexico and from 22 to 70% in the case of the United States.

The general opposition to tariff increases and the protection of industry will not impress the Mexicans. They believe, rightly or wrongly, that the solution of the problem of the standard of living lies in the promotion of industry. Their present thinking is emotional

²³ Not printed.

²⁴ According to despatch 920, August 26, 1946, from Mexico City, "the Mexican Government seems to prefer import restrictions, which can be effected by the Ministry of Finance, to tariff increases, which must be made by Congressional action. The former are certainly more immediately effective, and can probably be more easily justified." (612.0031/8-2646)

rather than analytical. In their enthusiasm for industry as a cure-all for their economic future, they have partly, if not entirely, lost sight of their dependence on international trade and of the need for solving their agricultural, transportation and labor problems if the contribution of industry to the development of their economy is to be fully effective. If the Department can succeed in convincing the Mexican Government that proper perspective will, in the long run, assure the greatest degree of prosperity and, with respect to industry, encourage rather than discourage proper and reasonable protection, more good can be accomplished than through following any other policy. Likewise, if the Embassy were authorized to follow a similar policy, its efforts would be more effective than has heretofore been the case.

Respectfully yours,

For the Ambassador:
MERWIN L. BOHAN
Counselor for Economic Affairs

612.0031/8-1746

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

RESTRICTED
 No. 906

MEXICO, D.F., August 17, 1946.
 [Received August 22.]

SIR: I have the honor to inform the Department that recent developments in the commercial policy field have caused considerable worry to the Embassy. The Department may wish to review the situation and consider the advisability of expressing its concern to the Mexican Ambassador in Washington before the opening of the Mexican Congress on September 1. Developments include:

1. The establishment of a formal Foreign Commerce Control Commission and specialized import and export control committees (see Report 657 of August 1, 1946);
2. The probabilities that the import license system will be extended. A study of the report referred to in the preceding paragraph indicates that the import control mechanism is to be used not only for the protection of industry, but also as an indirect method of exchange control;
3. The generally held belief in commercial circles that numerous tariff increases will be requested of Congress during the coming sessions. The Embassy gives considerable weight to these reports;
4. The deliberate delaying tactics with respect to the trade agreement negotiations, requested in the first instance by the Mexican Government, give substance to reports that action on the part of the Minister of Finance, the one personally responsible for the delays, is explained by his desire "to place Mexico in a better trading position".²⁵

²⁵ Commenting on Mexico's attitude toward the Agreement, in despatch 920, August 26, Ambassador Thurston noted that many Mexicans had become con-

As the Department is aware, the Embassy considered the conversations held with the Ministry of Finance during February and March as preliminary to the formal discussions which were to be held in Washington. While the Embassy did all in its power to convince the Mexican authorities of the wisdom of eliminating the import control system, it realized, from the start, that the attainment of this major objective would have to await the conversations in Washington. Hence, the Embassy secured the deletion of as many products as possible from the Treasury circulars and did as much as it could to simplify the procedures required in the case of products remaining under control.

The successive postponements of the Washington conversations have also been of concern with respect to the Trade Agreement itself. It is one thing for the Department and for the Embassy to have shown understanding and even leniency in the interpretation of the Agreement during the war and immediate post-war periods and quite another to permit the Agreement to degenerate into a "scrap of paper" through a policy of attrition carried out by the Minister of Finance.²⁶ Fortunately, the Embassy has so far succeeded to a very considerable degree in maintaining compliance with the terms of the Agreement, but feels that the time is rapidly approaching when a very definite understanding will be necessary if the whole spirit of the Agreement is not to be

vinced that somehow the Agreement had become disadvantageous to Mexico, and, by corollary, over-advantageous to the United States, and continued:

"... They are frightened at the inundation of American goods that they see as about to swamp Mexico. If the Agreement is the instrument which will hold the flood gates open, it will have to be changed or circumvented. It will also have to be revised so that Mexico is no longer at a disadvantage.

"As the Department is aware, the Embassy believes that changes in circumstances since 1942 justify a reconsideration of some of the Agreement concessions. In discussions that may be held between the two Governments, it is thought that Mexico will consider itself in a better bargaining position than the United States for two principal reasons: the first is that Mexico is aware of the great weight attached to the Trade Agreement program and to liberal trade principles by the United States Government. The Mexicans believe, which is undoubtedly true, that the United States wants the Agreement more than Mexico does. They have been fortified in their belief by the number of infringements, either in the letter or the spirit of the Agreement, that our Government has tolerated. The second reason held by Mexico is that the Mexican concessions of Schedule I are of vital importance to the United States. It is natural that this belief should be held since, in the Mexican view, the center of gravity of the Agreement is Schedule I. The Embassy therefore believes that Mexico will be on the offensive in discussing the Agreement and will expect the United States to be on the defensive." (612.0031/8-2646)

²⁶ In the closing months of 1946 this Government's interdepartmental trade-agreements organization was fully preoccupied with matters relating to the establishment of an International Trade Organization and the negotiation of a General Trade Agreement; pending the conclusion of these activities, and the determination of procedures for negotiating trade agreements within the framework of the ITO Charter, the United States was not ready to enter into new trade-agreement negotiations with Mexico or any other country (611.1231/10-847). For documentation on the first session of the Preparatory Committee of the United Nations Conference on Trade and Employment at London, October 15-November 26, 1946, to which Mexico sent observers, see vol. I.

destroyed. Mexico is following a policy, unnecessary in the estimation of the Embassy, which is departing further and further from the liberal trade principles which we hold to be so important if international commerce is to play its deserved part in world recovery and prosperity.

Respectfully yours,

For the Ambassador:
MERWIN L. BOHAN
Counselor for Economic Affairs

JOINT UNITED STATES-MEXICAN CAMPAIGN AGAINST HOOF-AND-MOUTH DISEASE IN MEXICO

612.325/5-846

*Memorandum by the Chief of the Division of Mexican Affairs (Ray)*²⁷

WASHINGTON, January 17, 1947.

The attached memorandum giving the history of the importation of Zebu cattle into Mexico illustrates clearly the consistent and forceful attitude which the Department has maintained in the matter.

The attitude of the American Embassy, México, D. F., and of Ambassador Messersmith is reported in the following despatches: no. 26866, October 17, 1945; no. 26949, October 21, 1945; no. 26882, October 23, 1945; no. 29023, March 30, 1946; no. 29313, April 30, 1946; no. 29357, May 8, 1946.²⁸ The Ambassador repeatedly expressed his concern to the Mexican authorities about the shipments of Zebu cattle, but favored their being permitted to land on Sacrificios Island. He also pressed strongly in the above-mentioned despatches, for the establishment by this Government of an international quarantine station.²⁹

I understand from Mr. Braden and from Mr. Acheson³⁰ that when the question arose of the importation of Brazilian Zebu bulls into Mexico and the Department, in cooperation with the Bureau of Animal Industry of the Department of Agriculture, instructed our Embassy to protest to the Mexican Government and point out that such

²⁷ Addressed to the Assistant Secretary of State for American Republic Affairs (Braden) and to the Director of the Office of American Republic Affairs (Briggs).

²⁸ None printed.

²⁹ For Joint Resolution 364 (Public Law 522) to provide for the establishment of an international animal quarantine station on Swan Island, approved July 24, 1946. see 60 Stat. 633.

³⁰ Dean Acheson. Under Secretary of State.

importations constituted a violation of our sanitary treaty with Mexico,³¹ Ambassador Messersmith telephoned both Mr. Braden and Mr. Acheson urging that we make no protest.

GUY W. RAY

[Annex]

HISTORY OF THE IMPORTATION OF ZEBU CATTLE INTO MEXICO

In accordance with your request, the following history of the importation of Zebu cattle into Mexico has been prepared :

In October, 1945, 120 head of Zebu cattle were imported into Mexico from Brazil. At that time this Government expressed its great concern to the Mexican Government and its fear that such action would result in an outbreak of hoof and mouth disease with disastrous consequences for both the United States and Mexico. However, the cattle were allowed to land on the understanding that this would not constitute a precedent. The statement was made to Mexican officials that we would consider what measures might be necessary to protect our industry from possible consequences.

During February, 1946, the Mexican Government permitted the importation of three fighting bulls from Spain (an area considered to be infected) and at that time the Mexican Government's attention was again called to our previous attitude in connection with the Zebu shipment.

During March, 1946, this Government informed the American Embassy in Mexico, D.F., that it had learned of possible further shipments of cattle from Brazil to Mexico, and our Embassy again informed the Mexican Government of our concern. On April 7, 1946, 327 Zebu cattle were shipped from Brazil, and about April 25, 1946, the Mexican Secretary of Agriculture assured our Department of Agriculture that the cattle would not be allowed to land.

On April 29, 1946, the Department instructed our Embassy in Mexico once again to express our concern over the proposed landing and referred to our feeling that this would be a violation of Article IX of the 1928 Sanitary Treaty between the United States and Mexico. (Article IX provides that no importation of domestic ruminants shall

³¹ The Convention of March 16, 1928, between the Government of the United States and the Government of Mexico on safeguarding livestock interests through the prevention of infectious and contagious diseases; for text of Convention, see *Foreign Relations*, 1928, vol. III, p. 317.

be authorized from foreign countries or zones where . . . diseases . . . appear frequently . . . until at least 60 days have elapsed without any outbreak.) Our Department of Agriculture has informed Mexico that the disease is endemic in Brazil and no area can be considered free.

On May 7-11 the Zebu cattle in question were landed on Sacrificios Island, off Veracruz, Mexico, and on May 28, 1946, our Department of Agriculture ordered cattle coming into this country from Mexico to be subjected to a 15-day quarantine.

On the basis of representations made by the Mexican Government, urging the removal of the quarantine, the question was discussed at a Meeting of the Mexican-United States Agricultural Commission in Los Angeles on July 22, 1946. This Government agreed to the sending of a joint commission to investigate animal disease conditions in Mexico, and if the investigation was negative, the United States would consider revoking the quarantine order. (At that time the Mexican Government gave its assurance that the 327 Zebu cattle would not be allowed to remain on Mexican territory.) The United States veterinary representatives proceeded to Mexico as agreed and spent over a month inspecting herds of cattle that had been in contact with the Zebu importation of 1945, as well as the 1946 shipment of bulls (which by that time had been landed in the vicinity of Veracruz). No signs of disease were found and consequently the United States quarantine was lifted on October 18, 1946.

During November, 1946, a cattle disease broke out in the vicinity of Veracruz, Mexico, which spread to four other Mexican States. Extensive field investigations were carried out by Mexican veterinarians with the collaboration of United States Government experts, and the disease was determined to be hoof and mouth disease. In view of this development, existing laws of the United States made it mandatory to close our borders to all ruminants or swine proceeding from Mexico, as of December 27, 1946.³²

The above chronological account makes it evident that this Government did everything possible to prevent the development of conditions leading to an outbreak of the dread hoof and mouth disease,

³² A press statement of December 27 explained the imperative need for such action as defense against the spread of foot-and-mouth disease to cattle in the United States; this country as well as Mexico and Central America had been kept free of the disease since 1929. This statement was issued in response to a recommendation by Ambassador Thurston who anticipated that the embargo would have serious economic as well as political repercussions in Mexico, since that time of the year was the usual peak of movement of Mexican cattle into the United States for grazing and later feeding and it was estimated that usually nearly half a million cattle a year came into the United States from Mexico in this movement.

and the blame for the present epidemic, which may be disastrous for the livestock of the North American continent, must be placed squarely upon the Mexican Government.

**WHEAT SHIPMENTS BY THE UNITED STATES TO RELIEVE FOOD
CRISIS IN MEXICO**

812.5018/4-2746

*Memorandum by Mr. Kingsley W. Hamilton, Assistant to the
Assistant Secretary of State for Economic Affairs (Clayton)*

WASHINGTON, May 2, 1946.

SUMMARY OF MESSERSMITH'S APRIL 27 LETTER ³³

When Messersmith was last in Washington ³⁴ he spoke with the Secretary, ³⁵ the President, ³⁶ Mr. Wallace ³⁷ and Mr. Anderson ³⁸ about Mexico's food requirements and the economic and political disorder which would result if they were not met.

Mr. Wallace agreed that Mexican needs must be met in spite of other demands. In talking with Mr. Anderson, Messersmith expressed his opinion that it was absolutely essential that Mexico receive 1,200,000 bushels of wheat monthly in April, May and June. Secretary Anderson was in complete accord with this as a minimum figure. He could not give Messersmith positive assurance that this amount could be provided but he was sure that it would be.

On his return to Mexico, Messersmith consequently told President Camacho that he was pretty sure from his conversations in Washington that Mexico would get 1,200,000 bushels of wheat per month in April, May and June. Without being positive, Messersmith similarly assured the Mexican Foreign Minister. ³⁹

From telephone conversations between officers of the Embassy and the Department, Messersmith now understands that no definite action has been taken on the release of this wheat and that there is a tendency to hold it up. He urges that immediate steps be taken to release it. He further urges that adequate quantities be made available for loading on the SS *Tabasco* in New Orleans or Galveston about May 5.

Messersmith says, as he told President Truman, that there would

³³ Letter of April 27 from the Ambassador in Mexico (Messersmith) to the Assistant Secretary of State (Clayton), not printed.

³⁴ Ambassador Messersmith left Mexico City for Washington on April 9, 1946.

³⁵ Secretary of State James F. Byrnes.

³⁶ President Harry S. Truman.

³⁷ Henry A. Wallace, Secretary of Commerce.

³⁸ Clinton P. Anderson, Secretary of Agriculture.

³⁹ Francisco Castillo Nájera.

be a revolution and the red flag in Mexico within three months if its wheat needs are not met. He feels that most of the Department is not thinking about this Hemisphere. But it is vital that we do not allow economic distress and revolution in the Western Hemisphere.

Messersmith says he does not wish to criticize what has been said on food deficits in other parts of the world. But after four years in Mexico he knows the economy of the country and what is the use of sending an Ambassador abroad if his word is not to be accepted?

812.5018/5-1546 : Telegram

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

CONFIDENTIAL

MEXICO CITY, May 15, 1946—6 p. m.

[Received May 16—3:33 a. m.]

381. Before leaving Mexico tonight for Buenos Aires⁴⁰ I wish to emphasize what I said in Washington in early April with regard to the needs of Mexico for wheat and corn. I wish to recall that I stated to the President and to the Secretary and to Secretary Anderson, Secretary Wallace, and to Assistant Secretaries Clayton and Braden that if Mexico does not receive a minimum of 1,200,000 bushels of wheat per month thru July, grave economic situations will develop in this country which will in the course of a few months inescapably lead to political disorder and lead to a deterioration of our relationships with this country which will inevitably affect our relationships with the rest of the Americas. I stated at the time that I realized the world needs with respect to wheat, but that I did not believe the American people would forgive our Government for creating a situation which would develop in economic disasters and political disorders on our border.

The info which I have so far is to the effect that the allocations and deliveries are well below the rate of 1,200,000 bushels per month thru May, and I feel it my duty to again bring this situation to the attention of the Department, and I would appreciate the President being sent a copy of this telegram as well as Secretary Anderson.⁴¹

MESSERSMITH

⁴⁰ Ambassador Messersmith was to assume the position of Ambassador in Argentina.

⁴¹ Marginal note by the Political Economist, Division of Mexican Affairs (MacLean) reads: "Am Emb inf. by telephone Mex City on 5/20/46 that Ag. is giving 1,000,000 bu. wheat 500,000 bu. corn for May. MA : W. G. MacLean".

812.61311/3-3046

The Department of State to the Mexican Embassy

MEMORANDUM

The memorandum of March 30, 1946⁴² submitted by the Mexican Embassy to the Department of State brought up matters relating to wheat import requirements which have since been the subject of discussions between representatives of the Embassy and supply officials of the United States Government. It is hoped in this connection that the following summary of wheat and flour shipments during the present crop year will be found helpful.

The effort being made by the Cereals Committee of the Combined Food Board to reduce universally import requirements of wheat to a minimum is dictated by the inescapable fact that available export supplies of this important commodity in the first half of 1946 are sufficient to cover only 60 percent of stated world import requirements.⁴³ The consequent drastic reductions in consumption in many of the United Nations where bread makes up from one-half to two-thirds of the entire calorie intake has resulted in the total consumption for the average non-farm consumer falling to less than 1,900 calories daily and in the case of some very considerably less. Further drastic reductions now appear inescapable for such countries in the critical months immediately ahead.

The Department of State has investigated the facts relating to amounts of wheat already sent from this country to Mexico during the present crop year and the quantities which, in view of the present great world deficit, it is felt could be shipped additionally in the remaining quarter year. Figures drawn up by the Department of Agriculture show that wheat and wheat flour sent from the United States to Mexico in the half year July through December totalled 198,284 long tons wheat equivalent (178,936 tons of wheat and 19,348 tons of flour wheat equivalent). During the first quarter of 1946 the record shows 63,240 tons wheat equivalent. Six thousand tons are also reported to have been shipped from Canada to Mexico in that period, making a total of 69,000 for the first quarter. Thus a total of 267,524 tons were provided during three quarters of the crop year

⁴² Not printed.

⁴³ For information on the contribution of the United States in meeting food needs of Latin American countries and other parts of the world, see Department of State *Bulletin*, 1946 and 1947, index listings under "Wheat".

against a requirement for the whole year of about 425,000 tons. If the state requirement for this three-quarter year period be considered to be three-fourths of the annual requirement, or 320,000 tons, it will be seen that this requirement was met to the extent of 83 percent. It is therefore clear that the fullest consideration has been accorded the needs of Mexico in the light of the world deficit described above.

The Department of State can now report that the United States will provide 1,000,000 bushels of wheat (about 27,800 tons) and 500,000 bushels of corn (about 13,900 tons) for Mexico in the month of May.

WASHINGTON, May 24, 1946.

**CONTINENTAL SHELF POLICY OF MEXICO AND ITS EFFECT ON
UNITED STATES-MEXICAN FISHERIES RELATIONS**

812.0145/12-1445

*The Acting Secretary of State to the Mexican Ambassador
(Espinosa de los Monteros)*

CONFIDENTIAL

WASHINGTON, January 24, 1946.

EXCELLENCY: I have the honor to acknowledge receipt of your note of December 14, 1945⁴⁶ transmitting a copy of the declaration of October 29, 1945 by the President of Mexico⁴⁷ with respect to your Government's claim to the continental shelf⁴⁸ adjacent to the coast of Mexico and to the natural resources thereof.

The Government of the United States has been pleased to note the declaration of October 29 as an indication of the Mexican Government's recognition of the importance and desirability of conserving and protecting the natural resources which may be found in offshore areas in order that they may be utilized and perpetuated for the bene-

⁴⁶ Not printed.

⁴⁷ Manuel Ávila Camacho.

⁴⁸ The continental shelf was defined in a memorandum of January 30, 1946, by the Chief of the Division of Mexican Affairs (Carrigan) to the Director of the Office of American Republic Affairs (Briggs), as follows: "The portion of the undersea bed contiguous to the shore, stretching from the low-tide line to a line connecting points where the depth of the waters above the undersea bed reaches, in the case of the U.S., 600 feet, and, in the case of Mexico, 200 meters." The Mexican continental shelf doctrine, according to this memorandum, presented a basic problem defined as follows:

"... American fisheries operations have, in the Gulf and Yucatan areas and possibly along the West Coast, been carried out in high-seas areas presumably affected by the Mexican principle. Mexico will probably hold that the fish in these waters are a part of Mexico's national domain, and that our fishermen will now have to pay taxes to Mexico if they desire to fish in the waters which cover the Mexican continental shelf. In the past, our people have not had to pay taxes on fish caught outside of territorial waters, which Mexico claims to be nine miles from the coast, and they will undoubtedly protest vigorously this requirement." (811.0145/1-2146)

fit of mankind. It is realized that in issuing this declaration the President of Mexico was prompted by the same long range considerations with respect to the conservation and wise utilization of natural resources that were the basis of the proclamations relative to the resources of the subsoil and sea bed of the continental shelf and to coastal fisheries issued by President Truman on September 28, 1945.⁴⁹ It is gratifying that the Mexican Government has taken similar action that should facilitate cooperative arrangements between our two Governments for the solution of fishery problems of mutual concern.

The following comments are based on your note and on certain articles which appeared in Mexican newspapers subsequent to the publication of the declaration. The comments relate only to fisheries.

It has been noted that in the declaration of October 29 the Mexican Government indicates its readiness to recognize the rights and interests of other states in the resources affected. It is confidently expected that the policy embodied in the declaration will be carried out with respect to fisheries through cooperative arrangements with other interested governments along lines similar to those contemplated in President Truman's proclamation of September 28 with regard to coastal fishery resources. It has been noted with satisfaction that the Mexican declaration specifically takes account of the "legitimate rights of a third party on reciprocal bases". The Government of the United States regards the recognition by the coastal state of such rights as a necessary prerequisite to recognition by other states of an extension of jurisdiction over high seas areas for purposes of fishery conservation. It is therefore understood that the recognition of legitimate rights of other states referred to in the Mexican declaration is to be construed as recognition of the legitimate interests which nationals of the United States or of other countries now have or may in the future develop with respect to the fishery resources found in the area outside of Mexican territorial waters and adjacent thereto.

It will be recalled that President Truman's proclamation with respect to coastal fisheries gives full protection to the legitimate fishing activities which have been or may be developed and maintained by nationals of other states off the coasts of the United States. In announcing its policy with respect to the establishment of conservation zones for coastal fishery resources, the Government of the United States recognized that when zones are established for areas in which

⁴⁹ The President issued two proclamations on September 28, 1945, asserting (1) the jurisdiction of the United States over the natural resources of the continental shelf under the high seas contiguous to the coasts of the United States and its territories (10 *Federal Register* 12303), and providing for (2) the establishment of conservation zones for the protection of fisheries in certain areas of the high seas contiguous to the United States (10 *Federal Register* 12304). For documentation on this subject, see *Foreign Relations*, 1945, vol. II, pp. 1481 ff.

fishing activities have been or shall be legitimately maintained by nationals of other states as well as by nationals of the United States, these zones should be established under agreements between the United States and such other states. While the United States welcomes the establishment of conservation zones in areas of the high seas off the shores of other states where necessary for conservation of fisheries, the establishment and exercise of jurisdiction over such zones are recognized solely for the purpose of conserving and protecting this marine resource, and will be recognized only on the condition that adequate recognition is given to United States fishing interests in the area affected by the establishment of such zones.

It is anticipated that measures which may be adopted by the Government of Mexico to make the recent declaration effective⁵⁰ with respect to fishery resources will be based on scientific findings showing the need for such measures from the standpoint of conservation and will be developed through cooperative arrangements with the United States in so far as the rights or interests of the United States or its nationals may be affected. This expectation is based on mutual recognition by our two Governments of the necessity for full cooperation in achieving, through measures based on sound scientific investigation, effective conservation of the fishery resources which are of concern to the United States and Mexico.

It has been noted that articles in *Novedades* and *El Nacional* for October 31, 1945⁵¹ contain references to the discussions held in Washington in September 1944 by the Informal Joint Mexican-American Committee on International Fisheries with respect to various problems involving the fisheries interests of the two countries. While it was realized at that time that some statement might be made to the effect that the Committee had met to discuss problems of mutual concern, it was our understanding that the recommendations of the Committee with respect to a possible fisheries treaty between the two countries⁵²

⁵⁰ Approval by the Mexican Congress of proposed amendments to articles 27, 42 and 48 of the Mexican Constitution was reported in despatch 27,982, January 17, 1946, from Mexico City (812.0145/1-1746). By these changes, the policy announced by the President of the Republic pertaining to the domination by Mexico of the resources in the sub-soil of its continental shelf and domination of the waters covering its continental shelf would become law of the country upon completion of the legislative process. Further legislative and administrative actions to bring the constitutional amendment into effect were not completed in 1946.

⁵¹ Copies transmitted to the Department in despatch 27,076, November 2, 1945, from Mexico City, not printed.

⁵² In despatch 27,899, January 8, from Mexico City, Ambassador Messersmith transmitted copy of a note addressed to the Mexican Minister for Foreign Affairs requesting information with regard to the views of the Government of Mexico on a revised draft fisheries treaty between the United States and Mexico that was delivered to the Foreign Office in August 1945 (812.628/1-846). The Mexican views on the draft treaty were not received during 1946.

were to be held in strict confidence pending the conclusion of the proposed treaty. We were therefore surprised to observe references to these recommendations in the newspaper articles under reference.

While it is realized that the Government of Mexico, of course, is not responsible for the inferences which the newspapers appear to have drawn from these recommendations, it is believed advisable to clarify certain points in order to avoid any possible misunderstanding which might arise in the future in consequence of such newspaper comment. Accordingly, you may wish to bring the following points, which embody our understanding of the Committee's functions, to the attention of the appropriate Mexican authorities:

(1) The Informal Joint Mexican-American Committee on International Fisheries was set up to investigate, study and report on problems arising in connection with fisheries of mutual interest to the two countries. However, decision as to any action which might be taken on the basis of the Committee's findings and recommendations remains with the two Governments.

(2) The agreement by the members of the Committee on recommendations to be made to their respective Governments as bases for a possible fisheries treaty, although of considerable advisory assistance to the two Governments, cannot be considered as constituting a binding acceptance by either Government of these recommendations.

(3) The recommendations of the Committee were for consideration by the two Governments in the negotiation of a fisheries treaty or as a basis for other cooperative international action, and do not in themselves constitute authorization or agreement by members of the Committee or by their respective Governments to measures which, while in the interest of fishery conservation, are not founded on agreement between the two Governments.

The foregoing comments are made in a most friendly and cooperative spirit, and only in an effort to clarify certain points with respect to the declaration of October 29 in order to avoid any possible misunderstanding.

While the observations contained herein have reference to the conservation of coastal fisheries resources, the Government of the United States may wish to present certain comments with respect to the administration of the subsoil resources of the continental shelf, particularly petroleum deposits, after further study has been given to the matter.

I wish to reiterate this Government's pleasure at Mexico's declaration in recognition of the necessity for conserving important natural resources found in offshore areas, and to express the hope that the two countries will continue to work in mutual cooperation toward the achievement of the broad and basic principles and purposes underlying the recent proclamations and declaration of our two Govern-

ments which should lay the foundation for the conservation, development and prudent utilization of natural resources of inestimable value to the peoples of both countries.

Accept [etc.]

For the Acting Secretary of State:
WILLIAM L. CLAYTON

812.628/9-1746

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

RESTRICTED
No. 1186

MEXICO, D.F., September 17, 1946.
[Received September 20.]

SIR: I have the honor to report in the following paragraphs the developments to date with regard to the apprehension of several American fishing vessels by a Mexican coastguard cutter and information concerning their detention at the port of Ciudad del Carmen, Campeche. . . .

The Embassy was informed by the American Consul at Mérida in a telegram dated September 9, that a Mexican coastguard vessel had arrived at Ciudad del Carmen, Campeche, with four American fishing boats in tow. The Consul also mentioned that he had heard that the boats were found fishing in Mexican waters. As was later ascertained, the names of these four vessels and their captains are: the *E. F. Marine*, Captain Manuel Sarabia, the *Faith*, Captain Jesse Zorne, the *Pearl Harbor*, Captain Theonis Harrington, and the *Gennie V*, Captain Joseph F. Allen.

An officer of the Embassy called on Licenciado Campos Ortiz, the *Official Mayor* of the Mexican Foreign Office, during the morning of September 10, and asked him to inquire of the Ministry of Marine whether a Mexican coastguard vessel had brought four American fishing boats into Ciudad del Carmen. Licenciado Campos Ortiz informed the Embassy later in the day that the vessels had been apprehended, that the Ministry of Marine was still collecting information and that the Secretary of Marine⁵³ did not yet know the reason for the apprehension. In the meantime, the Naval Attaché of the Embassy⁵⁴ ascertained from the Ministry of Marine that the vessels were charged with violating Mexican fishing laws. The Embassy was informed on the morning of September 11 that the four vessels would probably be released on that day and that orders had been sent by the Minister of Marine to the Mexican authorities in Ciudad del Carmen for their release. Licenciado Campos Ortiz stated on September 11 that the Foreign Minister had discussed the

⁵³ Gen. Heriberto Jara.

⁵⁴ Capt. Albert E. Jarrell.

case with the President of Mexico and that the latter agreed that the boats should be released without a judicial investigation. On the evening of the same day confirmation was received from the Ministry of Marine that telegraphic orders to release the four vessels had been sent on the previous day to the Mexican authorities in Ciudad del Carmen. The Ministry of Marine stated that as they had been fishing in Mexican waters, a fine of 1,000 pesos per vessel had been levied.

As telegrams were received during the afternoon of September 12 from the American Consul in Mérida, reporting five additional American fishing vessels detained in Ciudad del Carmen; and from the Captain of the *E. F. Marine*, reporting attempts to collect additional fines, the Embassy sent Vice Consuls Raymond Bastianello and Armando Vargas on September 13 in one of the Embassy airplanes to Ciudad del Carmen. The two Consular officers were instructed to take the depositions of the masters of the nine vessels and to obtain from them details with regard to their apprehension and treatment. There are enclosed herewith, in duplicate, copies of the nine affidavits and also of the memorandum prepared by the Consular officers upon their return.⁵⁵

[Here follow details of a procedural nature.]

The files of the Department contain voluminous correspondence between the Embassy and the Mexican Foreign Office in 1936; ⁵⁶ following the announcement by the Mexican Government of its claim to sovereignty over waters up to a distance of nine nautical miles from the Mexican coasts. This correspondence was instituted following the publication, on August 31, 1935, in the *Diario Oficial* of a decree claiming jurisdiction up to nine nautical miles; and amending the decree of December 18, 1902, by which Mexico claimed sovereignty over waters extending 20 kilometers from the coast. The 1936 correspondence on this subject in the files of the Embassy reveals that Great Britain as well as the United States refused to recognize the nine nautical mile limit proclaimed by Mexico. It is the Embassy's opinion, however, that it cannot now make representations based upon the views of the United States Government expressed in 1936. It is therefore respectfully requested that the Department send instructions to the Embassy.

The amendment of Article 27 of the Mexican Constitution, by which Mexico claims as territory of the nation the subsoil of the continental shelf and the waters above the continental shelf, which amendment was approved by the Mexican Congress, has not, as far as the Embassy

⁵⁵ None printed.

⁵⁶ *Foreign Relations*, 1936, vol. v, pp. 758-770.

can ascertain, been ratified by the required number of states; and the amended Article 27 has not been published in the *Diario Oficial*. The revised Article 27 does not become law until the date of promulgation. Therefore, the Embassy knows of no legal basis for the apprehension of these vessels at a distance of over nine nautical miles from the coast. It is regretted that the masters of the four vessels signed a statement that their position, when apprehended, was four miles from land.

[Here follows data for background information of the Department.]

Respectfully yours,

For the Ambassador:
PAUL J. REVELEY
Second Secretary of Embassy

812.628/9-1946

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

RESTRICTED
No. 1221

MEXICO, D.F., September 19, 1946.
[Received September 26.]

Subject: Detention by Mexican Government of American Fishing Boats in the Port of Ciudad del Carmen, Campeche.

SIR: I have the honor to refer to the Embassy's Despatch No. 1186 dated September 17, 1946, on the above captioned subject, to its Telegram No. 841 dated September 18,⁵⁷ and to previous correspondence with regard to the detention of American fishing vessels off the Mexican coast.

As stated in the Embassy's telegram cited, the Mexican Minister of Marine sent telegraphic instructions on September 18 to the Naval Zone Commander at Ciudad del Carmen to release the nine vessels, after the fine of 1,000 pesos each had been paid by the first four detained; and authorizing them to fish for two days in waters off the Campeche coast outside of the nine-mile limit.

Mr. Reveley, Secretary of Embassy, accompanied Messrs. Frederick Ernst and Felice Golino, owners of seven of the nine vessels, to the Mexican Ministry of Marine on the morning of September 18. Messrs. Ernst and Golino were introduced to Captain Rigoberto Otál, the Director of the Mexican Fisheries Department. Captain Otál accompanied Messrs. Ernst and Golino and the Embassy representative to the office of the Minister, General Heriberto Jara. Mr. Reveley stated to General Jara that he did not desire at this time to enter into a discussion with regard to United States and Mexican concepts of the limits of territorial waters; but that the masters of the nine boats

⁵⁷ Latter not printed.

desire to return to Louisiana and to fish en route in the waters of the high seas off the Campeche coast without being molested by public vessels of Mexico. General Jara was informed that the captains of the four vessels first detained were prepared to pay the fines of one thousand pesos each levied against them; and that the owners of the nine vessels had requested the assistance of the Embassy to the end that they be allowed to fish for shrimp off the coast of Campeche en route home.

General Jara stated that to his knowledge the continental shelf extended for a distance considerably more than nine miles off the coast of Campeche; that the vessels obviously desired to fish in waters covering the shelf; and that the President of Mexico by a decree issued last year claimed these waters as part of the national domain of the Republic. Mr. Reveley told General Jara he believed that Mexico's claim to the waters covering the continental shelf would not become law until amendment to Article 27 of the Mexican Constitution, approved last year by the Congress, is ratified by the necessary number of the states and promulgated by the President in the *Diario Oficial*. Regardless of this legal process, General Jara said that Mexico considers the resources of the sea off the Campeche coast as the property of Mexico. He added that he would, however, instruct the Commander of the Second Naval Zone at Ciudad del Carmen, to allow all of the vessels to depart, after the four fines had been paid, and that they could fish for a period of two days in waters off the Campeche coast beyond the nine-mile limit. He then instructed Captain Otál to draft the telegraphic instruction to the Commander of the Naval Zone in Ciudad del Carmen.

Reference is made to the statement in the second paragraph on Page 3⁵⁸ of the Embassy's Despatch No. 1186 dated September 17, to the effect that the Embassy believes that instructions from the Department are necessary before it can make representations based on the views of the United States Government expressed in 1936 with regard to the limits of the territorial waters of Mexico. It is suggested therefore for the consideration of the Department that the Embassy be instructed to inform the Mexican Foreign Office along the following lines: that the United States Government, with reference to the claim of Mexico to the waters covering the continental shelf, holds to the views expressed in the Department's confidential note to the Mexican Ambassador in Washington dated January 24, 1946. Also, that pending the conclusion of a fisheries treaty between the two countries, it maintains that American fishing vessels have the right to fish in waters off the coast of Mexico that are considered as

⁵⁸ The penultimate paragraph.

the high seas in accordance with the generally accepted principles of International Law; and that pending the ratification to the Amendment of Article 27 of the Constitution and the conclusion of a fisheries treaty, the United States Government maintains that American fishing vessels are fully entitled to fish in waters covering the continental shelf off the coast of Mexico and beyond the three-mile limit.

The Embassy believes that any presentation of the United States Government's views on this subject at the present time, made in any other than a direct manner, would lead to an extended exchange of correspondence of a controversial nature. It is therefore respectfully suggested that a concise statement as given above or similarly worded should be presented to the Mexican Government in the form of a note from the Ambassador to the Mexican Foreign Minister.

Respectfully yours,

WALTER THURSTON

812.628/9-1946

*The Acting Secretary of State to the Ambassador in Mexico
(Thurston)*

CONFIDENTIAL
No. 575

WASHINGTON, November 15, 1946.

SIR: Reference is made to your telegram no. 841 of September 18, 1946,⁵⁹ despatch no. 1186 of September 17, 1946 and despatch no. 1221 of September 19, 1946 relative to action of Mexican authorities with respect to nine United States vessels which were either fishing or assumed to be preparing to fish for shrimp in the Gulf of Mexico off the coast of Campeche. The Department has checked on the position at time of seizure of the four vessels intercepted by Mexican officials on September 8, as given in Mr. Saravia's deposition of September 13, and finds evidence that such position was 17 miles from the Mexican coast on the 13 fathom line. From information given in the deposition of Mr. William D. Guthrie of September 13, 1946, it appears that the other five vessels were some 30 miles from Mexico at the time they were requested to come into Ciudad del Carmen.

The Department has considered carefully the action of Mexican authorities in this case in relation to the position which this Government took in 1936 with respect to the Mexican decree of August 29, 1935 defining territorial waters of Mexico as extending nine nautical miles from low-water mark on the coast. The matter has also been considered in relation to this Government's proclamation of September 28, 1945 with respect to coastal fisheries, the declaration of October 29, 1945 by the President of Mexico with respect to his Government's

⁵⁹ Not printed.

claim to the continental shelf adjacent to the coast of Mexico and to the natural resources thereof, and the Department's confidential note of January 24, 1946 to the Mexican Ambassador at Washington with reference to the declaration of October 29, a copy of which note has been sent to the Embassy previously.

Prior to making a possible protest to the Mexican Government relative to the action of Mexican officials with respect to the nine vessels referred to above, the Department is awaiting the report on the matter, which the Mexican Ministry of Foreign Affairs has stated would be given to the Embassy, referred to in a telephone conversation of September 12, 1946 between an officer of the Department and an officer of the Embassy. The Department also plans to obtain further information from the fishermen to supplement the material contained in the depositions taken at Ciudad del Carmen on September 13, 1946 by officers of the Embassy. However, in view of the time which may elapse before the report of the Mexican authorities and other information are available, and considering the statement of the Mexican Minister of the Marine reported in despatch no. 1221 of September 19, that Mexico now considers the resources of the sea off the Campeche coast as the property of Mexico, the Department agrees with the Embassy's suggestion that the position of this Government, as set out in the Department's confidential note of January 24, 1946 to the Mexican Ambassador at Washington, should be reiterated, and a clear statement should be made as to the area in which the United States maintains that its nationals are entitled to fish without interference.

The Department recognizes the possibility that setting forth a clear denial of Mexican jurisdiction beyond a three mile limit of territorial waters may lead to a resumption of the 1936 discussions between this Government and Mexico as to the Mexican decree of August 29, 1935 and may raise questions as to the applicability as between the United States and Mexico of that decree in the Gulf of Mexico in view of the provisions of Article V of the treaty of February 2, 1848⁶⁰ and of Article I of the treaty of December 30, 1853.⁶¹ On the basis of the 1936 correspondence and of earlier statements made to the British Government by the United States with respect to the 1848 treaty, Mexico may possibly contend that as between the United States and Mexico the two countries have recognized a nine mile (or three league) limit of territorial waters for the Gulf of Mexico (see in particular instruction no. 1110 of May 23, 1936;⁶² despatch no. 3646 of June 3, 1936;⁶³

⁶⁰ For treaty of peace between the United States and the United Mexican States, concluded at Guadalupe Hidalgo, February 2, 1848, see 18 Stat. (pt. 2) 492.

⁶¹ For treaty of limits, isthmus transit, etc., between the United States and Mexico, concluded December 30, 1853, see 18 Stat. (pt. 2) 503.

⁶² *Foreign Relations*, 1936, vol. v, p. 762.

⁶³ *Ibid.*, p. 764.

despatch no. 3765 of July 14, 1936; ⁶⁴ instruction no. 1189 of August 19, 1936; ⁶⁵ and despatch no. 3869 of August 25, 1936).⁶⁶ However, should this view be advanced by Mexico, the Department may take the position that Article V of the treaty of 1848 and Article I of the treaty of 1853 did not establish a limit of nine miles for territorial waters as between the United States and Mexico for the entire Gulf of Mexico, but merely established a point from which to start measuring the boundary line between the two countries.

In view of the fact that revival of the 1936 discussions might delay a reply by Mexico to this Government's proposals for a fisheries treaty between the two countries, consideration was given to the possibility of phrasing the note in general terms, avoiding reference to the specific area which the United States recognizes as Mexican territorial waters. However, such a position might be viewed by Mexico as tacit recognition, at least with respect to fishing vessels, of the validity of the Mexican claim to a nine mile limit of territorial waters in the Gulf of Mexico. In that event, future seizures of vessels between three and nine miles from the coast could only give rise to further discussions, and it would be necessary at that time for this Government either to state a position clearly in support of a three mile limit or to acquiesce in Mexico's claim to greater jurisdiction. Until the question was clarified between the two Governments, United States fishermen would be left in doubt as to the extent of the area in which they might operate while expecting the protection and assistance of their Government. Therefore, it is believed that our position should be stated clearly and precisely at this time. It is believed that the possible adverse effect on fishery treaty negotiations, as well as on efforts toward cooperation in carrying out the United States fisheries proclamation of September 28, 1945 and Mexico's declaration of October 29, 1945 with respect to the continental shelf, will be less if this Government states its position clearly now than if such position is stated only after protracted discussions.

The Department's conception of the proper application of this Government's proclamation of September 28 and of the Mexican declaration of October 29, is as set out in the Department's confidential note of January 24, 1946 to the Mexican Ambassador at Washington; that is, that the adoption of fishery conservation measures for areas of the high seas should be based on scientific investigations showing a need for such measures, and that if nationals of other countries have fished in the area affected, regulations set up for such area can be made applicable to such nationals only under agreements between the coastal

⁶⁴ *Foreign Relations*, 1936, vol. v, p. 764.

⁶⁵ *Ibid.*, p. 768.

⁶⁶ *Ibid.*, p. 769.

state and the government or governments whose nationals have fished there.

It is realized that by taking a position in opposition to unilateral implementation, beyond a three mile limit of territorial waters, of the Mexican declaration of October 29, 1945, we may give some grounds to other governments to protest any unilateral action which this Government may take to establish fishery conservation zones in areas of the high seas under the fisheries proclamation of September 28, 1945. However, it is believed that such distinctions as would be necessary in that event could be drawn on the basis that prior to the commencement of United States fishing operations in areas off the coasts of Mexico that country had not announced any fishery conservation regulations, based on scientific investigations showing a need for such measures, for those areas. Therefore, it does not appear that this Government would be taking an untenable position in establishing fishery conservation zones, unilaterally, for areas in which United States nationals alone engage in fishing activities, while at the same time insisting that arrangements between the United States and Mexico are necessary before fishery regulations may be made applicable to United States nationals engaged in fishing on the high seas off the coast of Mexico.

In order that the Mexican authorities may understand clearly the position of the United States with respect to recognized jurisdiction over United States fishing vessels, you are requested to transmit to the Mexican Minister for Foreign Affairs a note along the following lines :

With reference to the declaration of October 29, 1945 of the President of Mexico with respect to Mexico's claim to the continental shelf adjacent to Mexico and to the natural resources thereof, the United States Government continues to hold firmly to the views expressed in the Department of State's confidential note of January 24, 1946 to the Mexican Ambassador at Washington. It maintains that United States fishing vessels have the right to continue to fish in waters off the Mexican coast beyond the limits of territorial waters. Pending the conclusion of a fisheries treaty between the United States and Mexico providing for such regulation of the fishing activities of the nationals of the two countries as may be necessary for the conservation of fishery resources of mutual interest to the United States and Mexico, the United States Government maintains that its nationals are entitled to fish freely in such waters off the coast of Mexico as are beyond the three mile limit of territorial waters. The Government of the United States is reserving, until such time as it receives a report of the investigation by the Mexican Government, any statement on the recent action of Mexican officials with respect to certain United States fishing vessels which were operating in the Gulf of Mexico.⁶⁷

⁶⁷ This paragraph was quoted in note No. 571, December 10, 1946, from Ambassador Thurston to the Mexican Minister for Foreign Affairs, copy of which was transmitted to the Department in despatch 2320, December 24.

In view of the close attention which officers of the Embassy have been giving to this matter, the Department would appreciate receiving any suggestions which you may have for changes which you believe should be made in the general outlines of the note prior to delivery. You will note that reference to the amendment to Article 27 of the Mexican Constitution, which amendment is understood to be necessary to make the declaration of October 29, 1945 effective in Mexican law, has been omitted. This omission has been made because the Department wishes to avoid any statement which might give the impression that this Government will recognize any effect of the declaration on United States vessels prior to such time as appropriate arrangements have been made by treaty between the United States and Mexico.

At the time of presenting this note to the Mexican authorities, or shortly thereafter, as you may deem appropriate in the circumstances, you are requested to bring to the attention of Mexican officials, in such manner as the Embassy considers proper, the fact that this Government is still interested in the proposals for a fisheries treaty presented to them last September, and would appreciate receiving the Mexican views on these proposals at an early date. At the same time, you might point to our expectation that the conclusion of such a treaty would advance the two countries' mutual interest in conservation of important fishery resources and provide a solution for some of the questions relative to fisheries which might have an adverse effect on present excellent relations between our two Governments.

The Department has not issued any statement relative to action of Mexican officials with respect to the vessels referred to in this instruction, and does not intend to issue any statement prior to transmission to the Mexican Government of the above-mentioned note. However, in view of public interest in the matter, it may become necessary for the Department to make a statement prior to receiving Mexico's reply to this note. In that event the Department proposes, if the Embassy perceives no objection, to issue a statement along the following lines:

The Embassy in Mexico City has delivered a note to the Mexican authorities stating that the United States continues to maintain that its nationals are entitled to fish in waters off the coast of Mexico beyond the limits of territorial waters. With reference to the declaration of October 29, 1945 of the President of Mexico with respect to his Government's claim to the continental shelf adjacent to the coast of Mexico and to the natural resources thereof, the United States has advised the Government of Mexico that pending the conclusion of a fisheries treaty between the United States and Mexico providing for the conservation of fishery resources of interest to the two countries and for recognition of the rights and interests of the United States and its nationals in such resources, the United States maintains that

its nationals are entitled to fish in waters off the coast of Mexico beyond the three mile limit of territorial waters.⁶⁸

I take this opportunity to express the Department's commendation of the manner in which officers of the Embassy have handled the problems arising out of the action of Mexican authorities with respect to the nine United States fishing vessels referred to in this instruction.

[Here follow comments on a question of an individual's claim of discovery.]

Very truly yours,

For the Acting Secretary of State:
W. L. CLAYTON

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO AMENDING AND EXTENDING TO 1948 THE 1942 AGREEMENT RESPECTING A UNITED STATES FISHERIES MISSION TO MEXICO

[Effected by exchange of notes signed at Mexico City, September 23 and October 22, 1946; for texts of notes, see Department of State Treaties and other International Acts Series No. 1624, or 61 Stat. (pt. 3) 2903. For exchanges of communications at Mexico City, dated April 17, May 22, July 22 and 27, and October 24, 1942, and exchanges of notes of September 7 and October 18, 1944, amending and extending the agreement, see Department of State Executive Agreement Series No. 443, or 58 Stat. (pt. 2) 1554.]

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO RESPECTING A COOPERATIVE PROGRAM FOR WEATHER STATIONS ON GUADELOUPE ISLAND

[Effected by exchange of notes signed at Mexico City November 6, 1945, and April 12, 1946. For texts of notes and accompanying memorandum, see Department of State, Treaties and other International Acts Series No. 1807, or 61 Stat. (pt. 4) 4060.]

⁶⁸ Ambassador Thurston, in despatch 2320, December 24, 1946, expressed the opinion "that, unless new seizures of American fishing vessels are made by public vessels of Mexico, a statement should not be issued at the present time." (812.628/12-2446)

NICARAGUA

REAFFIRMATION OF UNITED STATES POLICY OF NONINTERVENTION IN THE INTERNAL AFFAIRS OF NICARAGUA¹

817.00/3-1946

The Ambassador in Nicaragua (Warren) to the Secretary of State

[Extracts]

RESTRICTED

No. 674

MANAGUA, March 19, 1946.

[Received March 25.]

SIR: I have the honor . . . now to submit a summary review of the present situation.

This morning the Republic, judging by responsible reports, is calm. The Presidential campaign² is well under way. The country is immersed in that campaign as only a Central American republic can be. . . .

President Somoza. General Somoza has been forced by the combined efforts of the old-line Conservatives and Independent Liberals to renounce his candidacy for the next Presidential term. Likewise, he has been forced to go through the form of restoring freedom of the press, freedom of speech, and freedom of assembly. The opposition is determined that there are two more concessions that he shall make. First, he shall withdraw completely from the Guardia Nacional.³ The opposition feels that so long as he holds an important position in the Guardia, Somoza influence will continue in Nicaragua regardless of who is the President. Renouncement of his intention to remain in the Guardia is the next trench the opposition hopes to take. Secondly, he shall grant supervised elections. The opposition means by "supervised elections" elections carried out under the eyes or direction of friendly American Governments—the United States, Mexico, Colombia, Cuba, and perhaps other countries have been sug-

¹ For previous documentation on efforts to discourage President Somoza's bid for reelection in 1947, while maintaining a policy of noninterference in Nicaragua's internal affairs, see *Foreign Relations*, 1945, vol. ix, pp. 1213 ff.

² The Presidential election was scheduled for February 2, 1947.

³ A non-partisan constabulary, organized and trained by American officers at the request of Nicaragua, in accordance with a 1927 agreement; for press release issued by the Department of State, January 2, 1933, disclaiming further responsibility regarding the Guardia Nacional following the evacuation of Nicaragua by the United States Marines, see *Foreign Relations*, 1933, vol. v, p. 848.

gested as suitable supervisors. It can be taken for a certainty that the President will concede no more than he is forced to. If the opposition is strong enough, he will renounce his Guardia position. If he is compelled, he will, as a last concession, grant supervised elections.⁴

United States. The position of the United States remains today a factor which every thinking Nicaraguan has in mind. Somoza wants to show that his administration has the support of the United States. Despite anything to the contrary, he will continue to try to convince the Nicaraguan people that his Government stands well with the United States. The old-line Conservatives understand the position of the United States Government and take at face value the statements made by the President, the Secretary of State, and Mr. Braden.⁵ Despite this, they look at every incident from the viewpoint of its possible effect on the local political situation. The Independent Liberals want to feel that they have the moral support of the United States in the present campaign. They believe what we say with regard to our interest in democratic government, but they are always afraid that we won't remember that democratic government in Nicaragua means the triumph of the Independent Liberal-Conservative opposition to General Somoza.

Respectfully yours,

FLETCHER WARREN

817.00/5-146 : Telegram

The Ambassador in Nicaragua (Warren) to the Secretary of State

[Extract]

CONFIDENTIAL

MANAGUA, May 1, 1946—11 p. m.

[Received May 2—8:04 a. m.]

285. For Assistant Secretary Braden.

In the last 24 hours I have been visited by Conservatives Felipe Argüello and Senator Gómez and by Congressman Altimirano Browne and Enoc Aguado, Liberals. They have emphasized their fear of the

⁴ Guarantees of free and supervised elections were demanded in separate notes addressed to President Somoza on April 7 by the Conservative and Independent Liberal Parties; a copy of the demand by the Directorate of the Conservative Party for the cooperation of the "United States, Uruguay, Guatemala and other American countries" in effecting free elections, was transmitted to the Department in despatch 727, April 12, 1946, from Managua, not printed.

In despatch 750, April 25, 1946, from Managua, it was reported that the demand of the Conservative Party for supervised elections was rejected by President Somoza in a letter dated April 15 which indicated that supervision would take place in Nicaragua only if "such a procedure were reciprocally applied as regards each other by the other American Republics," in other words, by general agreement to cooperate in solving their respective electoral problems (817.00/4-2546).

⁵ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

Guardia and indicated that they need the assistance of the United States to avoid anarchy and bloodshed in Nicaragua. Many times in recent months Nicaraguan callers have suggested to me that the United States should assist in one way or another by what I considered to be intervention in the internal affairs of this country. I have repeatedly tried to make clear the publicly declared position of the United States. I have also tried to explain the reasons behind the position taken by the United States. These callers uniformly have listened patiently and politely but I have always felt that they went away with the conviction that we should make some concession that would assist the opposition in compelling Somoza to reach a solution of the present difficulties. Today Aguado and Altimirano inquired whether Washington would sponsor conversations between the Conservative, Independent Liberals, and Somoza so that the opposition would have the moral backing of the United States in case Somoza did not live up to any promises entered into as a result of the conversations. I again repeated the reason why I have thought the Department could not comply with such a request. However, it is certain that if the Guardia gets out of hand or bloodshed comes to Nicaragua, the US will be blamed.

In view of the foregoing can the Dept give me quickly a carefully worded short statement of our position drafted with the idea that I would be authorized to show it officially to the leaders of the opposition. Such a statement should be very useful in the record if there should be a revolution.

[WARREN]

817.00/5-346: Telegram

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

CONFIDENTIAL

WASHINGTON, May 3, 1946—8 p. m.

143. Urtel 864 [285] May 1. In your conversations with Nicaraguan leaders Dept considers that you have correctly interpreted this Govt's policy. As frequently stated, Dept considers Nic. political problem is one for Nic. to solve. Dept would deeply deplore appeal to other than peaceful means and earnestly hopes calmer and wiser counsels will prevail and bloodshed be averted.

While reiterating that Govt and people of US feel warmer friendship for and greater desire collaborate with Govts resting upon the free consent of the governed as expressed periodically through elections, US in accordance with its clearly established international com-

mitments cannot and will not intervene in Nic. internal political situation.

ACHESON

817.00/7-946

The Ambassador in Nicaragua (Warren) to the Secretary of State

RESTRICTED

MANAGUA, July 9, 1946.

No. 918

[Received July 11.]

SIR: I have the honor to refer to my telegram number 399 of July 3⁶ giving the initial reaction to the Department's reported announcement the previous day of a policy of non-intervention in Nicaragua's electoral problem. There are enclosed copies of the press reports as well as of subsequent editorial comment in *La Prensa* (Conservative), *La Nueva Prensa* (free lance) and *Novedades* (Official).

As would have been expected, the report was greeted with dismay in opposition circles and with jubilation by the President. In both cases it was news only in the sense of confirming the fears of the former and in allaying those of the latter over the possibilities of a last minute change of U.S. policy.

The official newspapers, *Novedades* and *El Liberal Nacionalista*, hail the Department's decision as confirmation of its non-intervention policy, repeat criticisms of the lack of patriotism displayed by the "Chamorristas" and "Libero-Chamorristas" in attempting to effect outside intervention and reiterate the President's promises of free elections.

As pointed out in *La Prensa* failure of the mission to Washington has, by destroying the prevalent and enervating hope of outside assistance, brought home the necessity for self-reliance in solving the Nicaraguan electoral problem. It has, at least for the time being, played into Somoza's hands by confirming to himself and to the Nicaraguan people that he will enjoy complete control of the country and electoral machinery without the fear of outside intervention. Realization of this will probably tend to further strengthen Somoza's control by emphasizing the futility of opposition and suggesting the desirability of compromise on Somoza's terms. This applies particularly to the interior where the inhabitants have for long been intimidated by the repressive and uncontested rule of the Guardia Nacional.

Respectfully yours,

FLETCHER WARREN

⁶ Not printed.

817.00/7-1646

The Assistant Secretary of State for American Republic Affairs (Braden) to Señor Adolfo Diaz and General Emiliano Chamorro, Former Presidents of Nicaragua

WASHINGTON, August 1, 1946.

GENTLEMEN: The receipt is acknowledged of your letter of July 16, 1946,⁷ discussing conditions in Nicaragua, in the light of the elections scheduled for February, 1947, and requesting that the Department "give serious consideration and study to (1) the establishment of some effective supervision of the elections or (2) the formation of a group of 'Observers of Elections' in sufficient numbers to engage actively in their duties, not only in the cities but also in the widely separated rural voting districts of the Country".

As I explained to you when you called on me on June 28, 1946,⁸ to make much the same suggestion, the Government and people of the United States of course have a more friendly feeling for, and a greater desire to collaborate with, those countries whose governments rest upon the periodically and freely expressed consent of the governed. However, the proposal for supervision of elections would have to be considered in the light of our existing non-intervention commitments. I commented that it is incumbent upon the United States not only to avoid intervention, but equally scrupulously to avoid even the appearance or suspicion of intervention.

As regards supervision of the elections, I pointed out that this would be impossible unless all the major political parties, including the Government, should request it; and that even in that case the United States would not be willing alone to undertake such supervision. I added that should such a request from all the major political parties and the Government be addressed to and be accepted by, say, three or five of the American republics, and if the United States to be included in that request then my Government might have to reconsider its position, although I still expressed doubt as to whether or not the President of the United States would even then be willing for this Government to take part in supervising the elections. I commented further that the proposal that the electoral supervision should be undertaken by the United States alone, rather than through the Inter-American System or through the United Nations, might, if adopted, operate to weaken those systems; a result which we would all certainly wish to avoid.

I furthermore informed you that the Nicaraguan Ambassador⁹ had called upon me some time before to state categorically and on instructions, that President Somoza would not be a candidate for reelection.

⁷ Not printed.

⁸ Memorandum of conversation not printed.

⁹ Guillermo Sevilla Sacasa.

More recently, the Nicaraguan Ambassador called again, on his own initiative, and assured me that the forthcoming elections in Nicaragua will be completely free. The Ambassador added that President Somoza intended to ask representatives of the press of the United States to come to Nicaragua during the election period so that they could observe for themselves and see that the voting was entirely open and free and the elections exemplary in every respect. I naturally expressed my gratification at these voluntary assurances.

In conclusion, I should like to emphasize that responsibility for the solution of the Nicaraguan electoral problem belongs to the people of Nicaragua. The United States will of course view their efforts with interest and real sympathy, and earnestly hopes that they will find that satisfactory solution through the peaceful methods inherent in the democratic tradition to which all America is dedicated.

Sincerely yours,

SPRUILLE BRADEN

711.17/11-2746

The Ambassador in Nicaragua (Warren) to the Secretary of State

RESTRICTED
No. 1228

MANAGUA, November 27, 1946.
[Received December 1.]

SIR: I have the honor to enclose press reports¹⁰ covering a press conference given by me on November 18, the day following my return from Washington on consultation. . . .

Following a series of Conservative press attacks on the Department's policy of non-intervention in Nicaragua's electoral problem (see Embassy's despatch no. 1188 of November 5, 1946¹¹) and widespread conjecture that my trip to Washington was related to possible solution of the political situation, the questions asked by all reporters were primarily related to this subject. In accordance with both written and verbal instructions from the Department, my answers emphasized that the Department will continue its policy of strict neutrality in Nicaragua's political problems, the solution to which rest in the hands of the Nicaraguans themselves.

Judging by press comment as well as conversations with General Emiliano Chamorro, Dr. Enoc Aguado, Senator Joaquín Gómez (Conservative), Dr. Fernando Saballos (Independent Liberal) and others, the Nicaraguan opposition has regretfully arrived at the realization that the Department will not intervene. For this reason, and in the desire to capitalize on the favorable features of Assistant Secretary Spruille Braden's negative response to the request of the Conservative

¹⁰ Not reprinted.

¹¹ Not printed.

Party for supervised elections,* the letter¹² was on November 20 released to the press by General Chamorro for publication.

Open criticism of the Department's non-intervention policy has, as previously, been confined chiefly to the Conservative *La Prensa* and *El Heraldito*. . . .

Parallel editorials in *El Heraldito* by Drs. Salvador Buitrago Diaz and Geronimo Aguilar Cortés, both Conservative deputies, attack United States "indecision" and refusal to "accept responsibility" as the basic reason for the decline of democracy throughout the world. . . .

Approval of the United States non-intervention policy was expressed with varying degrees of enthusiasm in *El Diario Nicaraguense* (Conservative) *La Nueva Prensa* (Independent), *El Universitario* (University Students) and in the Socialist weekly organ, *Ahora*. *El Diario Nicaraguense* on November 21 and *La Nueva Prensa* on November 24 editorially hail the press conference as clearing the air of wish-thinking regarding United States intervention and as paving the way for a realistic acceptance by Nicaraguans of their sole responsibility in solving Nicaragua's political problems. Both newspapers urge the necessity for a conciliation agreement between the opposing political groups. Signed articles by Dr. Francisco Frixione and Francisco Ibarra Mayorga in the November 22 issue of *El Universitario* stress the service being performed by the United States in forcing Nicaraguans to stand on their own feet to solve their own problems without outside dictation. The point is stressed that the old line politicians have by their call for intervention been perversely hindering the development of Nicaraguan political maturity and re-acquisition of self respect as an independent nation. This viewpoint is repeated in the Socialist *Ahora* which has for the moment discarded its usual anti-United States propaganda.

The official newspapers, *Novedades* and *El Liberal Nacionalista*, as well as the anti-Chamorro, anti-Somoza *La Noticia* seized upon belated publication of Assistant Secretary Braden's letter as evidence of double dealing by General Chamorro to falsely maintain hopes of United States assistance and prevent healing of the schism within the Liberal Party.

I believe on the whole that my definite statement of United States policy has had the healthy effect of forcing the Conservative-Independent Liberal opposition to discard its crutch of interventionist thinking in favor of self-action. Only time and the President's attitude will tell whether such action means revolution. Although oppo-

* Request was made directly to Assistant Secretary Braden by General Chamorro in a letter dated May 31, 1946. [Footnote in the original; letter of May 31 not printed.]

¹² See letter of August 1 by Assistant Secretary Braden, *supra*.

sition leaders were initially disgruntled over the categorical statement of policy and its encouraging effect on President Somoza, I believe that there is today a greater understanding, however reluctant, of the Department's position.

While pre-electoral intervention no longer figures in opposition calculations, indications are that Dr. Aguado and General Chamorro are hoping for non-recognition by the United States of a Somoza-controlled Argüello Government on the grounds of electoral fraud. General Chamorro's interest in the forthcoming conference at Rio de Janeiro¹³ (see my telegram no. 583 of November 21, 1946¹⁴) is also indicative of hope for assistance through acceptance of the Uruguayan proposal for collective action.¹⁵

Respectfully yours,

FLETCHER WARREN

817.00/12-2746

The Ambassador in Nicaragua (Warren) to the Secretary of State

CONFIDENTIAL
No. 1293

MANAGUA, December 27, 1946.
[Received January 8, 1947.]

SIR: I have the honor to report that Dr. Leonardo Argüello, Somoza candidate for the Presidency, came in on December 27 for his customary visit. We talked about the political situation. Argüello is very pleased with the way the campaign is developing. He stated that each day sees new supporters for his candidacy who have come over from the opposition. He showed me several telegrams in support of this. He feels that his election is a certainty, and that the opposition is becoming weaker every day. He is particularly pleased with the support coming to him from the Conservatives. He also made the flat statement that Dr. Fernando Saballos has told him that on February 3, 1947, all the Independent Liberals will be in the Argüello camp.

Dr. Argüello read to me from this morning's *Novedades* his statement commenting on Mr. Braden's remarks of December 21.¹⁶ He approved fully of those remarks (the *Novedades* article will be submitted separately). He stated in the article that he would not accept the Presidency unless the elections are fair.

I thought it opportune to mention at this juncture the charges which the losers will make on February 3—that the elections were fraudulent.

¹³ For documentation on this subject, see pp. 1 ff.

¹⁴ Not printed.

¹⁵ For documentation on this subject, see *Foreign Relations*, 1945, vol. ix, pp. 185 ff.

¹⁶ On December 21, 1946, the Assistant Secretary of State for American Republic Affairs, Braden, and the Director of the Office of American Republic Affairs, Briggs, discussed the subject of private enterprise in our relations with Latin America in a radio program.

He replied that naturally the losers would be expected to make such a claim—that is the usual pattern in Nicaragua. I asked him to consider that the opposition will declare that all the electoral machinery is in the hands of the Government; that the registrations last July and August were not free; that consequently the fraudulent outcome of the elections in February had already been determined; that in the new Senate there will be no representatives of the anti-Somoza opposition; and that the Independent Liberals were not permitted to have their own candidate, although they presented a petition with some 26,000 signatures, and that some 17,000 of those signatures were declared inadmissible by the Government for one reason or another. I said I was afraid that as a successful candidate Dr. Argüello would have to face these claims on February 3, 1947.

Dr. Argüello stated that he only wants the Presidency if he has the majority of the votes of the people of Nicaragua; that he doubts whether there are 11,000 legitimate Independent Liberal voters in Nicaragua; that if the electoral machinery is entirely in the hands of the Government of Nicaragua, then that is in accordance with the law of Nicaragua; and that he believes the 17,000 signatures to the Independent Liberal petition were thrown out on good grounds. I remarked that all that he said might be true, but that it was going to look mighty bad in the outside world when these claims were made in the light of his election.

I have no doubt that Dr. Argüello has thought much about this matter. I am equally certain that he is concerned over my having brought up the matter in conversation. He then told me in confidence that he had advised against rejection of the Independent Liberal petition and that it has been refused by Somoza for reasons unknown to Argüello. Referring to the Congress to be seated under the next Administration, he said that he had had no choice whatsoever in the selection of the candidates. Somoza had told him that the two would go over the list together. Although Argüello appeared at the Casa Presidencial for that purpose, the matter was not mentioned. He learned of the designations only upon the publication of the list. He said that as a whole the group is entirely "inadequate." He had hoped that the next Congress would be of a higher calibre than the present one. As it is, it will be of a lower calibre—and entirely pro-Somoza. Referring to the new Congress, I inquired whether that wouldn't make his job as President more difficult. He said, "It is so bad and of such a low calibre that I will be able to influence it more readily than I would a group of honest men."

Dr. Argüello emphasized that he has not asked any favors of Somoza, and that Somoza has asked no favors of him. Argüello refused to take up the Congressional nominations on his own initiative

because he did not want to make any concessions in order to get an improvement in the list.

Dr. Argüello made it clear that it shall be his endeavor to enlist the assistance of elements from all political parties in an endeavor to give Nicaragua a good administration. He added that he will try, and expects to succeed, in bringing the Liberal Party together again. He foresees that after February 2, 1947, the Conservative Party will have regained its legal position as the second political party in Nicaragua.

While we were speaking of Somoza, Dr. Argüello spoke carefully and purposefully. From this part of the conversation I gained the distinct impression that he will try to be a real President and to free himself as much as possible from Somoza's influence.

Respectfully yours,

FLETCHER WARREN

**TRANSFER BY THE UNITED STATES OF STRATEGIC BASES TO
NICARAGUA**

811.24517/1-1546

*Memorandum by the War Department to the Department of State*¹⁷

SECRET

WASHINGTON, 15 January 1946.

OPD 601.5 (20 Sep 45)

[Received January 21.]

1. The War Department has been approached, through the Commanding General, Caribbean Defense Command, by Taca Airways who have offered to rent a portion of the Army buildings and facilities on the airfield at Puerto Cabezas, Nicaragua. This company has offered to assume the cost of maintenance and to make available at any time to the United States Government the facilities so leased. This airfield was built by the United States in its own name and is currently being maintained under the secret agreement with Pan American Airways, Inc.,¹⁸ at a cost to the United States of \$27,600 per annum.

2. The offer from Taca appears to be a reasonable one which would effect a considerable saving to the United States Government. The War Department does not feel, however, that it is in a position to negotiate directly with a commercial concern in a foreign country for leasing of facilities which would, under the terms of the present agreement with Nicaragua, revert to that country upon expiration of this agreement.

¹⁷This memorandum was directed to the attention of Mr. Stokeley Morgan, Chief of the Aviation Division.

¹⁸In regard to the so-called Airport Development Program, see instruction 557, October 22, to Guatemala, and letter of November 1 from the Secretary of War to the Secretary of State, pp. 101 and 105.

3. In view of the fact that this field was improved and buildings were erected by the United States directly, it is felt that the Government of Nicaragua can be approached with the offer of a total relinquishment of the field in accordance with the agreement with Nicaragua. Concurrently, the Government of Nicaragua can be told about the offer from Taca Airways and be requested to consider this offer favorably so that the United States will have continuing rights on the field.

4. If the above negotiations could be successfully carried out without prejudice to any long-term rights which may be later deemed necessary by the Joint Chiefs of Staff, the maintenance on the field by the United States could be terminated, and the United States would then have continuing rights on a field which is being maintained without cost to this Government. Furthermore, the terms of the agreement with Nicaragua could be fully carried out.

5. It is therefore requested that steps be taken by the State Department toward negotiations along the lines mentioned above, if such action would not adversely affect negotiations for any long-term rights which may later be deemed necessary. It is suggested that negotiations be made in collaboration with the Chief of Engineers who is thoroughly familiar with maintenance costs and figures pertaining to the field in question.

6. If it is the opinion of the Department of State that the negotiations outlined above would adversely affect any negotiations for such post-war rights as may be later deemed necessary by the Joint Chiefs of Staff, it is suggested that Nicaragua be queried regarding whether or not there would be any objection to the United States leasing all or part of its buildings at Puerto Cabezas to Taca Airways on a revocable lease until such time as the present agreement with Nicaragua expires.

For the Secretary of War:

R. L. VITTRUP
Colonel, GSC

811.34517/6-1746

The Ambassador in Nicaragua (Warren) to the Secretary of State

RESTRICTED

No. 870

MANAGUA, June 17, 1946.

[Received June 24.]

SIR: With reference to previous correspondence regarding disestablishment of the Naval Base at Corinto, I have the honor to report that the Base was, in accordance with Article III of the Agreement constituted by an exchange of Notes in October–November, 1942,¹⁹

¹⁹ Notes of October 14 and November 25, 1942, not printed.

formally turned over to the Nicaraguan Government on the morning of June 6.

[Here follows list of names of persons attending the ceremony.]

There are enclosed copies of the exchange of notes between this Embassy and the Foreign Office²⁰ regarding the transfer. It will be noted, in recapitulation, that the Naval Base and all fixed improvements were turned over to the Nicaraguan Government without charge in accordance with Article III(2) of the Agreement (this Embassy's Note No. 96 of October 14, 1942). The remaining material and equipment was sold by the Foreign Liquidation Commission to the Nicaraguan Government in exchange for an Embassy site in Managua of 7,600 square varas valued at \$106,400. A blueprint of the property is enclosed for the Foreign Buildings Office.²¹

The transactions covering transfer of the surplus property and receipt of the Embassy site were conducted by Carlos Miller, as authorized representative of the Foreign Liquidation Commission. Certification of Mr. Miller's representative powers in two affidavits dated June 11 to the Nicaraguan Government was made by me. The deed vesting title to the property in the Foreign Liquidation Commission was signed by Mr. Miller on June 15.

Since it was necessary for the Nicaraguan Government to purchase the land from a private individual in order to fulfill its contract, the transfer of title was effected on a triangular basis. That is, the deed transferring title to the Foreign Liquidation Commission was signed by the original owner, José María Castellón, who was in turn reimbursed by the Nicaraguan Government. A copy of the Executive Order covering the transaction and guaranteeing clear title follows under separate cover. This mode of transfer was accepted upon verification from reputable lawyers of its legality and in the desire to close the deal expeditiously.

Although uniformly greeted in the press as another example of United States generosity in application of the Good Neighbor Policy, the transfer of the Naval Base has at the same time been drawn into the perennial political conflict. As pointed out in my A-210 of June 13, 1946,²¹ President Somoza's prolonged stay at Corinto since June 6 coupled with his refusal to publish details of the transaction and give even a summary inventory of the equipment acquired have given rise to rumors that he is gutting the property for his personal use. Official statements to the effect that an inventory is being made

²⁰ The Embassy's notes of May 6, June 1, and June 3, and the Foreign Office notes of June 1 and June 8, not printed.

²¹ Not printed.

and will be published upon completion are met with skepticism and the belief that such an inventory will exclude pilfered equipment.

Another belief editorially expressed, and which has not been denied by Somoza, is that he will acquire or has already acquired, the property in his own name for disposal at a handsome profit. Credence is lent to this possibility by Somoza's reported statement to Gabry Rivas, . . . editor of *La Nueva Prensa*, that the Government plans to utilize the equipment in the development of public utilities and useful commercial enterprises in exchange for shares. Adding further to the confusion and suspicion is a published exchange of telegrams between Captain Salvadore D'Arbelles, Somoza's presumed Guardia representative at Corinto and Roberto Calejas Reyes, head of the Chinandega water works in which Somoza is a reportedly important stockholder. Calejas Reyes apparently demurred to the propriety of using Government owned water piped from the Base and was informed, on behalf of the President, that the surplus property involved did not belong to the Government.

Although virtually all of the opposition press is taking a hand in the dispute, particular emphasis is being given the matter by the recently reopened Conservative daily, *La Prensa*, in accusing the President of venality and calling for an accounting to the nation. It is most probable that the case will be raised at the next meeting of Congress commencing on June 18.

Respectfully yours,

FLETCHER WARREN

811.24517/6-1846

The Ambassador in Nicaragua (Warren) to the Secretary of State

SECRET

MANAGUA, June 18, 1946.

No. 871

[Received June 25.]

SIR: I have the honor to refer to the Department's secret Instruction No. 235 of May 21, 1946,²³ instructing the Officer in Charge of this Mission to prepare, after consultation with the representatives of the Miami District Engineer acting for the United States Army, a Note for transmission to the Government of Nicaragua providing for the delivery to that Government of the Air Base at Puerto Cabezas in accordance with the exchange of Notes dated May 29 and June 5[2], 1942.²⁴ The Department stated that the Note should be transmitted to the Department for its approval before delivery to the Nicaraguan Government.

²³ Not printed.

²⁴ Exchange of notes of May 29 and June 2, 1942, not printed.

On May 24, 1946, J. U. Moorehead, Lieutenant Colonel Corps of Engineers and District Engineer at Miami, Florida, of the United States Army, visited Managua and discussed the return of the Air Base with this Embassy. As a result of that discussion, the Embassy dispatched to the Department telegram number 335 of May 24, 5 p. m.,²⁵ containing a draft of the Note which it was proposed to send to the Nicaraguan Government. On May 28, 1946, the Department replied by its telegram No. 175²⁵ proposing certain changes in the last paragraph of the draft Note contained in the Embassy's telegram number 335. Redrafted according to the Department's instruction, the Note to be delivered to the Nicaraguan Government would read:

[Here follows text of draft of note, not printed.]

Reference to the exchange of Notes dated May 29 and June 5[2], 1942, will show that the United States Government was able to proceed rapidly with the construction of the Puerto Cabezas airfield because of the patriotic and wholehearted cooperation of Mr. H. D. Scott and the company which he represented, the Bragman's Bluff Lumber Company, Inc., now the Standard Fruit & Steamship Corporation. The United States Government is also indebted in this connection to the Taca Airways which operates in Nicaragua under the name of Compañía Nacional Taca de Nicaragua. It will be seen that part of the land on which the airfield was constructed was leased from Mr. Scott at a nominal charge.

Desiring to reciprocate the good will which Mr. Scott and his company had shown to the United States Government in the time of war, the Embassy has informed him of the proposal of the United States Government to turn back the airfield at Puerto Cabezas in accordance with the provisions of the exchange of Notes mentioned above. . . .

. . . Mr. Scott has discussed the matter, as has the Embassy, with his attorney, Dr. Mariano Argüello, former Minister for Foreign Affairs, friend of Somoza and friend of the United States. Mr. Scott has emphasized to Dr. Argüello that he would like to see the field open on the same conditions to all airlines of the American republics. On this basis, Dr. Argüello has suggested and requested that there be submitted to the Department certain ideas for incorporation in the Note to be sent to the Nicaraguan Government. There follows a draft of a Note containing these ideas which the Embassy now submits to the Department for its approval. The Note would read:

"Excellency: I have the honor to refer to this Embassy's Note No. 135 of May 29, 1942, and to Foreign Office Note L/No. 160 of June 2,

²⁵ Not printed.

1942, constituting an agreement between our Governments for the enlargement and development of the airport at Puerto Cabezas, the stationing thereon of a detachment of United States troops, and the construction of housing and other facilities for the troops stationed at the airports at Puerto Cabezas and Las Mercedes.

"In accordance with this agreement, my Government leased from the Bragman's Bluff Lumber Company, Inc., now the Standard Fruit & Steamship Corporation, for a period of ten years beginning on May 31, 1942, a lot measuring two hundred hectares plus a strip of land bordered on the south by the fence surrounding the landing strip of the airport. In the contract with the said company it was further stipulated that the airport could be used by the commercial planes of Government or private enterprises that might be in operation in Nicaragua engaged either in domestic or international service. This airport has in fact been built and is surrounded by fences on all sides.

"Your Excellency's Government is now informed that the United States Government proposes to relinquish operation and control of the airport at Puerto Cabezas in the near future on a date to be agreed upon with the Nicaraguan authorities.

"In accordance with the eighth paragraph of the agreement, all fixed improvements, other than radio equipment, shall revert to and become the property of the Government of Nicaragua, including the rights acquired by my Government from the Bragman's Bluff Lumber Company, Inc., over the land above described, subject to the terms of the agreement with the said Company as regards the use of the airport by airplanes of Government or private enterprises operating in Nicaragua.

"In terminating this cordial and highly satisfactory experience in military cooperation, my Government is confident that, in accordance with its repeated advocacy of unrestricted development of air navigation and transport, this airport will be freely available to all aircraft, Government, commercial, and private.

"My Government would greatly appreciate an expression from Your Excellency's Government of its concurrence in this view."

I trust that the Department may see its way clear to approve the Note as re-written and that it will promptly instruct the Embassy in the premises.²⁶

Respectfully yours,

FLETCHER WARREN

²⁶ The Acting Secretary of State informed Ambassador Warren in telegram 230, July 9, 6 p. m., that the revised draft note to the Nicaraguan Government quoted in this despatch was approved with the following substitution for fourth paragraph:

"In accordance with the eighth paragraph of the agreement, all fixed improvements other than radio equipment shall revert to and become the property of the Govt of Nicaragua. My Govt also intends to release to the Nicaraguan Govt the rights which the former acquired from the Bragman's Bluff Lumber Co., Inc., over the land above described, subject to the terms of the agreement with the said Company as regards the use of the airport by airplanes of Govt or private enterprises operating in Nicaragua." (811.24517/6-1846)

811.24517/12-1846

*The Ambassador in Nicaragua (Warren) to the Secretary of State*CONFIDENTIAL
No. 1277MANAGUA, December 18, 1946.
[Received December 24.]

SIR: I have the honor to report that the United States Military Air Base at Puerto Cabezas was formally turned over to the Nicaraguan Government on December 14.

[Here follows list of names of the official party.]

Transfer of the Base was preceded by an inspection of the property, including the fixed installations destined to the Nicaraguan Government, and was followed by a luncheon at which Mr. H. D. Scott, Manager of the Standard Fruit Company, was host. The miscellaneous surplus property to which reference is made in the Department's Secret Instruction no. 282 of July 18, 1946,²⁷ was turned over directly by the Pan American Airways representative to Mr. Scott in accordance with arrangements made with the representative in Nicaragua of the Public Roads Administration, Mr. M. J. Adams.

Attendance was limited to the official party, representatives of Pan American and Taca Airways, a detachment of Guardia Nacional Troops, five newspaper reporters from Managua and the manager and employees of the Standard Fruit Company.

Respectfully yours,

FLETCHER WARREN

EFFORTS TO OBTAIN SETTLEMENT OF NICARAGUAN FINANCIAL OBLIGATIONS TO THE UNITED STATES

817.24/3-446

Memorandum by the Assistant Chief of the Division of Lend-Lease and Surplus Property Affairs (Maxwell) to the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, March 4, 1946.

The lend-lease agreement with Nicaragua,²⁸ as is the case with the other Latin American republics, provides for reimbursement for transfers on a percentage basis. It has been the policy of this Government from the beginning to expect financial settlement in accordance with the terms of the Latin American lend-lease agreements, and

²⁷ Not printed.

²⁸ For text of agreement signed at Washington October 16, 1941, see *Foreign Relations*, 1941, vol. VII, p. 410.

there has been no difference of opinion within the Department on this position as far as we are aware.

On July 11, 1945 the Staff Committee²⁹ specifically affirmed this policy and urged that the American republics be pressed for settlement under the terms of their respective agreements in approving SC-142, dated July 5, 1945. The recommendations of the approved document included:

“1. The continued policy of this Government will be to ask for payment from the other American republics for items transferred under the terms of the Lend-Lease Agreements with them.

2. More vigorous steps should be taken by the State Department to press for payment of arrears by (a) using positive and forcible language in the next billings to those other American republics in serious arrears and (b) having the appropriate officers of the Department orally inform the appropriate officers of the Embassies of these same other American republics that payment is expected.”

The first of these recommended actions (a) has been taken in the case of all countries in serious arrears, with general results considerably less than satisfactory. The second recommended action (b) has not been taken, so far as we are aware, in the case of any countries except Cuba. In the case of Nicaragua a series of notes to the Embassy requesting reimbursement has produced no results. Nicaragua is still in arrears and still has made no payment. The sum now due, as reported in Statement LL-7, is \$651,000. A note transmitting copies of this statement and requesting payment of \$651,000 is now in process of clearance. The same sum was requested in the note transmitting Statement LL-6 and is, therefore, now in arrears.³⁰

In view of these facts, it is my belief that unless some very important political consideration makes such an interview undesirable at the present time it would be advisable for the appropriate official in ARA to tell the appropriate official of the Nicaraguan Embassy, informally, in the near future, that we mean what we say and do not intend to change our policy, at the same time, perhaps, reviewing briefly the general content of the present note and Nicaragua's obligation and expressing the hope that some action will be taken.

²⁹ The Secretary of State's Staff Committee.

³⁰ A note transmitting copies of Statements LL-6 and LL-7 was handed to the Nicaraguan Ambassador (Sevilla Sacasa) by the Director of the Office of American Republic Affairs (Briggs) on March 25, 1946, not printed.

A memorandum of March 13, 1946, by Mr. Newbegin to Mr. Briggs indicated that Nicaragua had made no payment whatsoever since the lend-lease agreement went into effect on October 16, 1941 (817.24/3-446).

817.51/3-546: Airgram

The Secretary of State to the Ambassador in Nicaragua (Warren)

WASHINGTON, March 5, 1946.

A-58. The Department has learned that the Nicaraguan Ambassador recently informed officials of the Export-Import Bank that payment on its loan is awaiting a settlement of Inter-American Highway financial negotiations.³¹ The Nicaraguan government is now in arrears in the amount of \$86,063.38 covering the period from December 31, 1945 to February 9, 1946. The Bank is informing the Ambassador that payments on Export-Import Bank loans should not be linked to the Pan American Highway and requesting payment of principal and interest due.

You are authorized in your discretion to discuss this matter with President Somoza and to point out the unfortunate impression caused by this action in the Department and in the Export-Import Bank. You may add that in addition to the lack of any connection between the Export-Import Bank payments and amounts due to Nicaragua on the Inter-American Highway, the former represents a fixed and determined amount whereas the latter is as yet undetermined.

BYRNES

817.00/3-1546: Telegram

The Acting Secretary of State to the Ambassador in Nicaragua (Warren)

RESTRICTED

WASHINGTON, March 25, 1946—7 p. m.

91. Your airgram A-88, Mar 15.³² Somoza appears to be operating under several obvious and serious misconceptions with regard to possible loan. Following observations are pertinent regarding specific objectives of loan as envisaged by Somoza:

1. and 2. Under Exim Bank's established policy no loans could be made to increase capital of Banco Hipotecario or Banco Nacional.

3. Eximbank has already opened general line of credit for International Standard Electric operations abroad. Specific proposal for Managua exchange already under consideration by Bank thus obviating necessity further action by Somoza.

³¹ See memorandum by the Chief of the Division of Caribbean and Central American Affairs, February 27, 1946, and subsequent documentation on this subject, pp. 170 ff.

³² In this airgram President Somoza outlined to Ambassador Warren the six purposes for which a loan was needed (817.00/3-1546).

4. Projects for water and light plants can be considered by Bank only if presented in specific, detailed form, with full evidence of economic justification. Project descriptions and supporting data should be submitted to Bank, at least for its preliminary study, through normal channels i.e. Nicaraguan Amb in Washington. In any event, were any such loans approved by Exim Bank they would not be made directly to Nicaraguan Govt but to American interests concerned.

5. Extension of loan for payment of Lend-Lease account would not be considered.

6. An audit to determine amounts due Nicaragua for road expenditures has been undertaken and Dept is endeavoring to expedite action. No loan would be made to cover amounts due (these amounts furthermore are still subject to determination).

Not only is Eximbank unable to make loans in specific instances stated but no other agency of this Govt is in a position to do so.

You are authorized in your discretion to bring the above to Pres Somoza's attention pointing out that item 4 constitutes the only possibility among those mentioned for which loan could possibly be considered.

ACHESON

817.51/4-246: Airgram

The Ambassador in Nicaragua (Warren) to the Secretary of State

CONFIDENTIAL

MANAGUA, April 2, 1946.

[Received April 5—9: 10 a. m.]

A-115. Reference is made to the Department's Airgram A-58 of March 5, 1946, concerning Nicaragua's arrears in the amount of \$86,-063.38 in payment of its Export-Import Bank loan. I had a good opportunity to discuss the matter with President Somoza at El Genizaro.³³

I allowed the President to read Airgram No. A-58. He said:

(1) That he and Ambassador Sevilla Sacasa are not trying to link the Export-Import Bank loan to the Pan-American Highway accounts.

(2) That he only wants Washington to wait a bit until settlement of the Highway accounts is accomplished in the hope that Nicaragua will then be in a better position to meet the obligation.

(3) That because the audit of the Pan-American Highway accounts had proceeded slowly, he had had to use the money set aside for payment of the Export-Import Bank loan to finance the highway expenditures.

WARREN

³³ The President's country home.

817.00/4-246 : Airgram

The Ambassador in Nicaragua (Warren) to the Secretary of State

RESTRICTED

MANAGUA, April 2, 1946.

[Received April 5—9: 12 a. m.]

A-116. I saw President Somoza at El Genízaro this morning. I conveyed to him all the information contained in the Department's telegram no. 91 of March 25, 7 p. m., sent in reply to my Airgram A-88 of March 15, 1946.³⁴

The President now understands the Department's reply regarding Purposes 1 and 2.

He is satisfied with the reply on Purposes 3 and 4.

Purpose 5 he will reconsider after the audit of the accounts of the Inter-American Highway and the Rama Road.

He will know shortly where he stands with respect to Purpose 6 when the audit of the highway accounts just mentioned has been completed.

I am inclined to think the President will use Ambassador Sevilla to find an appropriate means of meeting the needs covered by Purposes 1 and 2.

WARREN

817.51/4-1046

Memorandum of Telephone Conversation, by the Assistant Chief of the Division of Caribbean and Central American Affairs (Newbegin)

WASHINGTON, April 10, 1946.

Upon the receipt of Managua's telegram 235, April 9³⁵ stating that President Somoza had instructed Mr. James of PRA³⁶ to pay the Export-Import Bank the amount of arrears due on its loan to Nicaragua from funds payable to Nicaragua by PRA for road construction, I telephoned Ambassador Warren this morning to inform him (1) that President Somoza was not in a position to instruct James to pay the Exim Bank and that any payment due to Nicaragua by the Public Roads Administration should be made in the usual manner, (2) that we had maintained all along and continued to so maintain that there was no connection between the two sums due the respective govern-

³⁴ Latter not printed, but see footnote 32, p. 1085.

³⁵ Not printed.

³⁶ Edwin W. James, Chief of the Inter-American Regional Office, Public Roads Administration (PRA).

ments and that the Exim Bank loan was a direct obligation of the Nicaraguan Government and stands by itself.

Ambassador Warren replied that he had been unfortunate in his use of the word "instructed" since President Somoza had merely requested that this be done. He said further that the President had acknowledged fully on two occasions that there was no connection whatsoever between the two matters but that it would be of great assistance to the Nicaraguans were Mr. James to make the payment directly to the Bank. He said that in view of the fact that James had agreed to do so, it would be exceedingly embarrassing to go back at this time to the President and state that we would not comply with his request. He was, however, ready to do so provided the Department wished him to. I suggested that payment direct to the Exim Bank would set a precedent which we were very anxious to avoid and suggested that possibly Mr. James could make his payment to the Nicaraguan Embassy which in turn could pay the Exim Bank. The Ambassador said that he was having luncheon with Mr. James and that he would review the matter with him and call me later.

He telephoned again this afternoon emphasizing once more that there was no question in President Somoza's mind as to the lack of connection between the two sums and that he and James were both of the opinion that since the President was particularly desirous of paying off the amounts due the Bank he could only interpret our refusal now to make this payment as an attempt to humiliate him. For this reason he felt it was undesirable to take it up with him again. I replied that under these circumstances it might be best to let the matter rest until Mr. James returned to Washington when it could be discussed further here. I suggested also that there would appear to be some question whether James could be authorized by PRA to make any payment to the Exim Bank. The Ambassador said that he was in accord and that no further action would be taken in Managua.³⁷

R[OBERT] N[EWBEGIN]

³⁷ A memorandum of April 23 by the Special Assistant of the Division of Investment and Development (Stenger), reported to Mr. Newbegin that the Export-Import Bank had informed him (1) that a payment of approximately \$77,000, the amount of the amortization and interest in arrears, had been received from Nicaragua, and (2) that the Bank had informed Mr. James that as Nicaragua had paid the overdue account it would not be necessary to use the PRA funds at that time (817.51/4-2346).

S17.24/7-3146

*Memorandum of Conversation, by the Chief of the Division of
Caribbean and Central American Affairs (Cochran)*

CONFIDENTIAL

WASHINGTON, July 31, 1946.

Participants: Señor Dr. Don Guillermo Sevilla Sacasa, Ambassador
of Nicaragua.

Mr. Ellis O. Briggs, Director, Office of American
Republic Affairs.

Mr. William P. Cochran, Jr., Chief, Division of Carib-
bean and Central American Affairs.

The Nicaraguan Ambassador called this morning at Mr. Briggs' request. Mr. Briggs stated that he understood that the Ambassador was returning to Nicaragua in a few days (a statement which the Ambassador confirmed) and that he wished to speak to him about Lend-Lease. Mr. Briggs then presented the Department's note of July 26 enclosing Lend-Lease statement no. 8.³⁸ The Ambassador was very profuse in his assurances that the failure to pay was not due to any bad faith. He mentioned the drought which had reduced Nicaragua's agricultural production this last season. However, he said that the recent increase in the coffee price, together with a scheme to sell some of Nicaragua's gold production to China for more than it brought in the United States, might provide the necessary foreign exchange. He also mentioned in passing, the Nicaraguan application to the Export-Import Bank for a \$3,000,000 loan to buy agricultural machinery and equipment and to make loans to small farmers. The Ambassador said that he had already had the Lend-Lease matter high on his list for discussion with President Somoza and said that he knew President Somoza was anxious to liquidate this account before he left office.

Mr. Briggs then brought up the \$166,000 owed by Nicaragua to the United States Army Engineers.³⁹ Mr. Cochran explained that this was the balance due for equipment purchased from the Army Engineers when they abandoned work on the Pioneer Highway.⁴⁰ The Ambassador said that he would also take this up with his President and made the same assurances that he (the President) would desire to pay off this sum before he left office (next May).

W[ILLIAM] P. C[OCHRAN]

³⁸ Not printed; according to this note, the sum of \$587,000 was due on account from the Nicaraguan Government (S17.24/7-2246).

³⁹ See memorandum by Mr. Cochran, April 17, p. 175.

⁴⁰ For documentation on the Pioneer Highway, see *Foreign Relations*, 1943, vol. v, pp. 76 ff., and *ibid.*, 1944, vol. vii, pp. 187 ff.

817.24/8-1946 : Airgram

The Ambassador in Nicaragua (Warren) to the Secretary of State

CONFIDENTIAL

MANAGUA, August 19, 1946.

[Received August 26—2: 58 p. m.]

A-337. In connection with the conversation of Messrs. Briggs and Cochran with Nicaraguan Ambassador Sevilla Sacasa covered by memorandum of conversation dated July 31, 1946, this Embassy offers most respectfully the following comment.

It is not understood how Ambassador Sevilla can attribute Nicaragua's failure to make any payment on Lend Lease to the recent drought. With the exception of coffee, Nicaragua had the greatest exportable surplus from its 1945 crop in the history of the Republic. Important exports of corn, rice, and beans began to move late in 1945, and continued until just recently when due to drought the Government suspended issuance of export licenses for grain food. As the Ambassador points out, the recently increasing coffee prices should have improved somewhat Nicaragua's ability to pay.

This Embassy had not heard heretofore of any scheme to sell some of Nicaragua's gold production to China. If gold can be disposed of in China to better advantage than in the United States, it is to be hoped that the scheme can be effected. It is the firm conviction of the Embassy that Nicaragua's failure to meet its obligations under Lend Lease are due almost entirely to extravagant expenditure by the Somoza administration.

With regard to the amount of \$166,000 owed by Nicaragua to the United States Army Engineers, it is the Embassy's belief that the failure to liquidate this obligation is due primarily to the readiness of the Somoza administration to spend its revenues for other purposes which it considers more compelling. The Nicaraguan Government is in arrears to the United States Army Engineers just as it is in the payment of its contribution to the sanitary program ⁴¹ in this country, on Lend Lease, and on the payment of certain bills due in the United States. It is possible that General Somoza does desire to see all these obligations paid before he leaves the Presidency on May 1, 1947. If so, he has chosen a most difficult time in which to meet the obligations. It seems certain that during the coming months Nicaragua will face declining revenues. It will be even harder to pay these obligations during the next 8 months than it has been any time during the past 16.

⁴¹ Under agreement between the United States and Nicaragua respecting a health and sanitation program, effected by exchange of notes signed at Managua March 30 and 31, 1944, it was understood that Nicaragua would contribute \$150,000.00 to be combined with funds contributed by the United States for the cooperative program in Nicaragua. For texts of notes, see Department of State Executive Agreement Series No. 484, or 59 Stat. (pt. 2) 1673.

During his recent visit here, Ambassador Sevilla told me he has spoken to President Somoza and that the Lend Lease obligation would be paid in installments as funds become available. He said there was no question of bad faith and that there exists a real desire on the part of General Somoza to liquidate the amount as quickly as possible. I do not recall that he mentioned the sum owed to the United States Army Engineers.

The Embassy is of the opinion that it would be a mistake to lend Nicaragua \$3,000,000 to buy agricultural machinery and equipment and to make loans to small farmers. Mechanization of agriculture is not the solution to Nicaragua's problem. Such a change would entail the unemployment of many Indians now used in agricultural work. Furthermore, it would call for many trained mechanics for the operation and upkeep of such machinery. Such mechanics are not available and would have to be trained over a period of years. Consequently, the new machinery would probably be discarded at the end of the first harvest—a new loss to be borne by Nicaraguan economy. If Nicaragua desires to make loans to small farmers it should learn to raise internally the funds which she needs for that purpose. It is not seen that an importation of dollars for this purpose would be justified. There is plenty of money in Nicaragua for such a purpose, but the Nicaraguans do not have sufficient confidence in their Government to use it for that purpose. Furthermore, a rate of from 10 to 15 per cent a month on funds is not unusual.

The Embassy will continue to watch this matter closely.

WARREN

817.24/9-2746

Memorandum of Conversation, by the Divisional Assistant of the Division of Caribbean and Central American Affairs (Wood)

CONFIDENTIAL

WASHINGTON, September 27, 1946.

Participants: Ambassador Sevilla Sacasa of Nicaragua
 Mr. Braden—A—Br⁴²
 Mr. Wood—CCA

The Nicaraguan Ambassador requested an appointment and called on Mr. Braden at 12 today. In his conversation he mentioned four topics, which are as follows:

(1) Lend Lease—The Ambassador stated his Government had endeavored to pay lend lease sums in arrears and had asked a loan of the Export Import Bank. He said that the Bank had asked him to

⁴² Spruille Braden, Assistant Secretary of State for American Republic Affairs.

come in today for the decision. (Note—I am informed that the Bank's decision is negative.) The Ambassador stated that lend lease payments would be made in any case since a commercial loan had been arranged by the Banco Nacional de Nicaragua with the Bank of America at San Francisco. The loan, to total four and one-half million dollars, is to cover a multitude of internal projects, particularly to finance agricultural needs. He stated that the proposed loan had progressed to the point where all that would be required was the acceptance of the Banco Nacional of the conditions. It is the Nicaraguan Government's intention to divert—say \$150,000 immediately from the loan for purposes of paying part of the lend lease sum due.⁴³

[Here follow the Ambassador's comments on the remaining topics of discussion: (2) Central American Union, and (3) and (4) the political situation in Nicaragua.]

817.51/10-1646: Airgram

The Acting Secretary of State to the Ambassador in Nicaragua
(Warren)

CONFIDENTIAL

WASHINGTON, October 16, 1946.

A-231. Loan applications have been submitted by the Nicaraguan Government to the Bank of America and to the Eximbank for apparently similar purposes, as follows:

The Department is informed that the Bank of America was approached by Rafael Huezo, General Manager of the Banco Nacional de Nicaragua for an eight-year loan of \$4.5 million which reportedly will be employed to increase the working capital of the Banco Nacional so as to enable the latter to advance funds to the Banco Hipotecario de Nicaragua for opening up new lands and for the mechanization of agriculture. The Banco Nacional desires \$2.5 million upon approval of the loan, and the balance within two years. The period of repayment is 1948 to 1955 at the annual rate of \$600,000, payments to be made quarterly. The security reportedly offered is the assignment of \$2 million in gold and \$1.5 million in dollar balances which would be held by the Bank of America, appropriate assurances being given that no legal or financial encumbrances, written or otherwise, exist to prevent the offer of such security. Reportedly, the Nicaraguan Government and the Banco Nacional would guarantee the loan. The Department is not aware that this loan application to the Bank of America has re-

⁴³ The approximate sum due for charges through May 31, 1946, was \$580,000, according to Department's note of December 12, 1946, to the Nicaraguan Ambassador, enclosing statement LL-9 in regard to the lend-lease account of Nicaragua (817.24/12-1246).

ceived or will receive favorable consideration. (Reference Embassy's confidential telegram no. 542, September 30, 1946.⁴⁴)

In a letter of July 23, 1946, the Nicaraguan Ambassador presented to the Eximbank an application for a loan of \$3 million. The Eximbank reports that the application is for two different types of credits; namely, (a) to provide capital for the Banco Hipotecario de Nicaragua so that the latter apparently could take over from the Banco Nacional long-term loans to municipalities, public utilities, et cetera, and thus permit the latter to make short-term loans to agricultural producers, and (b) for the purchase of U.S. agricultural machinery and equipment.

The Nicaraguan Ambassador and Rafael Huezo have been informed by the Eximbank that the first type of credit could not be extended since it was contrary to the policy of the Eximbank to extend credit for such purposes, namely, for the establishment of a reserve against which local currency loans could be made. They were informed, however, that the second type of credit could be considered, but that it would be necessary to indicate more precisely the machinery and equipment desired and the specific projects for which they would be employed. They were informed, moreover, that since the current application for the second type of credit did not specify in sufficient detail the projects contemplated, it was uncertain whether the Eximbank would consider giving approval to the credit. The Nicaraguan Ambassador did not definitely indicate that a revised application would be submitted.

For the Embassy's information only, the Department and the Eximbank believe that the following economic considerations preclude favorable consideration of credits to Nicaragua, namely: doubt as to possibility of effective use of any credits which might be granted at this time; the questionable position of the Banco Nacional; and, the failure of the Nicaraguan Government to meet its existing obligations to United States entities such as rubber companies, U.S. Corp of Engineers, Lend-Lease and others.

For political reasons, the Department does not favor the extension of an Eximbank loan to Nicaragua prior to the elections to be held early in 1947.

ACHESON

⁴⁴ Not printed; it indicated that on December 30, 1946, the Nicaraguan Ambassador informed Assistant Secretary Braden that preliminary steps had been taken, and an agreement signed, whereby Nicaragua would obtain a 4½ million dollar loan from the Bank of America, and that part of this loan would be applied to lend-lease payments (711.17/12-3046).

817.51/11-2646

*Memorandum by the Chief of the Division of Central America and Panama Affairs (Newbegin)*⁴⁵

WASHINGTON, November 26, 1946.

Mr. Atterberry of ED ⁴⁶ called this morning to state that the Eximbank had received a formal request from Nicaragua for a loan of \$1,600,000 for the purchase of agricultural machinery.⁴⁷ He inquired as to the political advisability of granting such a loan and was informed that it would be most undesirable ⁴⁸ for the Eximbank to take favorable action on this request at least until after the February elections. It was emphasized that President Somoza would claim personal credit for obtaining such a loan, if granted, and that favorable action would be interpreted in Nicaragua as carrying with it the blessing of this Government for Somoza. Mr. Atterberry was further informed that it was assumed that the Eximbank, before granting a loan, would in any case go thoroughly into the question of Nicaraguan finances and the Nicaraguan economic situation. Mr. Atterberry concurred and stated that all that was wanted at this time was an opinion as to the political desirability of the loan.

R[OBERT] N[EWBEGIN]

⁴⁵ Addressed to the Assistant Secretary of State for American Republic Affairs (Braden) and to the Director and Deputy Director of the Office of American Republic Affairs (Briggs and Trueblood).

⁴⁶ Phil R. Atterberry, Divisional Assistant, Division of Investment and Economic Development.

⁴⁷ In course of a courtesy call on October 8, 1946, Ambassador Sevilla Sacasa informed Mr. Newbegin that he had submitted a new request for a loan of \$1,600,000 since the Export-Import Bank had intimated that a request for a reduced loan would receive sympathetic interest. As regards the loan from the Bank of America, he said the proposal was then in definite form and was being submitted to the Nicaraguan National Bank for approval of the conditions (817.51/10-846).

⁴⁸ Assistant Secretary Braden wrote in the margin beside this word: "Agree 100%. SB".

PANAMA

DISCUSSIONS BETWEEN PANAMA AND THE UNITED STATES ON THE
DEFENSE SITES¹

711F.1914/3-2546

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

[Extract]

No. 1168

PANAMÁ, March 25, 1946.

[Received April 1.]

SIR: I have the honor to report that the former Naval Torpedo Boat Base located on the island of Taboga together with a degaussing station were formally returned to the Republic of Panamá March 21, 1946, in appropriate ceremonies, upon the recommendation of the Commanding General, Caribbean Defense Command, and the Commandant, Fifteenth Naval District.

These two sites were known as nos. 34 and 85 in the memorandum accompanying the Defense Sites Agreement May 18, 1942;² they were acquired in May 1942, and had been actively used until the termination of the war in the Pacific in August 1945. Since that date they have been on a caretaker status with the large site being used as a recreation point for Fifteenth Naval District personnel. The former Torpedo Boat Base site comprised some 36 acres of land, and contains over 80 buildings, a pier, power plant, workshops, and other installations. The pier, the buildings, the water and electrical and other fixed installations were returned, along with the land, to the Republic of Panamá, and the power plant was sold to Panamá through the Foreign Liquidation Commission for a nominal sum.

Respectfully yours,

For the Ambassador:
V. LANSING COLLINS, JR.,
Second Secretary of Embassy

¹ For previous documentation on defense problems, see *Foreign Relations*, 1945, vol. IX, pp. 1231 ff.

² Department of State Executive Agreement Series No. 359.

711F.1914/4-2546

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

No. 1451

PANAMÁ, April 25, 1946.

[Received April 30.]

SIR: I have the honor to refer to the Department's instruction No. 128 of April 16, 1946, transmitting to the Embassy a copy of secret communication dated March 21, 1946, from the War Department and the Department's reply of April 6, 1946.³

In connection with the Department's reply to the War Department, indicating the desirability of returning to Panamá defense sites no longer needed by the War Department, I desire to advise that this has been the policy followed by the Embassy for some time and, in connection therewith, I wish to call attention to so much of Article I of the Defense Sites Agreement reading as follows:

" . . . If within that period the two Governments believe that, in spite of the cessation of hostilities, a state of international insecurity continues to exist which makes vitally necessary the continuation of the use of any of the said defense bases or areas, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require. . . ."

In view of the interpretation given before the constituted Assembly by the Minister of Foreign Affairs, and the previous Minister of Foreign Affairs,⁴ it is my best judgment that it would be very desirable to undertake negotiations for the sites which the War Department contemplates retaining as early as possible, and in any event prior to September 1, 1946.

It will also be my purpose to endeavor to have the Commanding General of the Caribbean Defense Command⁵ agree with me on the early return of certain sites presently not being used. I am sure that if the foregoing action is taken it will be most helpful later in connection with negotiations now pending between the two Governments.

Respectfully yours,

FRANK T. HINES

³ None printed.

⁴ Ricardo J. Alfaro and Roberto Jiménez, respectively.

⁵ Lt. Gen. Willis D. Crittenberger.

711F.19/4-1746

Memorandum by Mr. Murray M. Wise of the Division of Caribbean and Central American Affairs

WASHINGTON, May 1, 1946.

President Jiménez⁶ has announced that Panama will at the forthcoming round-table discussions take up with the United States the question of the construction of a tunnel under the Panama Canal at Balboa.

This Government's commitment of May 18, 1942 reads as follows:

"The Government of the United States is well aware of the importance to the Government and the people of Panama of constant and rapid communication across the Panama Canal at Balboa and is willing to agree to the construction of a tunnel under or a bridge over the Canal at that point, when the present emergency has ended. Pending the carrying out of this project, the Government of the United States will give urgent attention, consistent with the exigencies of the present emergency, to improving the present ferry service."⁷

As yet there is no final agreement among Army and Navy officers that additional transportation facilities at Balboa should be in the form of a tunnel rather than a bridge. However, with the coming of the atomic era the Army is inclining to go along with the Navy which has always opposed the bridge idea.

When I was in Panama in July 1945, Governor Mehaffey⁸ said that an estimate made in 1941 placed the cost of a tunnel at Balboa at approximately \$15,500,000. The Governor said that \$3,000,000 or more would have to be added to that now due to increased prices of construction materials, labor, etc., and that probably the total cost would run to \$20,000,000.

It costs \$300,000 a year to operate the present ferry service. The operating cost of a tunnel per annum is estimated at some \$100,000. The Governor said preliminary plans for purposes of rough estimates only were drawn up in 1941.

I was very interested in the fact that preliminary considerations led Canal Zone officials to believe that the top of the tunnel at its greatest depth under the Canal would be some 100 feet below the water level and that a tunnel under the Canal at Balboa would probably turn out to be one of the world's greatest tunnel engineering feats.

The emergency has not ended as of this date. Presumably, we would find it just as difficult now to carry out this commitment as we would have during actual hostilities abroad.

⁶ Enrique A. Jiménez.

⁷ Paragraph numbered 4 of the general relations agreement of May 18, 1942; for text, see Department of State Executive Agreement Series No. 452.

⁸ Brig. Gen. J. C. Mehaffey, Governor of the Panama Canal.

711.19/5-1046 : Telegram

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

PANAMÁ, May 10, 1946.

[Received May 10—4:30 p. m.]

317. The following is an office translation of a FonOff memo delivered to Embassy :

"The Govt of Panama feels highest satisfaction over fact that relations between Republic and United States are on cordial, understanding and cooperative basis surpassed at no other time. War which has just been terminated has contributed greatly no doubt to strengthening of friendship between two countries because it served to strengthen bonds between them and to demonstrate that their destinies were irremissibly united.

However, between two countries having such multiple diverse and complicated relations as those created by construction of the Panama Canal in heart of Panamanian territory and by different public treaties and agreements celebrated between Panama and United States, it is natural that international and diplomatic problems and questions exist which should be settled in a mutually satisfactory manner and for which Govt of Panama desires find agreeable solution, above all by means of diplomatic negotiation, and if in some cases that is not feasible, by civilized means of arbitration or international justice.

Panama is hopeful and confident that in its relations with United States it will not be necessary to resort to arbitration or international justice. Panama would like on the contrary to solve by direct means all those questions and situations in which there is a difference of opinion between Govt of Panama and that of United States and for this reason proposes that in round table discussions and in a spirit of frankness and good will representatives of the Govt of Panama and United States discuss all matters of importance which are pending between two Govts or whose nature require action by one or the other or by both.

Govt of Republic has drawn up a list with 23 tentative questions which in its judgment require attention in proposed round table discussion. But among these matters there are some which require preferential treatment both because of their intrinsic importance and because of length of time they have been pending without a definite solution up to the present time.

Matters which in opinion of Govt of Panama deserve preferential treatment are those which are listed below

- (1) Financial or any other claims which have been made by either of the two Govts in favor of its nationals (Mariposa, Malambo, etc.).⁹
- (2) Prejudicial differences which exist with respect to Panamanian citizens who work in Panama Canal.

⁹ The claim of the Mariposa Development Company related to a disputed title to a tract of land, and the Malambo claim were made by Panama for damages resulting from alleged negligence of United States Government employees in connection with a fire.

(3) Widening and improvement of corridor which unites Transisthmian Highway with city of Colón in accordance with treaty of 1936¹⁰ including question of overpass to maintain uninterrupted Panamanian jurisdiction over corridor.

(4) Collaboration and regulation of air traffic in view of proximity of existing airports in Canal Zone and those established or to be established in territory under jurisdiction of Republic of Panama.

(5) Reciprocity in issuance of visas to nationals desiring to visit respective countries and in general a broader and more equitable cooperation in immigration matters.

(6) Revision of stipulations of monetary conference of 1904 especially those relating to coining limitations.

(7) Possibility of broadening of jurisdictional waters of Colón so that that natural port could fulfill its function.

(8) Cession to Panama of dominion or use of all or part of telegraph lines constructed by United States in territory under Panamanian jurisdiction.

(9) Temporary lease to Republic of Panama for a reasonable period of a suitable storage space in Canal Zone to transfer inflammable which Govt of Panama now maintains in a storehouse located in center of city.

(10) Transfer to Republic of Panama of territory of Punta Paitilla which is not now needed for protection of canal.

“Govt of Panama will immediately present a preliminary memorandum re each one of matters above mentioned and as soon as representatives of Govt of United States desire to discuss each one of matters submitted to its attention this Ministry will be glad to arrange the dates and time for preliminary conversation to permit two Govts to present their respective points of view and propose agreements and solutions.

“There is attached to this memo for the information of Embassy a report of matters which it is considered may be tentatively discussed in form mentioned.

“Govt of Panama is confident that this procedure will be agreeable to Govt of United States and that two Govts will be able to start the round table discussions in shortest possible time. Panama May 7, 1946.

(1) A crossing of Panama Canal by more rapid and easier means than those existing at present.

(2) Suspension of sales of luxury and tourist articles in Canal Zone in accordance with treaties (*sic*) of 1936.

(3) Maintenance of existing agreements re introduction and sale of liquor.

(4) Revision of conventions on extradition and agreements existing today re surrender of persons wanted or pursued by police, judges or prosecuting attorneys of Republic of Panama and of Panama Canal.

(5) Mutual assistance in administration of justice between Panama and Canal Zone.

¹⁰ Treaty of friendship and cooperation, signed at Washington, March 2, 1936; for text, see Department of State Treaty Series No. 945.

(6) Arrangements for rapid transfer of railroad station to a more adequate site in city of Panamá.

(7) Repatriation of laborers imported to work in Canal Zone.

(8) Revision of existing policy re admission into hospitals and asylums of Republic of Panama of individuals who work in Canal Zone who are not Panamanians.

(9) Revision of agreements on use of hospitals and doctors in Canal Zone by persons residing in Republic of Panama.

(10) Agreements concerning aviation.

(11) Agreements re cooperation of military forces and police of Panama with corresponding organizations of United States especially with the Canal Zone.

(12) Agreements tending to avoid interference or difficulty of any nature between the broadcasting stations established in Canal Zone and Panamanian broadcasting stations.

(13) Construction by Marine Division of Canal Zone with adequate payment of a dock at Coiba Penal Colony.

(14) Cession to Panama of some of telegraph and subterranean telephone lines which Panama Canal appears to have along Transisthmian Highway from Panama to Colón or Madden Dam Highway in order to make installation by Govt of Panama of these services more economic."

I am today informing FonOff that I am ready to proceed with discussing the items outlined in memo.

Should Dept have any further suggestions with regard to any of matters outlined in memo or any related matters it is requested I be promptly advised.

Delay in transmitting this message is due to fact that FonOff memorandum was not complete when first received.

HINES

711.19/5-1046 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

RESTRICTED

WASHINGTON, May 17, 1946—2 p. m.

278. Embtel 317 May 10, 1946. You have proceeded correctly in indicating to ForMin that this Govt in preparation for round table discussions is quite ready to study preliminary memoranda on pending matters of importance to Panama. In the meantime we should begin drawing up a list of topics, such as defense areas, aviation agreement, Mariposa claims, etc., which this Govt will wish to submit to Panama. You might ask Canal Zone authorities whether they can present to Embassy at early date requests they may wish to make of Panama.

It is believed that round table discussions as well as negotiations themselves should take place in Panama. War Dept concurs. Accordingly, you are authorized when agreeable to all parties concerned

on the Isthmus to inaugurate informal preliminary exploratory discussions of Panamanian requests. Dept desires to be kept fully informed and consulted in advance of the making of definite commitments either by implication or otherwise.

Dept appreciates spirit of frankness with which ForMin has approached you on these problems. He should be so informed. At the same time, in your discretion, in the same spirit of frankness and in order that there be no misunderstanding, you should make clear that a specific commitment from Panama for a satisfactory settlement of the Mariposa claims will be expected before negotiations go beyond the stage of informal conversations.

ACHESON

711F.1914/9-346 : Telegram

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

US URGENT

PANAMÁ, August 3, 1946.

[Received August 3—9 : 52 a. m.]

555. According to *Star and Herald*, National Assembly unanimously resolved September 2, 1946 "to go on record categorically expressing the view that, in support of the close harmony, reciprocity and mutual consideration that exist between the Republic of Panama and the United States, and of the spirit of cooperation and confidence that has been attained among the nations of the continent, it is indispensable that the Government of the United States proceed to return the defense sites whose jurisdiction was granted to it through the agreement of May 18, 1942 and which it has not yet evacuated despite the fact that the term fixed therefor has expired."

HINES

711F.1914/7-1046

*The Assistant Secretary of State for American Republic Affairs
(Braden) to the Secretary of War (Patterson)*

WASHINGTON, August 5, 1946.

MY DEAR MR. SECRETARY: The receipt is acknowledged of a memorandum dated 10 July 1946 addressed to Mr. Ellis O. Briggs,¹¹ Director of American Republic Affairs by Colonel J. E. Bastion, Jr., (GSC) concerning the return to Panama of La Chorrera, La Joya and Madden airfields. The Department of State was requested to render an opinion as to the effect, if any, that the return of the three airfields

¹¹ Not printed.

would have on future negotiations with the Republic of Panama for other military rights in that country.

In reply there is transmitted herewith a recent exchange of communications¹² with the United States Ambassador at Panama relative to this matter. It will be noted that he recommends, with the concurrence of General Crittenger, that there be returned promptly to Panama the sites under reference along with any others no longer required and which will not be requested of that Republic in connection with future military needs.

The Department fully supports the position taken by Ambassador Hines and is definitely of the opinion that the immediate relinquishment, in accordance with the spirit of the Defense Sites Agreement of May 18, 1942, of all areas now held but no longer required for military purposes would have a most salutary influence as regards future military and other requests of Panama by this Government. It is, therefore, urged as an act of good faith with the Government of Panama, and as a means of strengthening the position of the present Panamanian Administration as regards its ability to accede to future military needs which it is planned will be presented at one of the round table conferences currently being held between the Embassy and the Panamanian Foreign Office, that La Chorrera, La Joya and Madden airfields be returned to Panama immediately along with any other defense sites whose military purposes may be considered to have been fulfilled.

Sincerely yours,

SPRUILLE BRADEN

819.76/8-2946

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

CONFIDENTIAL
No. 2279

PANAMÁ, August 29, 1946.
[Received September 5]

SIR: Referring to confidential instruction No. 303, August 13, 1946¹² relative to control over "Commercial Airways Radio Communications in the Republic of Panamá and the Canal Zone, and the establishment of a radio station at David by the Civil Aeronautics Administration", I have the honor to submit the following observations for the consideration and possible use of the Department.

1. The main consideration that must be kept constantly in mind is the safety and protection of The Panama Canal, and with the protection of The Panama Canal and its defenses the safety and efficient control of commercial, as well as Army and Navy air navigation.

2. At the present time the responsibility for the defense of The Panama Canal rests with the Commanding General, Panama Canal

¹² Not printed.

Department and Caribbean Defense Command, and in my judgment this responsibility is now properly placed, and should be continued in time of peace as well as in time of war.

3. The Republic of Panamá, in my judgment, is unable at the present time to efficiently handle with experienced personnel radio stations within the Republic and for that reason I feel that they will be glad to have such stations established and operated by the Civil Aeronautics authorities under the general supervision of the Commanding General. They, however, should be given an opportunity of developing competent personnel.

4. Because of the peculiar situation existing in the Republic of Panamá and the Canal Zone, no commercial company should be given authority to establish a transmitting station to handle commercial business having to do with air navigation. It would be far better for the established stations operating, as recommended under 3, to transact such company business for the several commercial airways companies at a reasonable charge, thus avoiding duplication of stations with the danger of possible interference, and without proper control of both military and commercial traffic.

Respectfully yours,

FRANK T. HINES

711F.1914/9-146 : Telegram

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

US URGENT

PANAMA, September 1, 1946.

[Received September 1—8:02 p. m.]

554. Following is rough translation of note delivered to me personally at 8 p. m., August 31, 1946.

“Mr. Ambassador: I have the honor of referring to Your Excellency’s courteous communication No. 259 which you handed to me personally at noon yesterday and in which you make reference to the defense sites or areas, the use of which was temporarily ceded [*cedió*] to the Government of the United States of America in pursuance to the terms of the May 18, 1942 agreement between the two Governments.

“I begin by thanking Your Excellency for the terms of praise for the Republic of Panama with which reference is made to the cooperation it gave to the war effort of the United Nations during the last World War which cooperation the Government of Your Excellency considers to be of inestimable value and to have contributed in incalculable proportion to the happy termination of the war.

“Your Excellency invokes article 1 of the aforementioned agreement on defense sites and states that your Government regards as being to the common interest of both countries that the matter of the defense bases be discussed anew including it in the agenda for discussion in the round-table conference and that under present circumstances it is considered of vital importance that the use be continued of certain of the present defense sites as well that the need for a limited number of new sites be studied.

“In this regard, it is my duty to state to Your Excellency in behalf of my Government the following:

“Article 1 section 1 of the agreement on defense sites mentioned in the note to which I am replying states the following: ^{12a}

‘The Republic of Panama cedes [*grants*] to the United States the temporary use for defense purposes of all the lands mentioned in the memorandum attached to this agreement and which is a part of same. These lands will be evacuated and their use will cease on the part of the United States of America 1 year after the date on which the definite covenant of peace that shall have ended the existing armed conflict becomes effective. If during this period, the two Governments deem that notwithstanding the cessation of hostilities there still exists a state of international insecurity which makes imperative the continuation of any of the said bases or defense areas the two Governments again will consult mutually and will negotiate the new agreement as required by circumstances.’

“Article 5 of the agreement strengthens this stipulation in the following terms:

‘The Republic of Panama and the United States reiterate their understanding with regard to the temporary nature of the occupation of the defense sites referred to in this agreement. In consequence the United States acknowledging the importance of the cooperation rendered by Panama by making available these temporary defense sites and likewise acknowledging the burden which the occupation of these sites represents for the Republic of Panama expressly agrees to evacuate the lands referred to in this agreement and to cease completely the use thereof at the latest within a year following the date on which the definitive covenant of peace that shall have ended the existing armed conflict becomes effective. It is understood as set forth in clause 1 that if within this period the two Governments deem that notwithstanding the cessation of hostilities there still exists a state of international insecurity which makes imperative the continuation of any of the said bases or defense areas, the two Governments again will consult mutually and will negotiate the new agreement as required by circumstances.’

“The interpretation of this clause brought about three questions made to the undersigned in the Constituent Assembly during the session held November 6 of last year. The first of these questions were:

“(1) What is the interpretation given by the executive power to the following expression contained in the first paragraph of article 1 of the agreement on the rental of defense sites signed by Panama and the United States on May 12 [18?], 1942? These lands will be evacuated and their use will cease 1 year after the date on which the definitive covenant of peace that shall have ended the existing armed conflict becomes effective’. In other words the Minister of Foreign Relations must report as to what the executive power holds to be ‘the definitive covenant of peace that shall have ended the armed conflict’.

“To this question the undersigned replied as follows:

“The executive power is of the opinion that the expression “definitive covenant of peace that shall have ended the existing armed conflict” refers to any pact, agreement, act or instrument agreed upon among belligerent countries by virtue of which the hostilities inherent to the state of war shall have ceased definitively. Therefore, the Panamanian Government considers the following to be covenants which successively have ended the armed conflict: (1) The various instruments signed by the German military commanders and the Allied commanders in various parts of Europe by virtue of which they were surrendered unconditionally the land, naval and air forces in Germany and in some of the occupied countries; and (2) the instrument of unconditional surrender signed aboard the battleship *Missouri* in Tokyo Bay on Sept 1, 1945 by the representatives of the Emperor of Japan and the military and naval commanders of the

^{12a} For the text of the agreement between the United States and Panama respecting the lease of defense sites, signed at Panamá on May 18, 1942, see Department of State Executive Agreement Series No. 359, or 57 Stat. (pt. 2) 1232.

United States, Great Britain, China, France, Russia, Australia, Holland and New Zealand.

“Now then since the capitulation aboard the *Missouri* was the last to be agreed upon and it was, therefore, the covenant that ended the hostilities existing between the Axis countries and the United Nations that capitulation must be correctly regarded as the definitive covenant of peace which ended the armed conflict.’

“The second question referred to the naval base on Taboga Island which already has been returned and, therefore, there is no point in dealing with it.

“The third question was couched as follows: (3) When is the date of expiration for the authority granted to the United States to utilize the section of the national highway which traverses the Rio Hato region for aerial activities in connection with the base of the same name and to stop traffic over that section when required by such activities?

“With regard to this question, the answer given by the undersigned was as follows:

“The terms of the agreement contained in the exchange of notes are so clear that they required no additional comment. No reference is made to a period of 1 year following the cessation of hostilities as in the general agreement. Reference is made only to the period of the war emergency. The emergency has ceased and, therefore, so has the period for which authority was granted relative to traffic over the section of the highway which is traversed by the main runway of the Rio Hato landing field’.

“Since this is a matter already settled there is no reason for my extending myself in this regard.’

“The statements by the undersigned before the National Assembly have never been contradicted or objected to in any manner by the Government of the United States. On the contrary, that Government gave them tacit consent by expressing its willingness and disposition to comply with its obligation with Panama as reported by the Associated Press in despatch published in the local press on November 7, 1943 [1945] which reads as follows:

‘Washington November 7 AP, Secretary of State James Byrnes at a press conference today signified the United States will fulfill its agreements with the Panamanian Government on the withdrawal of American forces from the defense installations there. The question arose when the Secretary was asked to comment on the statement by Panamanian Foreign Minister Ricardo J. Alfaro that the United States is bound to vacate 83 defense sites by September 1, 1946. Secretary Byrnes said there was a written agreement on the subject and that although he was not familiar with all the details, he could assure Panama that the United States would observe them.[’]

It develops then that since the date of the capitulation aboard the *Missouri* until yesterday, the Government of Your Excellency has made no request or representation whatever to Panama with regard to the defense sites.

“The final portion of article 1 of the agreement on defense sites states the following:

‘If during this period (that of 1 year aforementioned), the two Governments deem that notwithstanding the cessation of hostilities there still exists a state of international insecurity which makes imperative the continuation of any of the said bases or defense areas, the two Governments again will consult mutually and will negotiate the new agreement as required by circumstances.’

"Now then, it was not until yesterday that the Government of Panama learned that Your Excellency's Government deems that in spite of the cessation of hostilities there still exists a state of international insecurity which makes imperative the continuation of some of the defense sites. Panama on its part is not charged with the direction of military operations or the formulation of strategic plans which may require the use by the Armed Forces of the United States of certain defense sites in its territory nor has it had a basis to arrive at the conclusion that there exists a situation of international insecurity which demands the continuation of certain of the defense sites; and up to the present time on the last day of the period of 1 year during which the Government of Panama has considered that the aforementioned defense sites should be returned there has been no development by virtue of which the Government of Panama has acquired through self perception the knowledge and the conviction that there is a need for negotiating a new agreement on defense sites. There has not arisen, therefore, the condition which is required by the second paragraph of article 1 of the agreement quoted below for the negotiation of the said agreement: If during this period, the two Governments deem that notwithstanding the cessation of hostilities there still exists a state of international insecurity the governments again will consult mutually. The Government of Panama which always follows closely the world events cannot help but feel grave apprehensions with regard to world peace. It considers likewise that we are in an era of uncertainty and, consequently, of international insecurity that allows no conscientious statesman to rest in the placid assurance that we have already reached the era of a true and effective peace based on law and justice. This means that the Republic of Panama is ready today as it was yesterday not only to defend its own soil but to cooperate with all the means at its disposal to the defense of the canal of the continent and of the democratic cause in the entire world. But at the same time, the Republic of Panama which is not a military power and which has no plans of its own of continental or world projection to develop in a future war cannot determine by itself that the functioning of certain defense sites in its territory is a military necessity. From this point of view, the Government of Panama is ready to listen to and to consider the representations of an international nature and the evidence of a technical nature which the Government of the United States may submit for the purpose of determining whether there has arisen the situation aforesaid in the final portion of article I of the 1942 agreement; namely, the negotiation of a new agreement on defense sites as required by circumstances. In this connection, I wish to set forth that the Government of Panama would not consider negotiating a new agreement on defense sites under conditions which would be more onerous than those stipulated for defense sites which exist or have existed in some of the other sister republics and that any future agreement must take into account the principle of the fullest respect for the sovereignty and jurisdiction of Panama and for the principle of juridical equality of the States which the Republic has always warmly defended. But since the agreement of May 18, 1942 has virtually fulfilled its purposes and the period for the return of the existing defense sites expires tomorrow and there has been no development or

circumstances to prevent its execution, the Government of Panama fully mindful of its international responsibilities but acting to safeguard its sovereignty and its rights in compliance with the said agreement considers that the Government of the United States would [*should*] proceed as of tomorrow to return and deliver the defense sites which it still is using.

"I reiterate to Your Excellency the assurances of my most distinguished consideration Ricardo J. Alfaro, Minister of Foreign Relations."

HINES

711F.1914/9-346 : Telegram

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

SECRET

PANAMÁ, September 3, 1946—noon.

[Received 7:30 p. m.]

555 B. Reference Embtel 554, September 1 giving text of note from Foreign Minister on defense sites. I handed following reply to Foreign Minister September 3.

"NR. 260, September 2; Excellency: I have the honor to acknowledge the receipt of Your Excellency's very comprehensive and courteous note NR D P 3235 of August 31, 1946,¹³ in reply to my note NR 259 of August 29, 1946¹⁴ with reference to the vitally important question of the defense of the Panama Canal and defense sites made available temporarily to my Government under the Defense Sites Agreement entered into May 18, 1942.

I appreciate the completeness and frankness with which Your Excellency outlines the position of the Government of Panama with respect to the interpretation of article 1, section 1, as well as the bearing of article 5 of the same agreement, in regard to the terminating date of such agreement. In view of the fact that the Secretary of State, as indicated in your note, expressed himself with reference to the interpretation of the agreement, I feel that it is important that comment with reference to that phase be deferred until I have had an opportunity of presenting your views to the Dept of State.

I am very much gratified at the cooperative attitude expressed on the part of the Government of Panama by Your Excellency with reference to the further consideration of this vitally important matter—our joint responsibility for the defense of the Panama Canal and I note the willingness on the part of the Republic of Panama to enter into further consultations with reference to a new agreement between our governments in order that both countries may be fully assured of the protection of the Canal and its relationship to the defense of the hemisphere and its bearing upon the future maintenance of peace.

I note the desire on the part of the Government of Panama to have presented the reasons that causes my Government to feel the urgency of the discussions of this subject under the final part. I will be prepared to present to Your Excellency for the consideration of the

¹³ Quoted in telegram 554, September 1, 1946, from Panama, p. 1103.

¹⁴ Not printed.

Government of Panama the impelling reasons why we feel it necessary to ask for the continued use of certain sites and further consideration of the future defense of this particular area of article I of the Defense Sites Agreement. I am also glad to know that Your Excellency concurs in the views expressed in my note above referred to that existing international conditions are such as to justify further consultations between our Governments relative to the security of the Canal. I will also be prepared to give evidence of a technical nature which the Government of the United States believes will justify our concern relative to such defense.

With reference to Your Excellency's comment in regard to the lateness to which my Government has called to your attention the necessity for further consultations on the matter of the efficient protection of the Panama Canal, I feel I should call Your Excellency's attention to the fact that the development during World War II of new weapons of defense and new military technique regarding their use has resulted in a rather prolonged and exhaustive study of the defense needs as they relate to this particular area and it is with deep regret that I have not been in a position to present to Your Excellency's Government the results of this study in order that consultations could have taken place earlier. I am sure as this matter is presented to Your Excellency's Government, it will be fully realized that the importance of the most careful and painstaking study of the subject cannot be over-emphasized.

Your Excellency is aware that for some time the military authorities have been returning defense sites as rapidly as the need therefore no longer existed and in pursuance of that policy some 65 sites have been returned and I am advised by the military authorities that some 34 more are in preparation for early return. . . .

HINES

711F.1914/9-346 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

RESTRICTED

WASHINGTON, September 3, 1946—4 p. m.

US URGENT

465. Dept believes helpful present situation for you immediately issue press release as follows:

"Following the outbreak of the European conflagration which led to the recent war the Governments of the Republic of Panama and of the United States of America, conscious of their joint obligation, as expressed in the provisions of the 1936 Treaty of Friendship and Cooperation, to take all measures required for the effective protection of the Panama Canal in which they are jointly and vitally interested, consulted together and signed the Defense Sites Agreement of May 18, 1942. Therein it was agreed that the temporary use for defense purposes of lands granted to the United States by Panama would

terminate '1 year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect'.

No definitive treaty of peace has been signed. Notwithstanding, the United States in recognition of the temporary character of the occupation of defense lands made available by Panama consistently has undertaken to evacuate defense areas whose use is no longer considered essential. Of about 85 areas which were actually fully developed and occupied for any period of time, 64 have already been returned to the Republic. Arrangements for the return of others no longer required are well under way.

Because of the strategic character of the Panama Canal and current advancement in the effectiveness of new weapons and methods of warfare, it has become imperative to arrange for the local defense of the Canal through the maintenance of defense installations not restricted to the Canal Zone. To that end the United States has now requested further consultations on the negotiation of a new agreement with Panama to provide for the continued use of certain defense areas already held and the acquisition of a limited number of new sites. In this new negotiation the United States will recognize the principle of fullest respect for the sovereignty of Panama over its national territory."

Dept would like release text press release simultaneously Washington. Should you consider inadvisable for any reason issue foregoing, or should you wish modify same, please telegraph soon as possible. You may find it necessary modify figures relative areas occupied and returned. Otherwise, telegraph exact hour you propose release in order simultaneous release may be made here.

CLAYTON

711F.1914/9-1046

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

SECRET

No. 2345

PANAMÁ, September 10, 1946.

[Received September 21.]

SIR: In bringing up to date developments in the defense sites situation here in Panamá, I have the honor to report that in compliance with the Department's telegraphic instructions of September 6 (telegram No. 471¹⁵), I called on Foreign Minister Alfaro at 11 a. m. on the morning of the 7th (Embassy's telegram No. 574, September 7¹⁵), and after a very interesting and friendly conversation—which was realized by all concerned as serious—I left with him an informal copy of the Department's proposed press release on the defense sites problem.

¹⁵ Not printed.

During the course of our discussions I became convinced that Dr. Alfaro felt beyond a doubt that two mistakes had been made on the part of my Government:

First. That we had failed to challenge his interpretation of the termination of the Defense Sites Agreement in May last when he expressed his views to the Assembly.

Second. We waited until the last moment to present a note requesting the opening of negotiations for a new Agreement invoking Article I of the Agreement of May 18, 1942.

Dr. Alfaro explained in detail that in making these errors we had placed him personally and also the administration of President Jimenez in a very embarrassing position, because of the nationalistic feeling incident to political agitation over the presidential campaign that is now under discussion by the various political groups in the Republic. He said that it was not necessary to go into detail since the Embassy was well informed regarding the activities of the leftist groups, although in the minority as yet, and of the Arnulfo Arias¹⁶ following which was giving the Government considerable concern and obviously gaining strength throughout the country. These groups of political agitators always led in Panamá City by opportunists, Communists and anti-American rabble-rousers, were taking advantage of the opportunity to make a political foot ball out of the defense sites situation by belittling the Jiménez administration before the people, thus forcing the Government to fall in line with the nationalistic trend to control support of the masses, or else subject itself to mass criticism. He said the Government had to bear in mind, and he thought the United States should give serious consideration to a study of this possibility, that the reaction of any forced retention of the bases without some good reasonable cause acceptable to the other Latin American Republics would be detrimental to United States prestige in the Western Hemisphere. He went on to discuss the possibility that Panamá would be placed in the position of being accused of assuming the role of a dependency of the United States whose sovereignty would be looked upon as a sham in the eyes of her brother members of the Good Neighbor group. He said that he fully realized the need of bases and that Panamá was obligated not only under treaty but in the protection of her own national life to cooperate closely with the United States, but in view of the delicate situation existing the problem had to be handled with dignity and "amor propio" and he could not see how this could be done if Panamá acquiesced in accepting our interpretation of the dates of termination of the Defense Sites Agreement. I was extremely surprised when he looked at me

¹⁶ Former President of Panama.

very seriously and said without hesitation, calmly and frankly, that if we invoked Article I of the Agreement and notified the public of our interpretation thereof the present administration would collapse in twenty-four hours. During the course of the conference I repeatedly pointed out, as I mentioned in telegram No. 574 of September 7, that Panamá was responsible in the defense of the Canal not only under the treaty but as a protection of her own national life and for that matter would, if persistent in denying defense sites, place herself responsible in the protection of the entire Western Hemisphere, and that I was somewhat surprised that a more realistic view had not been taken by the Panamanian people on this very vital question. He thoroughly agreed with me but said that now since the situation had gotten so far out of hand and completely saturated with political intrigue we had to find a solution that would "save face" for the Jiménez administration, which was thoroughly pro-American and willing to cooperate in every way possible in meeting our needs, and he offered several suggestions, as set forth in my telegram No. 574 of September 7.

Little or no news appeared in the press this morning but on Saturday evening a demonstration was held obviously sponsored by the administration against the retention of the defense sites. The parade was led by the Bomberos Band and banners were carried calling for the return of the defense sites and the maintenance of Panamanian sovereignty. There appeared in the parade one Communist banner with the Soviet emblem appearing thereon. Apparently there were not over 1,000 people in the parade and not over two or three hundred who gathered in de Lesseps Park where the rabble-rousers made a few speeches. A segment of this crowd proceeded to the *Star & Herald* office where opportunist orators from leftist groups accused the *Star & Herald* of being a traitor to Panamá and demanding that it change its editorial policy on defense sites. A couple of rocks were thrown through the windows but otherwise no damage was done. The police although not making any arrests kept the rabble fairly under control until they dispersed after about half an hour of shouting "vivas" and hurling epithets against the *Star & Herald* as being the tool of the United States. This morning Mr. Jules du Bois, Editor of the English section of the *Star & Herald* called on me and stated the paper was more determined than ever to defend its position and that favorable editorials would continue as heretofore. He also stated that he had discovered in the morgue of the paper a very interesting statement made in 1939 by Harmodio Arias, publisher of *The Panama American*, when he interviewed a delegation of American newspaper men at Quarry Heights. Harmodio Arias, is quoted as saying that

he had been discussing with General Stone, then Commanding General, The Panama Canal Department, the possibility of building a large permanent air base at Rio Hato and that he was working hand in hand with several influential men in the Panamanian Government to find a way wherein the United States could acquire 17,000 acres for this base. He stressed at length upon the need of such a base in the protection of the Canal Zone and of Panamá. Colonel du Bois said that he had now made his mind up to publish this interview by Harmodio Arias on the front page of the *Star & Herald* and in *La Estrella de Panamá* as he felt it would soften the Latin American attitude toward the defense sites situation and also place Harmodio Arias on the defensive from that of aggressor. Colonel du Bois expressed the view that there was only a small clique of opportunists, Communists and anti-American agitators behind this movement but it had reached the point now, particularly since the admission of President Jiménez through Dr. Alfaro that they had stuck their necks out so far, that the matter had to be settled very diplomatically and with "face saving" to the present Government.

We were talking off the record and I stated that I had nothing I could say on the subject except that we hoped a very satisfactory solution to the best interests of all concerned would be reached as rapidly as possible.

Newspaper clippings are attached hereto on this subject of September 7, 8, 9 and 10.¹⁷

The Department will be kept informed of developments as they occur.

Respectfully yours,

WILLIAM P. BLOCKER

711F.1914/9-1146 : Telegram

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

SECRET

PANAMÁ, September 11, 1946—1 a. m.

[Received 1:12 p. m.]

587. The following suggestion for solution of defense site problem was communicated secretly by President Jiménez to the Embassy through a well known third party. It is to be treated as off the record and confidential but authentic.

As an idea of a solution satisfactory to the United States and Panama, President Jiménez suggested that the United States take the following action: (he typed it personally on a piece of paper).

1. The United States should declare that although it continues to hold the view that the time for the return of the bases in 1 year after

¹⁷ None reprinted.

a definitive treaty of peace, in order to cooperate with Panama, it accepts the version of September 1946.

2. The United States should announce that it is in the process of returning the bases within so many days (not to exceed 60). A civilian official of Panama would take nominal charge of the bases which have not been returned and fly the Panamanian flag, but in the meantime the bases would continue to be maintained by the military authorities of the United States.

3. The United States should enter into immediate conversations (of a confidential nature) concerning the world situation and the necessity for the continued occupation of certain bases.

The Minister of Government and Justice last night informed Collins¹⁸ that the Government was fully aware that the United States needed bases in Panama but that some symbolic return of the bases would be necessary. Sucre¹⁹ was positive that the situation could be cleared up in a short time. At the same time former Minister of Foreign Affairs, Samuel Lewis, stated that the United States would have to consider Panama's position with the other Latin American nations. All unofficial propositions so far seem to have emphasized the symbolic return without removal of troops or equipment merely as a means of face saving with special stress upon relations with other Latin American countries. The situation appears to me to be ripe now for some move on our part along these lines if Department is interested.

In view of current instructions, I wish to emphasize that neither Collins nor I have made any commitments whatsoever.

BLOCKER

711F.1914/9-1246 : Telegram

The Acting Secretary of State to the Chargé in Panama (Blocker)

US URGENT

WASHINGTON, September 12, 1946—4 p. m.

482. Embassy commended its successful efforts last 24 hours obtaining agreement Panamanian authorities on joint press statement. Following text to be released this afternoon in Panamá and Washington for publication in Friday morning papers:

“Mindful of the objectives of the 1936 Treaty of Friendship and Cooperation and of the Defense Sites Agreement of May 18, 1942, and conscious of recent improvements in weapons and methods of warfare, the Governments of Panama and of the United States have agreed to consult on the most effective means for assuring the defense of the Panama Canal. Consistent with the aforementioned Agreement of 1942, the United States has already returned to Panama 71 defense sites and is preparing to return immediately 27 more.

¹⁸ V. Lansing Collins, Second Secretary of Embassy in Panama.

¹⁹ Carlos Sucre, Acting Minister of Foreign Affairs.

It is the desire of both Governments to fulfill their joint responsibilities for the adequate protection of the Canal. The two Governments have reiterated their unqualified endorsement of the traditional friendship and sovereign respect existing between them and the vital role which the Panama Canal plays in the defense of this hemisphere."

CLAYTON

711F.1914/9-1346 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

SECRET US URGENT WASHINGTON, September 18, 1946—6 p. m.
NIACT

490. Your discussions in Washington on defense sites, also Blocker's in Panama as reported particularly in Embs despatches nos. 2345, 2355 and 2373 of Sept 10, 11 and 13.²⁰ Dept is fully cognizant and sympathetically appreciative of "political difficulties" of President and ForMin, specifically of latter, but is impelled to point out that these apparently stem from ForMin's "unilateral interpretation" of termination clause of 1942 Agreement, interpretation made by him without consultation with us and until Aug 31 without official communication to this Govt.

While Dept is by no means unmindful of present political complications facing Jiménez Administration we are desirous and thoroughly convinced of necessity for moving forward immediately toward peacetime arrangement for strategic defense of Canal whose adequate protection in turn assures the defense of Panama and neighboring republics. Our position may be summarized as follows:

(1) This Govt cannot accept ForMin's thesis that present occupation of some 30 unreturned defense sites is "illegal". Phraseology of Article I reading that use of areas terminates "1 year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect" could not be clearer. As no definitive treaty of peace has been signed, our continued occupation of areas in Panama cannot be conceived as "illegal". If Panamanian insistence on ForMin's thesis continues to embarrass this Govt we may have no alternative but to make our position public and to make clear that termination clause means exactly what it says. In this connection Dept is forwarding draft reply to ForMin's note of Aug 31. Proposed note will inform Panamanian Govt our interpretation termination clause.

(2) This Govt is desirous, so soon as details can be arranged, of terminating 1942 Agreement and replacing it by new agreement based on provisions of General Treaty of 1936.

(3) In new agreement this Govt is fully desirous of meeting Panamanian position regarding national pride and sovereignty. In confidence at appropriate time with cooperation Gen Crittenger this

²⁰ Telegrams 2355 and 2373 not printed.

Govt will make available Panamanian authorities certain technical data (Embstels 554 and 574, Sept 1 and 7; ²¹ despatch 2373 Sept 13 ²²) justifying revision program defense Canal, particularly maintaining defense areas outside Canal Zone. Furthermore we are willing to consider advisability making in due course joint public statement emphasizing defense plan is in interest not only of Canal but also of Republic of Panama as well as Western Hemisphere. (We are confident President and ForMin will readily appreciate unwisdom in present state of world tension and negotiations for solution world problems of our making public statement specifically basing negotiations on "present state of international insecurity". Furthermore we wish to reiterate in this connection new agreement will be on basis General Treaty and not 1942 Defense Sites Agreement.)

(4) In addition this Govt further desirous of meeting Panamanian views is willing to have new agreement for sites on lease basis of minimum duration compatible with actual military requirements. We would for instance consider 20-year leases with option to renew rather than 50 to 99-year leases originally suggested by War Dept. We would consider plan for flying flags of both nations on defense areas outside Zone, and are likewise prepared to explore with War Dept possibility establishment of joint commission under aegis of which sites would be operated, Panamanian members thereof having access to sites at all times. Finally, Panamanian liaison officers representing Panamanian section commission might be detailed to larger areas such as Rio Hato so that local questions which might arise could be ironed out directly with US officer in command of area involved.

In summary, short of sacrificing our interpretation termination clause 1942 Agreement and of agreeing to "symbolic return" which would be inconsistent with our position, this Govt is willing to consider every feasible way of cooperating with Panama in order to meet question of local susceptibility and to put new arrangement on genuinely "partnership basis". Please discuss foregoing with Gen Crittenberger and subsequently on oral basis with Pres Jiménez and/or ForMin.

War Dept, Washington, is being kept informed.

CLAYTON

711F.1914/9-2046: Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

SECRET

WASHINGTON, September 24, 1946—2 p. m.

499. In reply that part FonMin's note Aug 31 re Panamanian interpretation termination clause 1942 Defense Sites Agreement,²³ Dept proposes you deliver to Dr. Alfaro official communication reading as follows:

²¹ Telegram 574 not printed.

²² Not printed.

²³ See telegram 554, September 1, from Panamá, p. 1103.

“Excellency: Pursuant to the provisions of the Defense Sites Agreement of May 18, 1942 the Republic of Panama granted to the US the use of certain lands for defense purposes. The temporary character of the occupation of these areas by the armed forces of the US and the arrangements for the termination of their use were set forth in Articles I and V of that Agreement. In accordance with the spirit of those articles my Govt through consistent continuing processes over a period of several months now has been evacuating and returning to Panama all defense sites the use of which is found to be no longer essential. As of today 71 of a total of approximately 134 areas occupied during the war have now been relinquished. Steps are under way to evacuate 27 more immediately.

With regard to the remaining sites, numbering about 36, there have arisen, as Your Excellency is aware, certain allegations that the continued occupation of these areas by the US after September 1, 1946 is not in accordance with the provisions of Article I of the 1942 Agreement, which in part reads as follows: ‘These lands shall be evacuated and the use thereof by the US of America shall terminate one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect.’ In this connection, Your Excellency in note D. P. no. 3235 of August 31, 1946 stated that the 1942 Agreement had virtually fulfilled its purposes and that the period for the return of the existing defense sites would expire as of the following day.

In support of this contention reference was made to Your Excellency’s appearance on November 6, 1945 before a session of the Constituent Assembly of Panama. There Your Excellency stated that the Executive Power was of the opinion that the expression ‘definitive treaty of peace which brings about the end of the present war’ refers to ‘any pact, agreement, act or instrument agreed upon among the belligerent countries by virtue of which the hostilities inherent to the state of war shall have ceased definitively.’ Your Excellency has therefore concluded that the document signed aboard the U.S.S. *Missouri* in Tokyo Bay on September 2, 1945 is the definitive treaty of peace which brought about the end of the war and that, accordingly, the right of the US to occupy defense areas in Panama under the provisions of the 1942 Agreement expired 1 year later.

This interpretation was publicly announced without prior consultation with the Govt of the US and was not officially communicated to my Govt until the receipt of Your Excellency’s note D. P. no. 3235 of August 31, which was in reply to my note no. 259 of August 30²⁴ requesting consultation on the continued need of defense areas in the Republic of Panama.

In my note no. 260 of September 2, 1946²⁵ I stated that comment on Your Excellency’s interpretation of the termination of the 1942 Agreement was being deferred until I had had an opportunity of presenting your views to the Dept of State.

I have now been instructed to inform Your Excellency that my Govt has given careful and sympathetic attention to your opinion

²⁴ Not printed.

²⁵ See telegram 555B, September 3, noon, from Panamá, p. 1107.

with respect to the interpretation of the termination clause, but regrets that it is unable to share Your Excellency's view that the above quoted phrase can properly refer to the instrument signed aboard the U.S.S. *Missouri*. It is the opinion of my Govt that the intent and meaning of that portion of Article I of the 1942 Agreement could hardly be clearer. My Govt, therefore, is not able to accept the view relative to termination of the 1942 Agreement as communicated in Your Excellency's note no. 3235 of August 31, 1946. Accordingly, as no definitive treaty of peace has yet been signed, the continued occupation of certain defense areas of Panama cannot in my Govt's opinion be considered as a violation of the terms of the Agreement.

The foregoing is conveyed to Your Excellency in the same spirit of cooperation and friendship that has always governed the relations between our two Govts. I should like to state in conclusion, however, that my Govt is desirous of reaching an accord with Your Excellency for the termination of the 1942 Defense Sites arrangement so soon as mutually satisfactory details can be arranged, and of replacing it by a new defense sites agreement pursuant to the provisions of the General Treaty of 1936. As Your Excellency, from the important role played by you in the authorship of its provisions, is fully aware, the General Treaty sets forth the partnership interest of the Govts of Panama and the US in the effective operation and protection of the Panama Canal which is of vital importance not only to our two Governments but to all others of this hemisphere.

Finally I am instructed to inform Your Excellency that my Govt would hope to begin consultations with you looking toward the negotiation of a new agreement at the earliest possible date."

Provided Emb concurs with foregoing proposal it is assumed delivery will be made commensurate status local discussion (Depstel 490 Sept 18 and Embstel 614 Sept 20²⁶). Position taken by Dept obviously precludes any symbolic return presently held defense sites. While Amb may find it advisable forewarn FonMin of your imminent submission of note, text itself should not be discussed with him prior to presentation.

CLAYTON

711F.1914/9-2746 : Telegram

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

SECRET

PANAMÁ, September 27, 1946—3 p. m.

US URGENT

[Received 5:20 p. m.]

630. With reference my letter to Wise September 25²⁷ transmitting preliminary proposed draft of interim agreement looking toward solution defense sites situation, in an interview with the President this

²⁶ Latter not printed.

²⁷ Not printed.

morning at which Dr. Alfaro was present, I was informed that Panama would welcome some form of preliminary arrangement pending the negotiation of a new agreement along the lines suggested in draft submitted, which would not bring up for decision the two points of view as to termination date of May 18, 1942 agreement, but would follow the idea that a new defense sites agreement is necessary to conform with new modern weapons and warfare in hemispheric defense area and would carry joint policy and responsibility under general treaty of 1936.

The President mentioned the fact that radar stations were not only necessary for military purposes but for warning to commercial aircraft and sea navigation and that he could stress this point in press interviews in authorizing the US to retain such military installations as necessary pending the negotiation of a new agreement on a permanent basis. This settles 18 of 34 new positions.

He said also he could play up hemispheric defense on the part of Panama and instructed, in my presence, Foreign Minister Alfaro to prepare, jointly with me a detailed tentative agreement for submission Department's approval and to his Cabinet. I pointed out that, of course, there were two interpretations of the existing agreement and intimated strongly the possibility of being forced to submit our interpretation of the agreement in a note unless we could rapidly reach some form of agreement so there would be no misunderstanding as to question of our legally occupying bases under present agreement.

The President and the Foreign Minister were both most cordial and am sure are extremely anxious to bring about a satisfactory settlement of defense sites problem. The President stressed the hope that such defense sites as are not needed would be returned as rapidly as possible. I replied that we concurred with this view and suggested that it might be a good idea to return Chorrera base with an appropriate ceremony which obviously would be helpful to Government's position. In this he concurred and I am working out details with General Crittenberger.

I took advantage of the opportunity to stress our high regard and respect for the sovereignty and national pride of Panama in the same manner as if we were negotiating with a powerful military nation, and left with the impression that if the Department will approve negotiations along the line as set forth in my tentative interim agreement, we can promptly and satisfactorily reach a full understanding with the Panamanian Government.

HINES

711F.1914/9-2846 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

CONFIDENTIAL

WASHINGTON, October 3, 1946—7 p. m.

515. Embtel 630, Sept 27 and despatch 2501, Sept 28.²⁸ Ceremony attending return Chorrera base publicized in *New York Times* Oct 2. Dept feels acts this character have most salutary overall effect and commends Emb for initiative taken in planning this cooperative program with high Canal and Panamanian authorities.

With respect Deptel 499 of Sept 24 proposing as reply to FonMin's note Aug 31 a statement setting forth this Govt's interpretation termination date 1942 Defense Sites Agreement, Amb's views on advisability avoiding this action have been considered carefully. However, FonMin formally has presented an interpretation to which this Govt cannot subscribe and if Panamanian note remains on record Dept, as matter of principle, must reply. Furthermore, failure to answer may be interpreted by Panamanians or by legalists or historians as acquiescence to FonMin's viewpoint. This in turn would leave this Govt in position, after Sept 1, 1946 and until new agreement is signed, by occupying defense sites in violation of 1942 accord.

Therefore, you are requested inform Dr. Alfaro that unless he recalls note of Aug 31, Dept will (Deptstel 499) by formal communication set forth its views on termination clause. You should state that in so doing there is no intention making note public as he did Panamanian interpretation nor is there desire raise issue or debate difference of opinion. Main interest is set record straight and proceed negotiation new agreement. Should FonMin withdraw note, it will be unnecessary for you to deliver this Govt's interpretation.

If after discussing foregoing with Dr. Alfaro he decides leave his note on record you will proceed immediately to present reply.

Proposed interim agreement (Embtel 630 Sept 27) appears as inefficient and unnecessary step in progress toward final agreement. It is believed continued return defense sites with appropriate publicity should creat sufficient favorable public opinion in Panama for two Govts go ahead simultaneously with negotiation of new accord, signing of which could be announced publicly, along with notice of termination of old arrangement. This publicity could come on or before date of return under 1942 agreement of last of sites which will not be required in new defense plan.

ACHESON

²⁸ Latter not printed.

711F.1914/10-446

*Memorandum of Telephone Conversation, by the Assistant Chief of
the Division of Central America and Panama Affairs (Wise)*

[WASHINGTON,] October 4, 1946.

Participants: Ambassador Frank T. Hines, U.S. Embassy, Panamá.
CPA—Robert Newbegin
CPA—M. M. Wise

Upon the receipt this morning of the Department's telegram 515 of October 3, Ambassador Hines telephoned to state that the instruction was very "upsetting". He stated that in the light of his conversations in Washington and subsequent exchanges of communications he failed to understand the Department's action in not giving him more freedom of procedure in the negotiation of the defense sites matter. He said that the Department would have to have confidence in his ability to handle this very delicate situation if progress is to be expected.

With respect to the presentation of our interpretation of the termination clause of the 1942 Defense Sites Agreement, Ambassador Hines said that to take action at this time in the sense of the Department's telegram 515 would undoubtedly result in a change of administration. He said the problem really boiled down to whether we wanted to present the note or negotiate a new defense sites agreement. He said that if the Department insisted on delivery of the note he would not wish to be held responsible for the repercussions which could seriously jeopardize our efforts to reach an agreement for the continued use of defense sites in Panama. He felt the State Department might be allowing itself to be influenced too much by opinions from the War Department on the defense sites question.

The Ambassador was informed that instructions under reference were purely departmental decisions, not instigated by any pressure whatsoever from the War Department. He was told that the Department had in mind setting the record straight and in getting on with the negotiation of the new agreement. The Ambassador was asked if Dr. Alfaro would not be in a position to receive and understand the confidential delivery of a note, giving our interpretation of the 1942 accord, particularly in view of all that had gone before, if he were told that it was necessary to clarify the record. The Ambassador said that the Panamanian authorities would not be in a position to understand the note at this stage of the negotiations. The Ambassador stated that if it were left at his discretion he would get this Government's interpre-

tation to the Foreign Minister at a propitious time and in appropriate language.

The Ambassador said that the Panamanian authorities had now met with the Army and had been given detailed technical explanations as regards the needs for a new defense sites agreement. He pointed out that in a recent conference the Panamanian authorities had indicated general approval of the principle that radar coverage is essential to the defense of the Panama Canal and, accordingly, recognized the necessity for this Government's operating some 18 air warning stations in the Republic.

With respect to an interim agreement, the Ambassador expressed failure to understand the Department's view that its negotiation would be an inefficient and unnecessary step in progress toward final agreement. He said the Panamanians needed some interim action for public consumption prior to the conclusion of the new defense sites agreement. He felt that in proposing the interim agreement he was acting within his instructions. The Ambassador said that in view of the Department's instructions that it was desirable to proceed now "on a partnership basis" (telegram 490 of September 18) he had presented the draft proposed interim agreement to the Foreign Minister and the President and was now awaiting a memorandum of reply which had been promised him. He implied that it would be most embarrassing now for all parties concerned to disapprove an interim arrangement.

To summarize, the Ambassador felt that the presentation of our interpretation of the termination clause of the 1942 Agreement at this time would be unwise and that we should certainly proceed with the negotiation of the interim agreement. The Ambassador was told that this matter would be brought immediately to Mr. Braden's attention and that until the Embassy heard further from the Department the Ambassador was authorized to delay delivery of the proposed "interpretation" note. In the meantime, the Ambassador was to receive the Panamanian reaction to the proposed interim agreement and report to the Department.

In concluding the conversation, reference was made to the Ambassador's and General Crittenberger's recently submitted suggestions that the return of the Talara base at Peru ²⁹ be delayed. The Ambassador was informed that a definite commitment had already been made to the Peruvian authorities and that it appeared too late to change the plans. It was explained that due to recent incidents at Talara, delay in turning over the base could produce serious repercussions in Peru.

²⁹ For documentation, see pp. 1206 ff.

711F.1914/10-1046 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

CONFIDENTIAL

WASHINGTON, October 10, 1946—7 p. m.

530. On May 18, 1942 this Govt reached agreement with Panama for occupation and use numerous defense areas in territory under jurisdiction of latter. That agreement is still in effect and will be until 1 year after the date on which the definitive treaty of peace ending World War II becomes effective. In accordance with spirit of 1942 Agreement this Govt through consistent continuing processes has been evacuating and returning to Panama all sites the use of which has been found to be no longer essential. In meantime development new methods and weapons of warfare have made necessary formulation of long-term strategic plan for adequate security Panama Canal. War Dept has presented such a plan and has requested that this Dept consult with Panamanian authorities and request cooperation in drafting and signing new accord.

Paramount interest this Govt in relations with Panama has therefore become expeditious negotiation of new agreement based on General Treaty of 1936, provisions of which establish genuine partnership interest in maintenance and defense of Canal. This negotiation should have been independent of the 1942 Agreement. Unfortunately, however, as Emb is aware, Dr. Alfaro's unilateral interpretation of termination clause 1942 Agreement made before Constituent Assembly in Nov 1945 and officially communicated to this Govt by note on Aug 31, 1946, which was made public in Panama, gave rise to local political difficulties which have impeded desired progress in negotiation new agreement.

Inasmuch as Panamanian viewpoint termination clause 1942 Agreement is clearly erroneous it has, because of recent developments in Panama, become most evident that Dr. Alfaro's interpretation should have been challenged immediately; i.e., last year. Although he is now aware this Govt's position, Dept, after carefully considering Amb's recent advices, has decided to reiterate its instruction contained in Deptstel 499 of Sept 24 and insist that that part FonMin's note Aug 31 regarding Panamanian interpretation 1942 Agreement must be acknowledged formally and at once, unless Dr. Alfaro wishes withdraw his note. Accordingly, please refer Deptstel 515 Oct 3 and carry out instruction.

It is regretted that possible embarrassment may result from discussions already initiated with Panamanian officials with respect to

interim agreement but Dept did not consider its telegram no. 490 (see Embstel 638 Oct 5)³⁰ as authorization for negotiation of interim agreement and certainly not as authority for presenting suggestion to Panamanian Govt without prior complete clearance with State and War Depts.

Emb will appreciate that War Dept must be consulted and concur in any proposed agreement prior to its submission Panamanian authorities. That Dept has now delivered to us copies Sept 25 letter addressed to Amb by Gen Crittenberger.^{30a} In future it is requested that copies such documents be forwarded promptly and directly to Dept in order to avoid embarrassment in relations with War Dept here.

In summary, please comply instruction contained in Deptstels 499 and 515 of Sept. 24 and Oct 3. Subsequently, make every effort enter into expeditious negotiation definitive defense sites accord without interim agreement.

ACHESON

711F.1914/10-1246 : Telegram

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

CONFIDENTIAL

PANAMÁ, October 12, 1946—1 p. m.

[Received 1:50 p. m.]

656. Deptel No. 530, October 10, 7 p. m.; Embtel 640, October 11, 1 p. m.³¹ At noon today I presented to the Foreign Minister the note for purpose of completing record on defense sites issue. In presenting the note I indicated to the Foreign Minister that it was the desire of the Dept to complete the record and with no idea of controversy relative to the interpretation. I also stressed our desire to promptly and in a friendly and cooperative manner proceed immediately with the Panamanian Govt in drafting new defense sites agreement. The Foreign Minister accepted the note in a cordial manner and reiterated again that the only problem the Panamanian Govt had was one with the people in making clear that we were not forcibly holding defense sites, but he indicated fullest desire on the part of Panama to work out satisfactory solution.

HINES

³⁰ Telegram 490, September 18, is printed on p. 1114; telegram 638, October 5, not printed.

^{30a} Not printed.

³¹ Latter not printed.

711F.1914/10-2546

*Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)*³²

WASHINGTON, October 25, 1946.

Subject: Chronology (October 11-21) on Development Defense Sites Issue in Panama

A. *October 11*—Foreign office delivered memorandum³³ stating position Panamanian Government on current negotiations. President Jiménez informed the Embassy indirectly that if the memorandum was distasteful, Foreign Minister's departure for UN should be awaited and discussions undertaken with Acting Foreign Minister Sucre (Minister of Government and Justice). Memorandum in substance stated:

(1) Panama cannot negotiate any agreement until the U. S. commences effecting its occupation [*evacuation?*] on *all* remaining sites.

(2) Panama would agree under joint control both Governments that radar, search light, and detector stations could continue functioning without interruption.

(3) Panama not convinced that air fields in Panama now absolutely indispensable but would listen to technical information from Army.

(4) New agreement could be reached on following basis:

(a) Declaration that 1942 agreement is no longer in effect.

(b) Remaining defense sites will be operated under joint control.

(c) Terms of agreement will be temporarily renewable from year to year.

(d) Rentals will not be less than those stipulated in 1942 agreement.

(e) Two Governments jointly will maintain in good state of preservation for emergency use defense sites to be abandoned.

(f) Panama will retain its sovereignty in defense areas and complete jurisdiction in civil matters with sole exception that U.S. will have jurisdiction over military personnel of U.S. within defense sites. Persons arrested outside areas would be turned over to Panama for trial and punishment.³⁴

B. *October 12*—Ambassador Hines presented note giving U.S. interpretation termination close 1942 agreement.³⁵

C. *October 14*—General Crittenberger with Ambassador Hines present Panama president and cabinet with technical data showing need for defense areas.

³² Addressed to the Acting Chief of the Division of Central America and Panama Affairs (Newbegin) and the Director of the Office of American Republic Affairs (Briggs).

³³ Not printed.

³⁴ For documentation on the question of jurisdiction over American service personnel in criminal cases, see pp. 1232 ff.

³⁵ See telegram 530, October 10, 7 p. m., to Panama, p. 1122.

D. *October 14*—Foreign office replied to Ambassador's note on "interpretation" in substance as follows:

(1) Panama cannot accept U.S. interpretation and will not recede from its own.

(2) On basis U.S. interpretation, it will be impossible for Panama to enter into discussions and into agreements regarding joint defense of Canal.

(3) If by virtue U.S. interpretation occupation defense sites is continued, Panama will be forced, not being able to oppose materially such occupation, to protest publicly.

(4) Progress on new discussions and possible agreements can be attained *only* by the total return of sites still occupied.

E. *October 15*—Panamanian President publicly announced receipt U.S. "interpretation" note and stated his Government will not recede from its position.

F. *October 16*—Foreign Minister explained for UN saying he and President hoped for "symbolic" return all sites now occupied.

G. *October 21*—Acting Foreign Minister Sucre proposed joint statement by Governments explaining that technical studies show need for new defense sites agreement and that, accordingly, Panama requests U.S. to continue temporarily on all remaining sites for period not over three months during which new agreement will be drawn up.

711F.1914/10-1546 : Telegram

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

CONFIDENTIAL

WASHINGTON, October 28, 1946—7 p. m.

555. Urdesp. 2617 of Oct 12.³⁶ We are favorably impressed neither by tone of Pan memo of Oct 8, by Pan note accompanying your desp 2635 Oct 15³⁷ nor by Alfaro's threat publicly to accuse U.S. of bad faith unless we accept his "interpretation" termination clause 42 agreement. If he insists on pushing matters along that line we may ultimately have no choice but to declare we stand on what 42 agreement clearly and incontrovertibly says, and occupy until 1 year after signature last definitive peace treaty remaining sites now occupied. We are however desirous of getting on with new agreement rather than engaging acrimonious debate. We are accordingly prepared consider possibility suggested urtel 673 Oct 21³⁷ of issuing joint statement which would set stage for successful negotiations provided question of interpretation is not aired therein and further provided no time limit for such negotiations is included.

³⁶ Not printed, but see memorandum of October 25, *supra*.

³⁷ Not printed.

Foregoing is for confidential information yourself and Blocker.
Following statement would be acceptable to us:

"Govts of Panama and US on Sept 12, 1946 reiterated in joint statement recognition of traditional friendship uniting them, and declared their determination to fulfill their joint responsibilities in all matters pertaining to Panama Canal, defense of which plays vital role in security of both countries and of hemisphere.

In this spirit two Govts have now consulted on most effective means protecting Canal in the future. Discussions of technical military nature have been held between His Excellency President of Panama and his advisers, and Commanding General of Caribbean Defense Command. The two Govts are in agreement that revised agreement for defense, based on 1936 General Treaty, should be concluded.

Since termination hostilities last year US has evacuated approximately three quarters defense sites occupied under 1942 agreement. In light of their mutual interest in broad aspects of security and their conviction that such security can best be achieved by closest possible continued collaboration, the two Govts have also agreed that further use by US of remaining sites is desirable, pending conclusion new agreement. They have reached this accord without reference to their respective interpretations of 1942 agreement."

Pls discuss proposed joint statement immediately with appropriate Pan officials and advise Dept reaction.

BYRNES

711F.1914/10-2846 : Telegram

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

SECRET

WASHINGTON, October 28, 1946—7 p. m.

556. Deptel today's date re defense sites.³⁹ In considering general situation of our relations with Panama we are impelled to note that in addition to behavior of that Govt re 1942 Defense Sites Agreement, Panama is giving other evidence of irresponsibility in matters of common concern, which if continued can only impair existing good will and lead to ultimate serious disadvantage to Panama itself as well as ultimately to endanger security of Canal. For example, far from settling important Encanto claim⁴⁰ as promised 2 months ago (thus paving way for round table discussions) FonMin has raised (ur Desp 2632, Oct 15⁴¹) totally unacceptable new issue in connection therewith, while simultaneously by threats of bad behavior internationally he is confusing other issues such as alleged zone employee discrimination and creating atmosphere of distrust even hostility on part of Panamanian people. These developments are profoundly disquieting.

³⁹ No. 555, *supra*.

⁴⁰ El Encanto claims arose in 1915 by reason of injuries to American soldiers and property damage resulting from disturbances in the Coco Grove section of Panama.

⁴¹ Not printed.

We are eager to discuss with Panama frankly and in orderly manner any subject touching our special relationship resulting from operation of Canal across Panamanian territory. We have publicly so declared. We recognize Panama sovereign independent state and wish to support that country's legitimate national pride. The 1936 treaty sets this forth in both general and concrete terms and establishes joint responsibility as basis of our association. We earnestly desire excellent relations founded on mutual respect, but obviously can only maintain them if discharge of our respective responsibilities is genuinely two-way street proposition.

Please bear foregoing in mind as situation develops.

BYRNES

711F.1914/10-3146: Telegram

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

SECRET

PANAMA, October 31, 1946—3 p. m.

[Received 6:30 p. m.]

688. Deptel 555 of October 28, 7 p. m. forwarding draft joint release suggested regarding defense sites. I had lengthy discussion with Acting Foreign Minister yesterday when I presented Department's suggestion for joint release which would set stage for successful negotiations on new defense site agreement. See despatch 2765 October 31.⁴² At 2 p. m. today Foreign Office delivered counter proposal translation reading as follows:

"In conformity with the agreement of May 18, 1942 subscribed to between the Governments of Panama and the US, the Government of Panama made available to the Government of the US for defense purposes 134 sites within the Republic. 98 of these sites have been returned to Panama.

The Governments of the US and Panama declare extinguished the agreement of May 18, 1942 ignoring the opposing interpretations on the date said agreement terminates and consequently the Government of the US will return to Panama the defense sites which it continues occupying as soon as necessary arrangements can be made.

The Governments of Panama and the US reiterate their recognition of the traditional friendship which unites them and again manifest their determination to comply with their joint responsibilities in all matters pertaining to the Panama Canal, the defense of which plays a vital part in the security of both countries and of the hemisphere. In this spirit the two Governments have now consulted as to the most effective means to protect the canal in the future and have agreed that a revised [defense] convention must be reached based on the general treaty of 1936.

In view of their mutual interests in the complete aspect of security and in view of their conviction that greater security can be obtained

⁴² Not printed.

through closest possible and continuous collaboration, the two Governments consider that it is necessary to establish certain defense sites within the Republic of Panama.

Consequently the Governments of Panama and US are agreed that until the delivery of the afore-mentioned defense sites is accomplished and a new agreement reached which should be celebrated within a period of not exceeding 90 days and which will cover the defense necessities of the Canal and will contemplate the safeguarding of the interests and the sovereignty of the Republic of Panama certain defense bases may continue to function under the joint control of the two Governments”.

HINES

711F.1914/10-3146 : Telegram

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

CONFIDENTIAL

WASHINGTON, November 2, 1946—3 a. m.

US URGENT

563. Deptel 555 Oct 28. Dept expressed its willingness to consider issue joint statement provided question interpretation termination clause 1942 agreement not aired therein and provided no time limit set for new negotiations. By Deptel 515 Oct 3 and Deptel 530 Oct 10 Dept expressed objection to interim arrangements. Panamanian counter-proposal (urtel 688 Oct 31) includes all three objectionable features (viz endorsement of Panamanian “interpretation”, 90 day stipulation, and proposal to establish interim arrangement). It accordingly represents no compromise whatsoever and we assume that you have already informed Pan authorities that in those respects it is completely unacceptable to your Govt.

The arguments supporting the military necessity of a new agreement, based on the commitments of Panama set forth in 1936 treaty are already familiar to you and have furthermore been explained by General Crittenberger to Pres of Pan.

Notwithstanding foregoing, in final effort to find formula within framework Pan so-called counter-proposal, we would consider issue of joint statement in revised form as follows:

“The Governments of Panama and the United States reiterate their recognition of traditional friendship which unites them and again manifest their determination to comply with their joint responsibilities in all matters pertaining to Panama Canal, defense of which plays vital part in security of both countries and of hemisphere, and at same time safeguards interests and sovereignty of Rep of Pan. In this spirit the two Govts have now consulted as to most effective means to protect Canal in the future.

In conformity with agreement of May 18, 1942, the Government of Panama made available to Government of United States for defense purposes 134 sites within the Republic. 98 of these sites have already

been returned to Panama. In view of their mutual interest in the broad aspects of security and in view of their conviction that such security can only be obtained through closest possible continued collaboration, the two Govts consider that it necessary to maintain certain defense sites within the Republic of Panama and have agreed that a revised defense sites agreement should be reached, based on the General Treaty of 1936.

Accordingly, the two Governments have agreed that, until a new accord is reached which will provide for the defense needs of the Canal, the provisions of the 1942 agreement will continue in effect irrespective of interpretations of the respective Governments as regards termination date thereof.

Negotiations to replace the 1942 agreement will begin at once and will be carried out as expeditiously as possible."

BYRNES

711F.1914/11-246 : Telegram

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

CONFIDENTIAL

PANAMÁ, November 2, 1946—3 a. m.

US URGENT

[Received 2:35 p. m.]

690. ReDeptel 563, November 2, 1946, 3 a. m. Proposed joint statement transmitted was taken up Foreign Minister this date. Joint statement in present form is not satisfactory to the Panamanian Govt for they do not feel it would be helpful in existing political conditions and feeling on part of the people to issue same. Foreign Minister urgently requests that I ask Dept to give further consideration to their proposed statement transmitted our telegram 688, October 31.

With reference to the limitation in proposed new statement they suggest adding as a last paragraph the following: "Both Govts accept that, upon request of only one of them, the period of 90 days which is established here for the joint control of the bases and for the celebration of a new agreement will be extended within another similar period of 90 days and both Governments accept also that this second period may be extended once again by mutual consent in the event that it prove insufficient."

For Dept's information, I desire to reiterate again that the proposed joint statement is felt necessary by the present administration to satisfy the people who are definitely of the opinion that existing 1942 agreement has expired. Every part mentioned in Dept's instructions to me has been made known to the Panamanian Govt and discussed over and over again. It is my definite judgment that we will have to give some help to the present administration to enable them to overcome existing political difficulties. I believe this can be done without jeopardizing position under 1942 agreement. I therefore suggest that the main points made in Panamanian proposition last submitted be

carefully reviewed with a view of adopting as nearly as practicable the language they feel is essential to satisfy their people. Present administration is cordial and friendly and anxious to get on with the negotiation of new agreement.

HINES

711F.1914/11-546

Memorandum by the Second Secretary of Embassy and Consul in Panama (Collins)⁴³ to the Assistant Chief of the Division of Central America and Panama Affairs (Wise)

SECRET

[WASHINGTON,] November 5, 1946.

Attached is a very rough draft of a possible new defense sites agreement between Panama and the United States.⁴⁴ An attempt has been made to incorporate in the new agreement the recommendations of the SWNCC, especially as regards the establishment of two different kinds of leases, long-term leases and short-term leases. In as much as the Army and Navy have indicated that the general terms of the present Defense Sites Agreement are entirely satisfactory to them, there has been no effort to change the operative features of the agreement. In the memorandum from SWNCC, it was suggested that the clauses relating to payment for the leases and for the maintenance of Panamanian highways be re-examined with a view to effecting further economies. I do not think there is any possibility whatsoever of obtaining these leases more economically than at present and have therefore not made any changes in that regard. On the other hand, I feel that the special provisions which have heretofore effected the defense site at Rio Hato will have to be cancelled and accordingly I have eliminated them from the new agreement. It will be recalled that a total rental of only \$10,000 is paid for the entire Rio Hato parcel under the present agreement.

When the Defense Sites Agreement of May 18, 1942 was signed the following in effect was the compensation which the United States agreed to pay to Panama:

(a) Rental for the lands at \$50.00 per hectare for private lands and \$1 per parcel for public lands. This has averaged \$400,000 a year since May 18, 1942.

(b) Payment of one-third of maintenance charges on Panama roads used by the Army. This has averaged \$300,000 a year since May 18, 1942.

(c) The agreement to finish certain roads in the Republic of Panama and to cancel an obligation of the Government of Panama to the Ex-

⁴³ Mr. Collins was temporarily in Washington.

⁴⁴ Not printed.

port-Import Bank in the sum of \$2,500,000. I don't know how much it cost to build the two highways which we undertook to build but I imagine they cost several millions.

(d) Agreement to return to Panama the waterworks and sewers of Colón and Panama.

(e) Agreement to return to Panama all property owned by the Panama Railroad Company in the cities of Panama and Colón which was not needed for the operations of the railroad itself. This was assessed at several millions of dollars.

(f) A statement in the 12-point agreement of May 18, 1942 that "the United States is willing to agree to the construction of a tunnel under or a bridge over" the Canal at Balboa "when the present emergency has ended." Although it is not expressly stated that the United States will pay for this tunnel or bridge, I have never heard this point questioned and I presume that it was understood that we would pay for it. Today a tunnel would cost probably \$25,000,000, while a bridge, if the Navy would agree to the construction of a bridge, might be build for between \$8,000,000 and \$10,000,000.

(g) The agreement by the Government of the United States to move the railroad station from Panama City to a new site to be provided by the Republic of Panama. Although the language of the 12-point agreement does not specifically state who is to pay for the moving, there seems little doubt but that the United States would have to bear the cost. On the other hand, we can claim that we will own the land and the buildings where the station now is and possibly we could sell them for part of the cost of moving and building a new station. This provision, therefore, may not cost us more than \$1,000,000 or \$2,000,000.

(h) The 12-point agreement of May 18, 1942 also mentions the question of commissaries, post exchanges, a provision for the making available to Panama of electric current for the Madden Dam station, the desire of the Government of Panama for indemnity when traffic on the major highways is interrupted by United States troop movements, and lastly, the desire of the Government of Panama of three gasoline and oil tanks at Balboa.

From the above it may be seen that the consideration paid by the United States for the Defense Sites Agreement of May 18, 1942 was not limited to rent but may be estimated in the tens of millions.

Therefore any attempt to negotiate a new defense sites agreement with the Republic of Panama at the present time must be predicated upon the willingness on our part to pay again heavily for the concessions which we want. While any agreement covering consideration other than rent and road maintenance should be entirely separate and apart from the new defense sites agreement, the following are some of the things which we might be able to offer:

(a) We are committed to the tunnel or bridge and sooner or later will have to do something about it.

(b) We are committed to moving the railroad station and sooner or later will have to do something about it.

(c) The Panama Railroad Company has agreed to give up the 25% preferential freight rate which Canal Zone cargoes enjoy between the Isthmus and the United States and this concession can be used as a bargaining point as the merchants of Panama have for many years complained that this preferential freight rate caused unfair competition.

(d) Panama wants a dock built at the penal colony of Coiba. The Marine Division of the Panama Canal could build this dock for them.

(e) Panama wants to obtain the full control and use of a number of telegraph and telephone wires which connect Panama and the interior which were constructed by the Army. Possibly some of these trunk lines could be turned over to Panama.

(f) The military reservation at Paitilla Point which the United States obtained under the provisions of the 1903 Convention but which is no longer needed from a military point of view, could be returned to Panama. Pending the necessary congressional action, the area could be leased to Panama for \$1.00 a year.

(g) Panama wants, as the Department is aware, to obtain a \$25,000,000 loan from the United States and while there seems to be considerable question whether or not Panama is entitled to such a loan and lastly, whether or not the Export-Import Bank can make a loan of this nature and/or has the funds available, we might make some kind of a commitment for a \$5 or \$10 million loan. If Panama insists on the larger amount, we could offer as a consideration to build the Inter-American Highway in cement from Rio Hato to the city of David as a military measure. The part of the Inter-American Highway from Panama to Rio Hato is already cement and was built by the United States as a military road. Since Panama proposes to spend nearly all the \$25,000,000 which they want to borrow on this project, possibly we could use the PRA ⁴⁵ or the Military Engineers to build the road for them as consideration for the new defense sites agreement.

In the opening memorandum establishing the round table conferences, Panama asked to settle a number of other questions with the United States but I think I have listed all of the ones which are susceptible of quick settlement by us and which could serve as consideration. One other point which might serve as consideration is Panama's desire that the Monetary Conference of 1904 be liberalized, especially as regards the coinage limitation. The prohibition of the sale in the Panama Canal Zone commissaries, the post exchanges of the Army or the Navy sales stores of "luxury and tourist articles" is a point desired by Panama, but I don't see how this definition ever could be made to hold water and I feel this point should be avoided.

Respectfully submitted,

V. LANSING COLLINS, JR.

⁴⁵ Public Roads Administration. A marginal note at this point reads: "Comment: When the US Govt agrees to use PRA—black is white; red is blue; and we're all completely crazy!"

711F.1914/11-2646

*Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)*⁴⁶

[WASHINGTON,] November 26, 1946.

The most recent despatch (no. 2882 of November 20)⁴⁷ from Panama drafted jointly by the Ambassador and Mr. Blocker emphasizes strongly that it would appear definitely impossible to negotiate a new defense sites agreement until some agreement has previously been reached for at least a technical return of the bases we now occupy. The Embassy believes that if we could indicate that the bases would be returned by some definite date we could begin immediately the negotiation of a new accord. President Jiménez appears very disturbed and embarrassed over our failure to agree to a symbolic return and feels that our delay is not consistent with the high principles the United States has always followed in dealing with weaker, but friendly Governments. Continued pressure on the president caused him last week to authorize Dr. Alfaro to present the Panamanian position before the United Nations.⁴⁸ The Panamanian press has played up to the fullest extent Dr. Alfaro's statements in New York.

The present conduct of Panamanian authorities with regard to this question undoubtedly is fomented by these factors:

(a) Desire of Jiménez administration to maintain its political prestige before the Opposition and the public.

(b) Pride before neighboring Latin American countries in the fact that the Isthmus of Panama is a laboratory in which the Good Neighbor policy is tested.

(c) Fact that Panamanians consider their territory of "international" value because of the Panama Canal and Panama's position as a so-called "crossroads" of the world.

(d) Fear that the recent Republican victory in the United States will mean a change in policy toward Latin America.

In view of the foregoing, Panamanians feel called upon to "bristle up" and represent what they feel are the best interests of countries south of the border. If Panama stands on its decision not to discuss or negotiate a new defense sites agreement until a satisfactory arrangement has been reached as regards bases now held we are faced with only two alternatives:

⁴⁶ Addressed to the Acting Chief of the Division of Central America and Panama Affairs (Newbegin) and the Director of the Office of American Republic Affairs (Briggs).

⁴⁷ Not printed.

⁴⁸ For Dr. Alfaro's presentation of the Panamanian position before the United Nations, November 21, 1946, see United Nations: *Official Records of the General Assembly, First Session, Second Part, First Committee, 1946*, pp. 132-133.

(a) "Sit tight" and eventually (one year after the signing of the definitive treaty of peace) return the sites with no new agreement. In the meantime relations with Panama would become very strained, the effect of which would be felt in various other sectors of Latin America. This would mean that strong charges of imperialism would be directed at the United States under Republican leadership.

(b) Give the Panamanian administration some face-saving device and obtain a new agreement.

It has been suggested that perhaps the Army adequately could provide for the defense of the Canal with no bases in Panama. If this could be done it undoubtedly would cause the Panamanians to "sit up and take notice" and perhaps even ask for the reestablishment of bases in the national territory (both because of embarrassment and for economic reasons). It would not seem, however, that the Army could get along without using Panamanian territory for even though sites for gun emplacements and air warning stations in Panama might be dispensed with there is always the need for practice and maneuvering areas and, of course, Rio Hato is a very important and, in effect, permanent base.

I understand that with the exception of Rio Hato the bases we now occupy are being held primarily on a "care-taker status". Could we arrange with the Panamanians

(a) to fly both flags over the remaining sites?

(b) to ask them to station a liaison officer on each site or to name one liaison officer for all sites (avoiding completely the use of any reference to joint control)?

(c) to agree that this status would continue indefinitely during which time a new agreement is to be negotiated?

In conclusion, I am inclined to feel now that with the position taken by the Panamanian administration at home and before the United Nations it will not negotiate a new defense sites agreement, no matter how palatable its terms may be, until we have given the administration some way to save face with the Panamanian public, with the other American Republics, and with the United Nations on the matter of our continued occupation of sites obtained under the 1942 Agreement. No matter how badly we may hate to do this it might be to our best interests to do so.

If the question of an interpretation of the 1942 Agreement is submitted to arbitration very likely we would win the case in point; however, our victory would in no way facilitate the negotiation of a new agreement or continued friendly relations with Panama.

I think the new agreement should be drawn up and taken to Panama personally by someone in the Department. If it is definitely seen that Panama will not negotiate that person should then proceed (naturally in complete conjunction with the Ambassador) to work out with the Panamanians face saving device as regards the remaining sites.

711F.1914/12-1746

*Memorandum to the Secretary of State by the Assistant Secretary
of State for American Republic Affairs (Braden)*

SECRET

[WASHINGTON,] December 17, 1946.

Article I of the 1942 Defense Sites Agreement with Panama reads in part as follows:

"These lands shall be evacuated and the use thereof by the United States of America shall terminate one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect."

The meaning of this text is clear. Dr. Alfaro, nevertheless, claims that its spirit and intention was that we should have turned back all sites in Panama one year after the surrender of Japan. Mr. Sumner Welles,⁴⁹ under whose supervision the agreement was drafted, stated to the Panamanian representative during the negotiations that a state of emergency and general unsettled conditions might well continue after the cessation of hostilities and that a period of from five to ten years might elapse before the final treaty of peace would be drawn up. He said that during this time it obviously would be unwise to leave the Canal undefended. It was on this basis that the word "definitive" was inserted in the text.

Without prior consultation with this Government concerning the termination of the 1942 Agreement, Dr. Alfaro in November 1945 stated his position before the National Assembly of Panama. On November 7, when asked by a correspondent about Dr. Alfaro's statement, you answered that our withdrawal from Panama was covered by an agreement in writing and that we would abide by whatever was in it.⁵⁰ On November 17 the Panamanian Foreign Office forwarded to our Embassy, which in turn transmitted it to us, a copy of the interpretation made by Dr. Alfaro before the National Assembly. Dr. Alfaro's interpretation was not challenged by us officially until August 1946, for it was felt then, during a political tempest in Panama, that a challenge would evoke an open controversy which might be avoided if we made no reply. Subsequent events made it necessary for us to declare our position.

During the war we obtained 134 defense sites in Panama. In accordance with the spirit of the 1942 Agreement (temporary use only) the Army through continuing processes over a period of many months,

⁴⁹ Former Under Secretary of State.

⁵⁰ In the minutes of a meeting of the Secretaries of State, War, and Navy, December 18, 1946, Mr. Byrnes is recorded as saying: ". . . he thought that there was a lot more to Alfaro's complaints than the State Department had led him to believe . . . It may be one year or it may be five years before we reach any final peace settlement The intent really was that we should get out of Panama before that." (811.002/1-2446)

beginning even before the surrender of Japan, as of October 1 had returned 98 of these sites. Of the 36 remaining about 18 are radar stations. The others consist of the large air base at Rio Hato and smaller airfields, gun emplacements and the like, considered essential for the current security of the Canal.

We are willing to terminate the 1942 Agreement simultaneously with the signing of a new defense accord. Dr. Alfaro has expressed his objection to negotiating a new agreement while we remain on the bases. It is hoped that this objection may be overcome, however, since to withdraw now and reoccupy under a new arrangement would be laborious, expensive and from the standpoint of protection, impractical. To stay on without a covering agreement would expose us to criticism and leave us without legal rights in the sites.

We are ready to negotiate a new defense sites agreement immediately. A new document which can be used as the basis for beginning negotiations has been drafted jointly by State, War and Navy. The War Department has given General Crittenger full authority to represent its interests in Panama. We are likewise prepared to negotiate in Panama. The sooner we get over the present impasse the better.

To meet Panamanian sensitiveness on the sovereignty issue we are prepared to offer the following:

(1) to reroute the Inter-American Highway around the Rio Hato base at an expense which has been estimated at some \$150,000;

(2) to agree that on all military sites in Panama the flags of both countries will fly side by side on individual poles of equal height.

(3) to agree to name all sites outside the Zone in accordance with the desires of Panama and to print all signs in Spanish and English, the former taking precedence;

(4) to welcome, if Panama so desires, the assignment of a Panamanian liaison officer to the Headquarters, Panama Canal Department, for the purpose of facilitating the operation of the new agreement; and

(5) to agree, should we withdraw at any time from any airdrome, and should Panama desire to operate them with Panamanian personnel, to provide on-the-job training at bases and, furthermore, to conduct training of individuals in technical specialties either in the United States or in the Pan-American School of the Caribbean Defense Command.

In view of possible Panamanian objections to the desired duration of the leases it is considered advisable, if possible, to avoid discussion of this point now. However, should Dr. Alfaro raise this question, the War Department has indicated that it would require a minimum period of thirty years. This is a reduction from the War Department's original proposal of 99-year leases.

SPRUILLE BRADEN

711F.1914/12-1746

Memorandum to the Secretary of State by the Assistant Secretary of State for American Republic Affairs (Braden)

SECRET

WASHINGTON, December 17, 1946.

Subject: Pending Matters, U.S.-Panama; Action U.S. Prepared to Take

For your secret information—not to be communicated to Dr. Alfaro.

We are prepared, in agreement with the War Department, to take important action with respect to other matters of interest to Panama, viz:

- (1) to negotiate the realignment of the Colón Corridor;
- (2) to authorize the Public Roads Administration to rent equipment and lend technical personnel to Panama for the paving of the runways at the new international airport;
- (3) to negotiate an agreement to cover the transfer of international air traffic from Albrook Field, in the Canal Zone, to Panama's new airport.
- (4) to assist Panama in drawing up a civil aviation code;
- (5) to abolish the 25% ocean and railway freight differential charged Panama by the Panama Railroad Company;
- (6) to intensify our investigations of alleged racial labor discrimination in the Canal Zone;
- (7) to return Paitilla Point to Panama;
- (8) to settle the Malambo Fire Claim;
- (9) to construct at cost for Panama a dock at the Coiba penal colony; and
- (10) to consider a revision of the so-called Monetary Agreements.

 SPRUILLE BRADEN

711F.1914/12-2046 : Telegram

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

CONFIDENTIAL

WASHINGTON, December 21, 1946—4 p. m.

621. In discussing defense sites issue with Dr. Alfaro Dept found that he apparently has not changed his position that some "symbolic return" of bases now held or some form of joint trusteeship will be necessary before new definitive agreement can be negotiated. While no definite commitment was made to Alfaro it was suggested that perhaps Panamanian Minister Govt and Justice⁵¹ might serve with Gen Crittenberger as trustees on operation bases retained under an interim agreement whereby rights of 1942 accord wd be continued although 1942 agreement itself wd be terminated. Interim agreement wd remain in effect until new definitive agreement based on 1936 treaty entered into operation.

⁵¹ Carlos Sucre.

It is assumed that Alfaro will have communicated the above to Pres Jiménez by this time. Dept informed that he will not return to Panama for approximately another week.

However, the proposal set forth in your 761 Dec 20⁵³ seems preferable from every point of view, Dept therefore believes it desirable to present draft base agreement to Pres Jiménez now. While Dept has not yet received draft D (urtel 755 Dec 17)⁵³ you are authorized to present it as basis of discussion provided it contains no substantial changes from draft C. Dept does not believe it desirable to discuss possible credit to Panama nor is it clear just what other assistance Panama wishes in connection with completion of connecting strip of inter-American highway between Panama and Costa Rica. You may however if Gen Crittenberger concurs discuss possibility of returning Paitilla Point and rerouting of road around Rio Hato base.

In view of Vallarino's⁵⁴ conversation with you it would not appear desirable for you to broach proposal of interim agreement. Nevertheless should Pres Jiménez do so, you may tell him that this Govt will be glad to consider such an arrangement. You should however refrain from making any further suggestions in connection therewith and limit yourself to ascertaining what he has in mind for reference to Dept.

BYRNES

711F.1914/12-2346: Telegram

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

SECRET

PANAMÁ, December 23, 1946—11 p. m.

US URGENT

[Received December 24—3 a. m.]

770. Reference Department's telegram 621, December 21. General Crittenberger and I met with Acting Foreign Minister Sucre and Minister of Public Works Vallarino from four to six this afternoon. General Mathewson Chief of Staff for the Commanding General, Mario de Diego First Secretary of Foreign Office and Collins were present at the conference.

In compliance with Department's instruction I informed Sucre that I was handing him a draft of a proposed defense sites agreement, that the United States hoped for an early solution of the question and that the United States wished to know what formula was to be followed to arrive at an early settlement satisfactory to both Governments. Sucre and Vallarino both mentioned the Panamanian position but both were careful to stress that no material abandonment, not even for five

⁵³ Not printed.

⁵⁴ Octavio A. Vallarino, Minister of Public Works.

minutes, of the sites now held by the United States was desired by Panama. After considerable discussion on this point it was finally agreed that negotiations based upon the draft presented would proceed on the understanding that once an agreement was reached then the question of the termination of the 1942 agreement, possible with the announcement that presently occupied sites were to be returned but immediately reoccupied, would be discussed and settled. Some plan whereby an announcement of return of sites after the new agreement has been settled will be made effective as of the very moment that the new agreement comes into force can in my opinion be worked out. General Crittenberger concurs in this opinion. This question is no longer an important one, provided the Panamanians stick to the position taken this afternoon. It appears now that no interim agreement will be needed and Sucre and Vallarino fully realize army cannot be put in position of illegally occupying sites.

Next point discussed involved Annex A of the list of actual sites wanted. Sucre wanted to know exactly what the United States needed and General Crittenberger after pointing out that the requirements for defense purposes had been carefully outlined to the Cabinet and President Jiménez several months ago at a conference in the Presidencia, agreed to present Annex A tomorrow to the Panamanians on the understanding that it be treated top secret.

Minister Vallarino then asked what was going to be done about the "needs of Panama". I thereupon informed the Panamanians that I had come to the conference prepared to hand them a draft of a proposed defense sites agreement. Sucre insisted, however, that I agree to make note of the following "needs" for immediate consideration: (1) the return of Paitilla Point; (2) guarantee to Panama of a permanent market for Panamanian agricultural goods in the Canal Zone; (3) construction of a concrete highway to the Costa Rican border; (4) construction of concrete highway from Colón to Porto Bello 20 miles; (5) construction of a concrete highway from Campana to Puerto Cruces 10 miles; (6) granting of a \$25 million loan; and (7) turning over to Panama of the naval hospital near Cativa. Points (4) and (5) are new but point (7) was discussed and abandoned about 10 months ago. Both Sucre and Vallarino made it very clear that they were prepared to bargain for the defense sites agreement and they intimated that if United States showed herself ready to meet Panama's terms even part way the defense sites agreement would be soon signed. General Crittenberger and I made no comments, but I said that I would transmit their views to Department.

General Crittenberger pointed out after the conference that at no time had the Panamanians mentioned the joint trusteeship scheme or an interim agreement thus indicating little or no liaison between

Alfaro and Sucre. Vallarino was present at conference as President Jiménez's personal representative and I am convinced that every effort will be made to make some progress before Alfaro returns. Although no time was set for a new conference it was agreed that the Panamanians would call next conference when they had studied the draft and annex but Sucre and Vallarino both stressed that they would welcome hearing our early reaction to their "needs".

HINES

711F.1914/12-2846 : Telegram

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

CONFIDENTIAL

PANAMÁ, December 28, 1946—10 a. m.

US URGENT

[Received 3:40 p. m.]

776. Following a luncheon yesterday given to the Guatemalan Minister prior to his departure from Panama, I had an opportunity of talking with the Acting Foreign Minister. I opened the conversation by saying that I had contemplated asking for an appointment to again discuss the subject of defense sites with him in view of the fact that he had now had an opportunity of going over the draft of the agreement together with the memorandum giving details in regard to the individual sites, and I was anxious to get his reaction on the defense sites draft. The Acting Foreign Minister said that he understood that Dr. Alfaro would arrive tomorrow, Saturday morning, but why not discuss the matter right there. I agreed with him and after going over some of the same ground covered in the initial discussion the Acting Foreign Minister indicated that after reading the detail of the amount of acreage required as outlined in annex A, he found that the amount of acreage asked for was a great deal more than he had understood would be required. He said so far as he was concerned he was prepared to recommend the acceptance of the defense sites agreement as presented to him if the US would agree with Panama on carrying out the following program :

1. Assurance of a permanent market in the Canal Zone for articles produced in the Republic of Panama at the prices and conditions prevailing in a typical city in the US like New Orleans.

2. Gratuitous return to the Republic of Panama of Paitilla Point and other areas in Taboga which will be subsequently determined.

3. Construction within a fixed time, at the exclusive expense of the US of a concrete highway on a route which will be determined by Panama from a point on the (present) highway to Rio Hato to the Costa Rican border.

4. Gratuitous transfer to the Republic of Panama of one of the docks of Cristobal suited for international navigation.

5. Payment of the sum of Balboa's 50 per year per hectare for all the lands occupied as defense sites though they be private property or national lands.

6. Gratuitous transfer to Panama of the Cativa Hospital with jurisdiction over the land on which it is located.

7. Permanent right to Panama to sell, free of all tax, customs duties or import duties, 30 million litres of Panamanian liquors per year in the US.

With reference to Point 1, I indicated that at a conference Friday morning we had made considerable progress in setting up a permanent market in the Canal Zone for produce of the Republic of Panama; that the first step in such a program, as I understood it, required an organization to be set up by Panama with which small producers could deal in order that the central agency established could offer produce in sufficient quantities to justify the handling by the Canal Zone authority. The Foreign Minister agreed that such steps were necessary.

With reference to point 2, I indicated that I thought there was a good opportunity of arranging for the return of Paitilla Point, the Aspinwall site on Taboga which undoubtedly the Minister has in mind, if we could first finally reach an agreement on the defense sites agreement.

With reference to point 3, I indicated that the construction of a concrete highway as against a macadam highway would greatly increase the costs. As a matter of fact it would increase it approximately \$25,000 per mile. I stated that while the US was committed to pay two-thirds of the cost of the inter-American highway, it would seem to me that it would be much more reasonable to discuss the building of a macadam highway as originally contemplated and applying the amount that it will cost the US to correct the difficulties in regard to the present highway at Rio Hato by building a new road around it.

It is my hope that in connection with this item desired by Panama that we endeavor to delay whatever we do in making any commitment on building the highway to eliminate our agreement to build the tunnel under the Canal.

Request of Panama for a lock at Cristobal, Point 4, is related to their establishment of a free port as recommended by Dr. Lyons⁵⁵ in his survey of the possibilities down here. It is also in lieu of two roads requested at the initial conference with the Panamanians, one of 20 miles in length and the other approximately 10 miles (reEmbtel 770 December 23).

With reference to point 5, this rate was expected to be proposed by Panama because of their discussion at the recent conference in regard to some remuneration being given for national lands. I believe it will

⁵⁵ Thomas E. Lyons, technical expert on free zones of the Department of Commerce.

be possible in certain localities to reduce the cost per hectare but undoubtedly the Panamanians will hold out for such a rate at the main air fields at David and Rio Hato, possibly the army will consider reduction in acreage.

Item 6 is the same as previously reported to Department.

Item 7 is a new request and one that I am not fully familiar with as to our ability to undertake such a commitment. At the present time it would mean very little so far as the tax receipts to the US are concerned, but it is undoubtedly based on the Panamanian desire to build up the manufacture of liquors and beer, probably also the production of alcohol.

I have just received secret telegram 627⁵⁶ which I will take up with the Acting Foreign Minister this morning. I will do all possible to hold them on discussion of the defense sites agreement.

The reaction of the Dept to the foregoing is requested at the earliest practical date.

HINES

**RELATIONS OF THE UNITED STATES AND PANAMA WITH REGARD TO
COMMERCE, COINAGE, AND CONSULAR SERVICES**

811.512319 Double/1-1546

Memorandum by Mr. Murray M. Wise of the Division of Caribbean and Central American Affairs

[WASHINGTON,] January 15, 1946.

Recently the Ministry of Finance and Treasury in Panama endeavored to impose taxation on employees of business firms in the Canal Zone which are branches of firms located in Panama. The Embassy lost no time in pointing out that it could not accept the viewpoint that Panama had fiscal jurisdiction in the Canal Zone, because Article III of the Treaty of 1903⁵⁷ granted to the United States all the rights, power and authority in the Canal Zone which the United States would possess and exercise if it were the sovereign of the territory, "to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority".

This subject is also one which the Panamanians bring up periodically. However, it is a satisfaction to note that on December 31, 1945 the Foreign Office instructed the Internal Revenue Section of the Ministry of Finance and Treasury to cease immediately sending let-

⁵⁶ Dated December 27, 1946, 6 p. m.; in this telegram the Department cautioned against discussions simultaneously, of the defense sites problems and other questions (711F.1914/2-2346).

⁵⁷ For text, see Department of State Treaty Series No. 431, or 33 Stat. (pt. 2) 2234.

ters to American firms established in the Canal Zone requesting information as to their financial operations. Recently a question arose with Pan American Airways regarding the right of the Panamanian Government to tax laborers working for that organization in the Canal Zone. The Embassy pointed out that Panama has no type of residual jurisdiction in the Canal Zone.

819.5034/2-2346

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

No. 932

PANAMÁ, February 23, 1946.

[Received March 6.]

Subject: Assembly Passes on Nationalization of Commerce Law.

SIR: I have the honor to transmit clippings from the English and Spanish sections of the *Panamá Star and Herald* of February 23, 1946, which lists the qualifications under which retail commerce may be exercised in the Republic of Panama. These are as follows:

1. Native Panamanians.
2. Naturalized Panamanians, five years after obtaining their final papers.
3. Naturalized Panamanians who, on the date the constitution takes effect, are married to a Panamanian or have Panamanian children even though they have not completed five years of naturalization.
4. Any individual who is already engaged in trade when the constitution is promulgated.
5. Citizens of nations which maintain on the Isthmus activities in which Panamanians can obtain permanent employment provided that such citizens reside under Panamanian jurisdiction.
6. Corporations which are formed by Panamanians or by foreigners allowed to engage in commerce individually under the foregoing provisions.
7. Corporations which are engaged in commerce when the constitution becomes effective, regardless of their membership.
8. Corporations engaged in the sale of products manufactured by them in the country, regardless of their membership.

It will be noted that the change from the original proposal, reported in the Embassy's despatch No. 2919 dated October 9, 1945,⁵⁸ is that in paragraph 5 it is stipulated that "citizens of nations which maintain on the Isthmus activities in which Panamanians can obtain permanent employment provided that such citizens reside under Panamanian jurisdiction". No requirement as to International

⁵⁸ Not printed.

Treaty is included and of course the only ones who can qualify under this ruling are American citizens on account of The Panama Canal installations.

Undoubtedly this constitution will be unsatisfactory to other nations which cannot qualify under the clause referring to the employment of Panamanians. The Embassy wishes to emphasize that in all its conversations with Panamanian Government officials and businessmen during the period of discussion of the new constitution it has repeatedly and consistently maintained the position that it is the policy of the United States to encourage equal opportunities for all nations in matters of international trade and has promoted the idea that the Government of Panamá should eliminate trade barriers and restrictions in accordance with the principles outlined in the Chapultepec Conference⁵⁹ and at the United Nations Conference in San Francisco.⁶⁰ It has made every attempt to discourage discrimination as between Panamanians and all foreign nationals in the practice of internal commerce in Panamá.

The exclusion of Americans from all restrictions to the operation of retail business is undoubtedly the result of the Embassy's insistence that the same treatment be accorded to American citizens in Panamá as that accorded Panamanian citizens in the United States. The Embassy believes that the exclusion of all other foreign nationals from retail trade in Panamá may not prove to be in the best interests of the Republic itself, but I do not feel that we can do any more than has been done, that is, to discourage all discriminations.⁶¹

The action of the Constituent Assembly on the question of wholesale trade in the Republic is being reported in a separate despatch.⁶²

Respectfully yours,

FRANK T. HINES

819.5034/2-2646

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

No. 951

PANAMÁ, February 26, 1946.

[Received March 4.]

SIR: I have the honor to refer to the Embassy's despatch No. 932, February 23, 1946, Subject: "Constitutional Assembly Passes Nationalization of Commerce Law," reporting the final action of the

⁵⁹ For the resolutions of the Conference, see Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March, 1945*, (Washington, 1945).

⁶⁰ See Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

⁶¹ For documentation on Panamanian charges of discriminatory labor practices, see pp. 40 ff., and pp. 1149 ff.

⁶² *Infra*.

Constitutional Assembly regarding the nationalization of retail trade and to report that in its session of February 25 the National Assembly took up the question of the control of wholesale trade and decided to place no restrictions whatsoever on wholesale business.

Respectfully yours,

FRANK T. HINES

619.00228/5-2846

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

No. 1646

PANAMÁ, May 28, 1946.

[Received June 3.]

SIR: I have the honor to refer to the Department's instruction No. 171 of May 21, 1946 replying to this Embassy's despatch No. 3055 of October 22, 1945, airgram No. A-1909 of December 4, 1945, despatch No. 969 of February 28, 1946, and despatch No. 1243 of April 1, 1946,⁶⁴ concerning the collection by American consular officers of fees for consular services performed by them for the Panamanian Government.

The Department's instructions No. 171 of May 21, 1946 and No. 704 of April 17, 1942⁶⁵ have been considered in the light of whether the refusal of collecting fees for consular services performed for the Panamanian Government, which after all are not an appreciable amount, would cause that Government embarrassment sufficient to look to some other government to perform Panamanian consular services in places where Panamá does not have consular representation. After careful thought, I am constrained to express the view that since Panamá is so close in its relations with the United States we should deviate, if possible, from the policy as set forth in the Department's instruction No. 171 of May 21, 1946, particularly if the Foreign Office should, and I believe that it would do so, modify the Decree Law No. 28 of February 9, 1942 by inserting therein a clause specifically referring to American consular officers as not being honorary consular officers of Panamá but who perform services for Panamá as a courtesy of the United States Government in places where Panamá has no representation and such fees collected by American consular officers be accounted for through their government to Panamá.

While the above suggestion is not in line with the Department's present policy I feel that special consideration should be given to consular representation for Panamá because it is a small country, not financially able to maintain a worldwide consular service, but at the same time so geographically situated here at the "Crossroads of the

⁶⁴ None printed.

⁶⁵ Neither printed.

Western Hemisphere" where its relations are so closely entwined with those of the United States as a result of the Panama Canal and the junction point of American-owned air lines plying between South America and the United States. It is, in reality, a junction point for all classes of traffic. In view of this situation we are placed in an entirely different position from that which exists with other countries desiring our consular services. Then, too, Panamá is overwhelmingly pro-American and looks upon us as a big brother, thus forming binding ties that naturally makes us a protector and thus obviously the rightful representative of their country when direct representation is lacking.

I therefore earnestly request reconsideration of the Department's policy concerning the collection of consular fees in so far as it applies to Panamá, and respectfully request authority to discuss informally with the Foreign Office a means of modifying Panamanian Decree Law No. 28 to meet with our regulations in such a manner as to permit us to collect and remit fees for consular services performed for Panamá in places where Panamá does not have a consular representative. I may add in conclusion that in a personal and very informal conversation with a member of the Foreign Office it has been intimated that the Panamanian Decree referred to above would be changed to meet whatever requirements are necessary to comply with United States Foreign Service Regulations if we would agree to collect and remit fees for services performed for Panamá by our consular officers.

The Department's early consideration and final decision would be appreciated.

Respectfully yours,

FRANK T. HINES

819.515/6-1746

*The Acting Secretary of State to the Panamanian Ambassador
(Vallarino)*

WASHINGTON, June 17, 1946.

EXCELLENCY: I have the honor to refer to your Excellency's note of September 21, 1945,⁶⁶ regarding the desire of the Government of Panama to have minted in the United States the sum of one million silver balboas (B/1,000,000), in coin of the following denominations.

| | | | |
|-----------|----|--------|--------|
| B/500,000 | in | B/1.00 | pieces |
| 225,000 | in | 0.50 | pieces |
| 175,000 | in | 0.25 | pieces |
| 100,000 | in | 0.10 | pieces |

⁶⁶ Not printed.

In the pertinent decree issued by your Government September 19, 1943, the contemplated issue is motivated by the consideration that an investigation carried out by the Comptroller General's office has shown that there is a scarcity of Panamanian silver money and that a new issue is therefore necessary.

Having regard to the known scarcity of Panamanian silver currency in circulation, the Government of the United States will agree to the contemplated issue in the amount of one million balboas on the understanding that this does not prejudice or modify the conditions and limitations attaching to the issuance of silver currency under the Monetary Agreement of 1904, as modified, although it may be in derogation therefrom to an extent which cannot be determined with accuracy since it is not known what volume of Panamanian silver currency may be in circulation in Panama on completion of the new issue. It is understood that should it at anytime appear that the amount of Panamanian silver currency in circulation is in excess of \$1,300,000 and that the parity of the coinage with the dollar may be impaired or other inconvenience is thereby caused in the fiscal operations of the Panama Canal, the Government of Panama agrees, when requested by the United States, to reduce the outstanding amount of its silver currency by the amount by which it may be found to be excessive.

Upon receipt of a note confirming this understanding on behalf of the Government of Panama⁶⁷ the Department of State will be pleased to arrange for the Embassy to consult directly with the appropriate officials of the Department of the Treasury with a view to working out the details for having the coinage undertaken at the Philadelphia Mint.

Accept [etc.]

DEAN ACHESON

619.00228/9-2846

Memorandum of Conversation, by the Chief of the Special Projects Division (Clattenburg)

WASHINGTON, September 11, 1946.

Ambassador Hines⁶⁸ requested a conference which was held in his office in order to discuss his despatches regarding the desire of the Panamanian Government that we collect consular fees on its behalf. Ambassador Hines stated that the value of the representation of Panama by the United States for strategic reasons clearly exceeded the intrinsic cost of any services which can be performed for Panama and that it was important for the United States to keep on the friendliest

⁶⁷ A note of June 17, 1946, from the Panamanian Ambassador indicated that the Panamanian Government agreed to this understanding (819.515/6-1946).

⁶⁸ The Ambassador departed for Washington on September 3 and returned to Panama on September 18, 1946.

possible footing with Panama. He stated that the present refusal of the United States Government to collect consular fees for Panama caused concern to the Panamanian Government because of the loss of fees which the Panamanians were apparently unable to collect from the interested persons. He went on to point out that Panama would increase in importance with the opening of the national airport next year, and that the increase of trade and travel through Panama would make the Panamanians even more conscious of the loss of revenue arising from our policy. In the circumstances he wondered whether some other government such as Great Britain or Sweden might not be more than anxious to take over the representation of Panamanian interests on Panama's terms.

Mr. Clattenburg pointed out that the United States Government now performs services of one kind or another for some twenty-six to thirty foreign governments, that this function will be most extensive for the Philippine Government and that it is expecting too much to ask the American Foreign Service to familiarize itself with and apply the tariffs and fees, laws and regulations, of so many foreign governments. He pointed out that there are alternative means which the Panamanian Government can apply to insure the collection of its fees, that the Panamanians stood to gain by the new practice if they could devise an effective collection procedure since they would no longer have to pay back fifty percent of all fees collected to the American officers concerned and that the action of the Department in collecting fees for Panama during the period 1903 to 1942 had obviously been based on incomplete information as to the status of the procedure under Panamanian law and lack of knowledge of Panamanian theory that officers performing services for Panama are Panamanian officers.

At the request of the Ambassador, Mr. Clattenburg promised to provide the Embassy with suggestions as to effective collection procedures to be followed by the Panamanian Government and also with a presentation copy for the Panamanian Foreign Office of the book on the representation of foreign interests, written by Mr. Franklin in SPD,⁶⁹ as soon as it is published.

⁶⁹ William M. Franklin of the Special Projects Division.

THE PANAMANIAN ACCUSATIONS OF DISCRIMINATORY LABOR
PRACTICES BY UNITED STATES GOVERNMENT AGENCIES ⁷⁰

711.19/1-2345

Memorandum of Conversation, by Mr. Murray M. Wise of the Division of Caribbean and Central American Affairs

[Extract]

SECRET

[WASHINGTON,] January 23, 1946.

Participants: General Crittenger, Commanding Officer, Caribbean Defense Command
General Walsh, War Department ⁷¹
General Hertford ⁷²
W. J. Donnelly, Counselor of Embassy, Panama
A-Br—Mr. Braden, Assistant Secretary of State
ARA—Mr. Briggs
RL—Mr. Dreier
CCA—Mr. Cochran
CCA—Mr. Wise

5. *Race Discrimination*

Mr. Braden called attention to the old complaint from the Panamanians that Canal Zone authorities discriminate in the treatment of "gold" and "silver" employees. He said that recently Charles W. Taussig, Chairman, United States Section of the Anglo-American Caribbean Commission, ⁷³ had discussed the race problem in the whole Caribbean area with President Truman, who had expressed an interest in having a memorandum prepared on the subject. Mr. Braden said that Mr. Taussig was endeavoring to determine what influence Moscow was wielding on important labor leaders in the Caribbean area. He believed that if there were no objection, Mr. Taussig might be given the opportunity to explain his apprehensions to those present.

Mr. Taussig briefly outlined some of the activities of organized labor in the Caribbean area referring particularly to the Caribbean Labor Conference which had been held in Barbados in October 1945. He

⁷⁰ For related documentation, see section entitled "Problems Concerning Argentina and Panama Considered at the International Labor Conferences held at Mexico City and Montreal" pp. 40 ff.

⁷¹ Maj. Gen. Robert L. Walsh, Army Air Forces.

⁷² Brig. Gen. Kenner F. Hertford, Pan American Group, Operations Division, War Department.

⁷³ An advisory body representative of the United Kingdom, the United States, France, and the Netherlands. It sponsored a conference, held in February and March, 1946, of representatives of 15 territories of these four powers to make recommendations on problems of education, public health, agriculture, nutrition, handicrafts, and local manufacturing.

mentioned that the Anglo-American Caribbean Commission had a fairly complete file on the conference. He saw significance in several occurrences there: (1) the singing of the "International" and the display of hammer and sickle insignia; (2) the speeches that were made in opposition to the United States remaining in the 99-year leased bases. He called attention to the fact that although the conference was not sponsored by the colonial governments or Great Britain, the Acting Governor of Barbados made the opening speech and other governmental officials attended, including the British Co-Chairman of the Anglo-American Caribbean Commission, Sir John Macpherson. References were made at the Conference to the fact that one objection to the United States retaining possession of the bases was the fact that Americans brought with them racial discrimination.

Mr. Taussig called attention to the fact that the United States had ratified the Charter of the United Nations, and that it was the United States which took a prominent part in drafting Chapter XI of the Charter which is the Declaration regarding non-self governing territories. Mr. Taussig felt that the United States should assume a moral leadership in relation to dependent peoples, and that the racial problem was of prime importance in this field. Mr. Taussig further stated that it was his opinion that the attitude and action of the United States in these matters particularly in the Caribbean area would have considerable repercussions in Latin America. Mr. Taussig, again referring to racial tension, stated that although the evidence was not complete, there appeared to be a definite link between Moscow and Caribbean labor groups. He was interested in hearing any comments which General Crittenberger and Mr. Donnelly might have to make.

General Crittenberger said that since his Command covered the whole Caribbean area he was very much interested in the labor situation which was a vital factor in any of his plans. He said his officers had been following labor tendencies with the greatest of care and that the successful dealing with laborers in the program for the defense of the Caribbean area would require the sympathetic consideration and cooperation of all parties concerned, such as the Army, the State Department and the Anglo-Caribbean Commission. General Crittenberger supported the contention of Mr. Taussig that the Communists were taking considerable interest in the area. He said that recently there was an occurrence in the Canal Zone which he felt was of Communist origin. During the agitation of the troops under his command to be sent home after VJ Day, posters appealing to the troops to protest were posted in various parts of the Reservation. The troops were addressed in these posters as "comrades". Mr. Braden asked Mr. Donnelly to express his views with respect to the race question in Panama.

Mr. Donnelly said that the Embassy has always taken the position that the most dangerous issues in Panama are

- (a) the landlord-tenant relationship, and
- (b) the West Indian negro problem,

and that the agitation of either at this time could result in

- (a) complete disruption of the present work of the Panamanian Constitution Assembly in its preparation of the new constitution. (He explained that the Assembly had left its discussion of Panama's immigration policy until the last), and
- (b) bloodshed and revolution such as occurred in the early days of the Panama Canal.

Mr. Donnelly said that the Embassy believed, and he was convinced General Crittenberger and Governor Mehauffey⁷⁴ would agree with it, that the appointment at this time of any outside committee, commission or group, no matter what it is called, would be detrimental to the interests of the Republic of Panama, as well as the United States Government. Mr. Donnelly said there were certain factors in the Canal Zone labor situation vis-à-vis the Republic of Panama which needed correction, but expressed his firm conviction that the study and recommendations should be made by the Embassy and the appropriate Canal Zone authorities.

The meeting was adjourned with the understanding that General Crittenberger would discuss with officers of the North and West Coast Republics problems of particular interest in that area of the General's Command. Detailed discussions of the Panamanian problems mentioned above, as well as others which should be taken up, were to be continued between Mr. Donnelly and officers of CCA.

811F.504/2-2146

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

SECRET
No. 71

WASHINGTON, February 21, 1946.

SIR: . . .

As the Embassy is well aware the question of the treatment of West Indian and other negro labor in the Canal Zone has been a delicate issue for many years. On various occasions allegations have been made from sources other than the Republic of Panama to the effect that United States agencies in the Canal Zone practice unfair treatment of negro laborers in contrast to that accorded white employees,

⁷⁴ Maj. Gen. Joseph C. Mehauffey, Governor of the Panama Canal.

especially United States citizens. These allegations have from time to time been presented in writing to the highest authorities of the United States Government, including the President.

As recently as January 8, 1946 the treatment of negro laborers in the Canal Zone was the subject of a conversation between President Truman and Charles W. Taussig, Chairman of the United States Section of the Anglo-American Caribbean Commission. The President asked Mr. Taussig for a memorandum on the subject with a suggestion for action. On January 9, 1946 Mr. Taussig addressed a letter to the President in which he stated that "The racial problem of the Canal Zone is closely tied in with our relations to the Republic of Panama as well as to the entire Caribbean area. For this reason I have asked Mr. Braden to send the memorandum to you."

Subsequent to this recent evidence of interest by the President in the Canal Zone race problem, the procedures for obtaining the most accurate facts for him and suggestions for whatever appropriate action might be indicated have been the subject of consultation in the Department. As a result it has been decided that a fact-finding commission to be composed of the Ambassador of the United States in Panama, the Commanding General of the Caribbean Defense Command, the Governor of the Panama Canal and the Commandant of the Fifteenth Naval District, or their representatives, would be the most logical body to undertake this important study. Accordingly, a brief memorandum, a copy of which is enclosed,⁷⁵ has been sent to the President informing him of the steps which are being taken to obtain the information desired.

You are requested to discuss this question at an early date with the Commanding General, the Governor and the Commandant and work out with them procedures for beginning this study as soon as possible.⁷⁶ You are requested to have this survey made under most confidential auspices and to refrain from disclosing the plan, its intent or scope to the Panamanian Government, labor organizations in the Zone or others. Existing unsettled labor conditions throughout the world and, more specifically, the delicacy of the racial problem as a political issue among elements of the Panamanian Government make it most advisable at this time, as you fully realize, that nothing be done to agitate the labor question on the Isthmus.

It is suggested that this study should include all important labor issues such as wages, leave privileges, commissary rights, housing, etc., in fact all matters which have been the subject of complaints of either organized or unorganized labor. As soon as the investigation has been

⁷⁵ Not printed.

⁷⁶ In telegram 232, April 23, 1946, 7 p. m., the Secretary urged the completion of the study at the earliest possible date (S11F.504/4-2346).

completed and recommendations drawn up for any improvements in the situation which seem advisable and which would tend to discourage further allegations of discrimination by United States agencies in the Canal Zone in their treatment of the negro laborers, it is requested that your report be forwarded to the Department.⁷⁷ In the meantime the receipt of occasional progress statements will be appreciated.

Very truly yours,

For the Secretary of State:
SPRUILLE BRADEN

811F.504/4-2446

Memorandum of Conversation, by Mr. Murray M. Wise of the Division of Caribbean and Central American Affairs

CONFIDENTIAL

[WASHINGTON,] April 24, 1946.

Participants: General Mehaffey
Mr. Braden—Assistant Secretary of State
Mr. Cochran—CCA
Mr. Wise—CCA

Governor Mehaffey visited the Department today to discuss problems of mutual interest in the Canal Zone. Conversations were begun in Mr. Cochran's office, continued with Mr. Braden, and terminated with Mr. Wise.

Labor Discrimination. Labor is one of the greatest problems with which the Canal Zone authorities have to deal and the Governor referred in particular to recent allegations from various sources that there were practices of discrimination on the basis of race and color by Canal Zone authorities in the employment and treatment of their employees. He said that pressure to eliminate the grouping of labor into "gold" and "silver" categories had increased. The Governor believed a change in terminology would at first have a helpful psychological effect, which might become adverse when it was realized that the change was purely one of name rather than substance.

He pointed out that differentials in salaries and leave privileges were based on the ability of laborers, not on color or race, and that the terms "gold" and "silver" actually distinguished between skilled and unskilled laborers, respectively. He admitted, however, that in actual practice the majority of skilled laborers are United States citizens and, therefore, formed the "gold" roll, while West Indian, negro and Panamanian laborers are unskilled and form the "silver" roll. The Governor pointed out that in opportunity for employment, in pay and in leave privileges there was no differentiation based on

⁷⁷ For a general statement of the living and working conditions of laborers in the Canal Zone, addressed to the Ambassador by the Governor of the Canal Zone, see p. 54.

color or race line, but said there existed a certain amount of segregation of laborers because of differences of habits of personal hygiene and sanitation. He added that this segregation was practical and necessary and could not be avoided.

Mr. Braden told General Mehaffey that he was aware of the full significance of these problems confronting Canal Zone authorities, but deemed it most necessary that the factual study, recommended by the State Department through the Embassy, of labor conditions be given serious attention and completed without delay. Mr. Braden added that he was very anxious to get a memorandum of facts into the hands of the President. He said that, as the Governor knew, the labor question was a very live one these days and that it was necessary to be in a position to meet all kinds of allegations of labor pressure groups. The Governor said that the Embassy, in accordance with the Department's instructions, had initiated activities leading toward a thorough study of labor conditions in the Canal Zone, but that little progress had been made to date because of Admiral Beardall's ⁷⁹ illness and subsequent absence from the Zone. The Governor intimated that the study dealt with a most delicate problem and that it was hard to foresee what helpful recommendations could result from the investigation.

The Governor referred to the recommendation which had been proposed by Mr. Charles Taussig of the Anglo-American Caribbean Commission that a study of labor in the Canal Zone should be made by a joint commission of high-ranking officials appointed by the President. He was pleased that the Department and Mr. Taussig had finally agreed to the plan of having the study made by officials of organizations on the Isthmus for he was certain that the activities of an outside joint commission would have had the unfortunate effect of unnecessarily agitating the whole labor problem in Panama.

Governor Mehaffey also referred to the recent activities of the Panamanian delegation at the ILO conference in Mexico City and said that he was most grateful that the United States representatives acting under the guidance of the State and Labor Departments had been influential in seeing that the resolution which was finally adopted did not specifically refer to discrimination in the Canal Zone and did not propose the appointment of a joint commission to investigate discrimination there.

In referring to the treatment accorded United States laborers ("gold" employees) in the Canal Zone as compared to that practiced in the case of laborers from other sources, the Governor said three basic thoughts must always be kept in mind :

⁷⁹ Rear Adm. John R. Beardall, Commander of the 15th Naval District.

(1) A 25% pay differential is given United States citizens as an inducement to persuade them to depart from the United States to accept work in the Canal Zone and to help defray expenses of periodic returns to the United States on vacations.

(2) Longer leave periods must be given employees from the United States because they are farther from home. Many of the permanent West Indian, Panamanian and other employees are hired locally, live near their homes and, accordingly, need less money and leave for vacation purposes.

(3) An employee of the Panama Canal upon retirement is not permitted to live in the Zone. Retirement for local employees, therefore, does not create the same problem as it does for the United States citizens, hence, an additional reason for differentiation in pay.

The Governor said that the working week for "silver" employees recently had been cut from 48 to 40 hours. Simultaneously, pay was increased approximately 20% in order to avoid any loss in salary for the laborers because of shorter hours. He said this meant no additional take home pay and added that consideration was being given to an increase in the salary of "silver" roll employees which now averages about \$60 a month. He thought this might soften some of the charges of discrimination in salaries.

War Department Civil Functions Appropriation Act. The Governor said he had come to the United States twice for hearings on that part of the Civil Functions Appropriation Bill which relates to Canal Zone employment. Canal Zone authorities oppose the McCarran amendment which has appeared in this bill since 1940. Through special proviso and by Executive Order compliance with the McCarran amendment has been suspended during the national emergency and has, therefore, never been in effect. The amendment provides that no negroes or laborers from other countries (citizens of Panama excepted because of treaty agreements) can be employed by the Canal Zone until all United States and Panamanian applicants have been satisfied. This year Labor Representative Hushing⁸⁰ added a provision to the McCarran amendment which authorizes the President, if he finds it necessary because of a shortage of housing, to suspend for the fiscal year 1947 the application of the McCarran amendment, which requires the employment of citizens of Panama and of the United States in skilled, technical, clerical, administrative, executive or supervisory positions. The Governor explained that the Hushing provision will guarantee the suspension of the McCarran amendment through the fiscal year 1947 even though the national emergency is declared terminated in the meantime. This, of course, is what the Canal Zone authorities want pending a complete elimination of the McCarran amendment which it is hoped can be effected when the

⁸⁰ W. C. Hushing, official of the American Federation of Labor.

Civil Functions Appropriation Bill is presented for the fiscal year 1948. Canal Zone authorities state that the McCarran amendment forces them to employ United States laborers in positions that can be filled by less skilled workers, thus increasing considerably and unnecessarily employment expenses.

811F.504/5-1646

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

SECRET

No. 1596

PANAMA, May 16, 1946.

[Received May 21.]

SIR: I have the honor to submit the following progress report in connection with the Department's instruction No. 71 of February 21, 1946, concerning racial discrimination in the Canal Zone.

On May 6 representatives of The Panama Canal, the Army and the Navy assembled in my office and presented draft of a joint statement, copy enclosed herewith,⁸¹ to be signed by Major General J. C. Mehaffey, Governor of The Panama Canal, setting forth the rules and regulations and conditions under which the government agencies referred to are operating in the Canal Zone, and defending, in a measure, existing conditions with reference to the "gold" and "silver" rolls.

The report itself did not meet with my approval and I so indicated. Due to Governor Mehaffey being absent, I felt that no definite action should be taken until he had had an opportunity of reviewing the report and meeting with the other members of the committee. Yesterday, at my invitation, the Governor spent well over an hour with me discussing the matter and agreed that the report drafted was not satisfactory to him. I suggested to the Governor that he give consideration to the following changes, pointing out definitely that from January 1910 up to March 2, 1936, we had committed our Government to the public policy and principle of equality of opportunity and treatment of the Panamanians employed by the Canal or the Railroad and that it appeared to me that it would be necessary that facts be presented to show that we were fully carrying out our commitments. I made the following suggestions to the Governor:

1. That the "gold" and "silver" rolls and the signs wherever they appear be entirely eliminated;

2. That in the employment of labor in the Canal Zone by the Panama Canal, Panama Railroad, Army or the Navy be on the basis of (a) skilled; (b) semi-skilled; (c) unskilled, and that no other designations be used.

3. In order that he might be assured that the foregoing classifications were being fairly made, that a board be appointed by him made up of representatives from The Panama Canal, the Panama Railroad,

⁸¹ Not printed.

the Army, the Navy and a representative from the Republic of Panamá (preferably one employed by some one of the agencies); that this board be charged with two definite responsibilities:

- (a) The proper classification of an employee being hired.
- (b) To consider and act upon all complaints made relative to discrimination in any respect.

4. That in lieu of the present classification of commissaries, club houses, etc., under "gold" and "silver", that a system of permits be issued to the various groups giving the number of the sales store to be patronized, without any other designation. That determination be made at the time the permit was issued as to what commissary or club house would be the proper one for the employee to use under the circumstances and that in issuing such permits the type of employee, the location of the commissary with reference to where employed, or location of his home, be given consideration. That the club houses of the unskilled employees be made attractive and as near on a par as those assigned to the skilled employees as would be reasonable and practicable.

5. In the case of schools, it seems to me that the present classification—if the schools are made equal between white and colored without the designation of "silver" or "gold"—should be continued but that every effort should be made to make sure that the facilities in the several classes of schools are comparable.

The Governor agreed to take these suggestions under consideration and asked that he be given an opportunity of a few days in order to submit additional information to me on the matter. When this has been done I contemplate calling the members of the committee together again in order to see if we can reach a definite understanding, or at least see how far apart we are.

For the confidential information of the Department, I should say that the disparity between the percentage of "gold" employees engaged by the Army who are not American citizens, which is approximately at the present time 30 per cent, as against the percentage of gold employees in the Panama Canal who are not American citizens, which is two per cent, cannot in my judgment be explained or defended.

Respectfully yours,

FRANK T. HINES

S11F.504/6-1246

*Memorandum by Mr. Murray M. Wise of the Division of Caribbean and Central American Affairs*⁸²

[WASHINGTON,] June 12, 1946.

Attached are paragraphs on labor discrimination taken from the memoranda of conversation covering the first two round table conferences in Panama; also a memorandum received from the Panamanian Foreign Office,⁸³ listing examples of discrimination against Panamanians in the Canal Zone.

⁸² Addressed to ARA: Mr. Butler and Mr. Briggs, and to A-Br: Mr. Braden.

⁸³ None printed.

In the first round table conference Dr. Alfaro ⁸⁴ said that the theory of the 1936 Treaty regarding labor practices was good, but that in practice it was not effective.

Ambassador Hines told Dr. Alfaro confidentially that a study of the entire question was being made. He explained that the Army had been careful about non-discrimination of employees, that the Panama Canal had not been too careful and that the Navy had the fewest gold roll employees.

During the second round table discussion Ambassador Hines told Dr. Alfaro that he had sent a proposal to Governor Mehaffey in which he had suggested the complete elimination of "gold" and "silver" classifications and that he had suggested instead that laborers be grouped as skilled, semiskilled and unskilled employees. The Ambassador said that one of the main difficulties in all discussions was the bringing into the picture of other than Americans and Panamanians. Other nationalities are not covered by the 1936 Treaty ⁸⁵ commitments to Panama.

Ambassador Hines has suggested to Governor Mehaffey that he should have a board whose responsibility would be (1) to classify employees, and (2) to handle all complaints relative to classification or treatment of laborers. The Ambassador suggested that on this Board there must be Panamanians and Americans. This idea pleased Dr. Alfaro very much.

The Ambassador raised the question of how much trade unions in the Canal Zone influenced methods of employment. Dr. Alfaro said that the unions had been very active and that they have a powerful lobby in Washington working for discriminative legislation. Dr. Alfaro in his list of complaints that the United States is not living up to its treaty commitments toward Panamanian labor mentions such matters as salary, annual leave, sick leave, exclusion of white Panamanians from white North American lunchrooms, vacation pay, reduction in pay without adequate notice or just reason, etc.

811F.504/7-946

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

RESTRICTED
No. 1921

PANAMA, July 9, 1946.
[Received July 12.]

SIR: As of possible interest to the Department, I have the honor to report that Governor J. C. Mehaffey of the Canal Zone announced on Saturday, July 6, 1946, an increase in rates of pay for virtually all

⁸⁴ Panamanian Minister for Foreign Affairs, Ricardo J. Alfaro.

⁸⁵ Department of State Treaty Series No. 945; 53 Stat. (pt. 3) 1807.

silver employees of The Panama Canal and Panama Railroad Company, to be effective July 1, 1946. Some 20,000 Canal and Railroad employees will benefit from the pay increase which will add approximately \$1,500,000 annually to the Canal payrolls.

There is attached herewith a copy of the press report⁸⁶ given to *The Panama American* for publication on Saturday, July 6, 1946. In a conversation with Governor Mehaffey on Sunday evening, July 7, I was informed that in substance the statement as published in *The Panama American* is correct.

In this connection I am pleased to express the view that the action of the Governor, coming as it does on the eve of discussions with the Panamanian Government in connection with discrimination in the Canal Zone as alleged by the Panamanian Government and the Panamanian labor representatives at a recent labor conference held in Mexico City, may be of some assistance to the Embassy in attempting to show that the Canal Zone government has in mind the improvement of wage conditions of those on the so-called silver roll.

Respectfully yours,

FRANK T. HINES

811F.504/7-2246

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

CONFIDENTIAL
No. 2004

PANAMÁ, July 22, 1946.

[Received July 25.]

SIR: I have the honor to refer to the Embassy's despatch No. 1891, July 2, 1946, Subject: "The Canal Zone Workers Union",⁸⁷ and to report that Leonard Goldsmith, Director of the United Public Workers of America of the CIO, in a press interview several days ago stated that the Canal Zone Workers Union now had a membership of 10,800 and that he estimated that it would soon exceed 13,000.

He said that the Union, which would have the backing of Philip Murray and six million CIO workers in the United States, would be open to both "gold" and "silver" workers in the Canal Zone and that its program will consist of the following six points:

- (1) Elimination of the "gold" and "silver" rolls.
- (2) Establishment of classifications of skilled and unskilled labor such as those existing in the United States.
- (3) Establishment of a decent minimum wage, the figure to be determined later.
- (4) Improved housing.
- (5) Greater job security.
- (6) Establishment of a retirement plan to eliminate cash relief.

⁸⁶ Not reprinted.

⁸⁷ Not printed.

He promised the Union that it would receive the support of the CIO's Political Action Committee in achieving these aims by Congressional action.

Goldsmith referred to the "intolerable conditions" and "intolerable discrimination" he had found in the Canal Zone and to the "disunity" that existed among the workers in the Canal Zone between the "gold" and "silver" personnel and between the West Indians and the Panamanians. He said that he plans to assign a permanent CIO member from the United States to the Canal Zone.

Goldsmith said that the entire question of discrimination must be ended and that he was confident he would receive the cooperation of the Governor and the Executive Secretary of The Panama Canal in the elimination of the economic inequalities that exist at the present time. He stated that he would cooperate with organizations established in the Canal Zone which are affiliated with the American Federation of Labor (the powerful Metal Trades Council open only to American citizens) and he stressed the no-strike policy of the CIO.

Meetings of the Canal Zone Workers Union took place in Colón in July when reportedly 4,000 workers voted that they would join the CIO and on July 18 in Panamá at which time 7,000 "silver" roll workers voted for affiliation with the CIO. Goldsmith announced at the meeting in Panamá that the officers of the Panama Canal West Indian Employees Association (see Embassy's despatch under reference) had voted unanimously to become affiliated with the CIO. References by various speakers at this meeting were made to the exploitation of the "silver" workers in the Canal Zone and to "Yankee Imperialism".

It is interesting to note that, although the new Constitution of the Canal Zone Workers Union indicates that its headquarters are in Panamá City and that it will form an integral part of the Federación Sindical de Trabajadores de Panamá (Panamá branch of the CTAL), at a secret meeting held several days ago Goldsmith told the Union heads that the Canal Zone Workers Union would be open only to persons working in the Canal Zone.

The Embassy will continue to keep the Department informed of any new developments of the Union and of the activities of Goldsmith.

Respectfully yours,

For the Ambassador:
V. LANSING COLLINS, JR.
Second Secretary of Embassy

811F.504/9-2446

The Governor of the Panama Canal (Mehaffey) to the Ambassador in Panama (Hines)

CONFIDENTIAL

BALBOA HEIGHTS, September 18, 1946.

MY DEAR MR. AMBASSADOR: Your letter of September 11th was received on the 13th. I was sorry to have to ask for clarification of the message which Mr. Blocker⁸⁸ read to me over the telephone but it was not clear to me just what changes you had in mind in writing it.

Development of the grievance procedure which I outlined to you during our conversation on September 2d has been practically completed, but I do not wish to publish it without first giving the unions (both gold and silver, because the procedure applies equally to all employees) an opportunity to comment on it, which I hope to do this week. I do not anticipate any serious objections to the procedure, since it follows States practice quite closely; and it should be possible, therefore, to publish it in the near future. As I informed you, it provides for the handling of grievances in four stages, the first being consideration by the immediate supervisor of the complainant, and the last consideration by the Executive Office. The procedure does not materially change the practice that has been followed in the past, but it will regularize and publicize that practice and will, I think, have a good effect.

With respect to substituting other terms, such as *graded* and *ungraded*, for *silver* and *gold*, I have informed both the CIO Union and Dr. Alfaro that I am willing to consider making the change only if I am assured by all concerned that they thoroughly understand that the change will not (at least for the time being) affect anything but the names, and that they nevertheless desire to have it made. I have not yet received such assurances from either source, and I am therefore not in a position to make the change at this time.

In this connection, I should like to reiterate my conviction that a change of the present names of the two employment categories, without any material changes in the things which have been associated with them, will have no permanently beneficial effect. The same is true, in my opinion, with respect to measures designed to bring about an increase in the number of Panamanian citizens on the gold roll, which could not be large unless the past standards of qualification are abandoned. Based on public statements made by representatives of the Government of Panama and of the CIO union, it is safe to say that the mass of the silver employees will not be completely satisfied with anything less than an increase in their wages and privileges sufficient

⁸⁸ William P. Blocker, Counselor of Embassy in Panamá.

to make them substantially equal to those of the gold employees, and the complete abolition of any segregation in the Canal Zone. The first of these objectives is unattainable unless the United States Government is willing to pay out to silver employees annually some \$30,000,000 more than it is now paying, the increase being in effect a gift, since neither the skill nor the industry of the great majority of the silver employees is such as to justify such high wages. The second objective could not be granted immediately or in the near future without wrecking the Panama Canal and Panama Railroad organizations, as most thoughtful observers, including many on the silver roll, will agree.

I trust that the United States delegates to the forthcoming ILO meeting in Montreal will not permit untrue and insulting statements by Panamanian delegates to go unchallenged, as similar statements apparently were at the last meeting. And I particularly hope that if the allegation is repeated which forms the basis for nearly all Panamanian complaints of discrimination, i.e., that the so-called gold roll is composed exclusively of United States citizens, while all Panamanian citizens are relegated to the silver roll, it will be promptly and energetically refuted. As I pointed out in my letter to you dated August 20, 1946,⁹⁰ commenting on the allegations made by the Panamanian delegates to the ILO conference in Mexico City, those citizens of Panama who have a sufficiently high degree of skill are employed on the gold roll, and when so employed receive exactly the same rates of pay and leave privileges as the citizens of the United States. Only those Panamanians whose skill does not qualify them for gold roll positions are forced to seek employment either on the silver roll or in the Republic of Panama. The large number of Panamanians who are now employed on the silver roll and the continuing volume of applications for such employment would seem to indicate that the wages and working conditions are equal to or better than those which prevail in the Republic of Panama.

If any ILO investigation on the Isthmus is proposed, it should include the investigation of certain conditions affecting workmen in the Republic of Panama, such as the squalid and insanitary housing in which thousands of United States employees are forced to live, at exorbitant rentals, and also the discrimination against the citizens of other countries except the United States resulting from the nationalization of retail commerce. It is inconceivable to me, however, that the United States would permit the ILO to investigate the treatment of Panamanian employees in the Canal Zone, any more than it would permit that organization to investigate the treatment of Mexi-

⁹⁰ For text of this letter, see p. 54.

can or Jamaican laborers in the continental United States. If such a precedent should be established, it seems to me that the gates would be open for a flood of similar investigations, not only in the United States but in other member states, and that the ILO would be transformed from an advisory body into an inquisitorial super-state. I believe, therefore, that the United States delegation should firmly and definitely reject any proposal for such an investigation.

I am [etc.]

J. C. MEHAFFEY

811F.504/11-546 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Hines)

WASHINGTON, November 5, 1946—7 p. m.

566. Re third paragraph urtel 684 Oct 30.⁹¹ For Emb's strictly confidential info recent conferences in Wash between State, War and Labor Dept officials and Gov Mehaffey have led to probable temporary assignment to Governor's staff of labor relations officer who will be instructed to make during first 3 or 4 months of 1947 survey to determine (1) whether Governor should have permanent labor relations officer on his staff; (2) whether, if any discriminations against Canal Zone labor groups exist, steps can immediately be taken to correct them, and (3) whether facts can be assembled to answer any allegations of discrimination at June 1947 ILO Conf at Geneva. Memoranda of conversations being forwarded.

Until this plan has been discussed fully with Governor upon his return to Isthmus and until further instructions are received from Dept matter should not be discussed with Panamanian officials.

ACHESON

811F.504/10-2346

Memorandum by the Second Secretary of Embassy and Consul in Panama (Collins)⁹² to the Assistant Chief of the Division of Central America and Panama Affairs (Wise)

[WASHINGTON,] November 6, 1946.

Embassy's despatch No. 2686 of October 21, 1946⁹¹ reports on an Associated Press despatch from Chicago, dated October 20, 1946, to the effect that the American Federation of Labor adopted a resolution during its Chicago convention demanding preference for United States citizens in employment in the Canal Zone. It is believed that the resolution actually called for "preference to United States citizens

⁹¹ Not printed.

⁹² Mr. Collins was temporarily in Washington.

in office positions and work for laborers, skilled and semiskilled workers in the Canal Zone" and that the resolution also recommended that in the future all positions in the Canal Zone be given only to citizens of the United States. A question as to whether such legislation would contravene the treaty of 1936 is raised.

In a press conference of October 23, 1946 President Jiménez of Panama attacked the American Federation of Labor declaration. He stated that it was absurd that Panamanians are considered foreigners in their own country, referring to the Panamanian claim that the Canal Zone is after all Panamanian territory. President Jiménez told the press that the resolution was completely contrary to the treaty of 1936 and that it was unquestionably inspired by the Metal Trades Council of the Canal Zone, an affiliate of the A.F. of L., which President Jiménez said "has always wished us ill."

The Embassy recommended in despatch No. 2702 of October 23, 1946⁹⁵ that if the press release was accurate, the attention of the Department of Labor be called to the fact that the action contemplated would unquestionably contravene the 1936 treaty. Ambassador Hines felt that prompt steps should be taken to reassure Panama on this point.

As might be expected, there was considerable newspaper publicity to this resolution in Panama. One of the deputies to the National Assembly made a public statement and the *Star & Herald* of October 22 and 23, 1946 carried editorials on this subject. On October 29, 1946 *La Nación*, however, carried a report from Washington to the effect that W. C. Hushing of the A.F. of L. declared that the A.F. of L. did not mean to place Panamanians at any disadvantage in the Canal Zone.

In view of the fact that nothing official has been received from the Government of Panama on this point, it is not believed that any further Departmental action is indicated.

811F.504/11-2146

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

CONFIDENTIAL
No. 2897

PANAMA, November 21, 1946.
[Received November 26.]

SIR: I have the honor to refer to the Embassy's despatch No. 2393, September 16, 1946, Subject: "Alleged Discrimination in the Canal Zone",⁹⁵ and to report that *Acción*, October 30, 1946, the weekly official organ of the UPW-CIO Local 713 with a reported circulation of 10,000, published a table of the average wages paid by The Panama

⁹⁵ Not printed.

Canal based on budget estimates for the 1947 fiscal year. According to this chart, the total number of "silver" employees of The Panama Canal is 16,252, while the total annual wage is given as \$11,166,108.

Acción points out that on the basis of this table the average weekly wage earned by "silver" workers is \$13.00, or 30 cents an hour, which is lower than the 40 cents an hour which is called for by the Federal Fair Labor Standards Act.

The Executive Office of The Panama Canal has informed the Embassy that during the month of October 1946 there were 20,943 "silver" employees on The Panama Canal and Panama Railroad pay rolls (including intermittent and temporary employees); while there were 6,039 "gold" employees with The Panama Canal and the Panama Railroad. These figures are lower than for the month of August 1946 as indicated on Page 47 of the report entitled "The Communist Movement in Panamá" prepared by Mr. V. Lansing Collins, Jr., Second Secretary of Embassy, and represent a difference of 1,880 employees on the combined Panama Canal and Panama Railroad "gold" and "silver" pay rolls, which figure will give the Department some idea of the amount of people affected by the reduction of force program in effect in Panama Canal organizations. The Executive Office also informed the Embassy that there were approximately 750-1,000 "silver" contract laborers presently employed in the Canal Zone and that at the peak there were approximately 5,000. It is believed that the above difference between the months of August and October is greatly due to the reduction in force and subsequent repatriation of contract laborers.

The total pay roll for "silver" employees during the month of October 1946 for The Panama Canal and Panama Railroad Company was \$1,402,726 as compared to \$1,794,341 on the Panama Canal and Panama Railroad pay rolls for "gold" employees.

It is interesting to note that *Acción* fails to mention any of the advantages accruing to the "silver" employees of Panama Canal organizations, such as housing, commissary privileges, hospitalization, etc.

The Executive Office of The Panama Canal has also informed the Embassy that the "silver" roll of The Panama Canal and Panama Railroad Company will be increased considerably when the dry season begins.

I feel that it is regrettable that publicity is not given to the information furnished the Embassy by the Executive Office as it would certainly counter-balance the dangerous propaganda which has been disseminated among the "silver" employees by such CIO organizers as Len Goldsmith, Jack Strobel and Robert Weinstein.

Respectfully yours,

FRANK T. HINES

811F.504 /11-2546

The Special Assistant to the Secretary of War (Ohly) to the Assistant Secretary of State for American Republic Affairs (Braden)

WASHINGTON, November 25, 1946.

DEAR MR. SECRETARY: Since our conference of several weeks ago with Assistant Secretary of Labor Morse, the Governor of the Panama Canal and General McSherry,⁹⁶ negotiations have been going on with the latter to secure his services as a special advisor to the Governor on labor relations. You will be glad to know that satisfactory arrangements have now been worked out and that General McSherry will leave for the Canal Zone shortly after the first of the year.

As I see it, his mission will be of a threefold character. In the first place, he will serve as a special advisor to the Governor for the purpose of (1) making recommendations to the latter concerning changes in policies, programs and other matters affecting labor in the Canal Zone, (2) assisting the latter in effecting such changes to the extent that this can be done during the period of his visit to the Zone, and (3) recommending to the latter a long-range program for the handling of labor matters in the Zone, including suggestions with respect to the kind of permanent labor relations office, if any, which the Governor might have in his organization.

In the second place, he would be available on a loan basis, at least to the extent the Governor could make him available, to render somewhat similar assistance to the military and naval organizations in Panama which, together with the Panama Canal itself, constitute the principal employers in the Zone. In such a small area the problems of the three should be approached in a uniform fashion, and I think General McSherry can do a great deal to assist in bringing this about. The Governor is eager for this type of coordination since the Panama Canal is by far the largest employer of the three and has a more permanent responsibility.

In the third place, General McSherry would obtain basic information as to the labor problems of the Panama Canal and their significance in order (1) that he himself will be in a position to serve as one of the representatives of the United States Government in the meetings of the International Labor Organization at Geneva next summer, and (2) that the War, State and Labor Departments may have available those facts on this subject which will assist them in shaping their policies in Panama and Latin America generally.

⁹⁶ Gen. Frank McSherry, Special Adviser to the Governor of the Panama Canal.

General McSherry plans, before his departure, to gather from the government agencies involved as much information as possible concerning the labor problem in the Canal Zone, and related issues, and I have told him that I was sure that he could obtain any necessary information and assistance from the State Department through you and your representatives.

I believe that General McSherry's trip can be of great benefit to all three Departments concerned, and we are grateful for the part you played in helping the Governor to secure McSherry's services.

Sincerely yours,

JOHN H. OHLY

**PARTICIPATION BY THE UNITED STATES IN THE DEVELOPMENT OF
PANAMANIAN PUBLIC WORKS AND FACILITIES ⁹⁷**

819.154/4-346

*Memorandum of Conversation, by Mr. Murray M. Wise of the Division
of Caribbean and Central American Affairs*

WASHINGTON, April 3, 1946.

Subject: Activities of Public Roads Administration in Panama.

Participants: Mr. Wilson—PRA
Mr. Cochran—CCA
Mr. Wise—CCA

For some time the Department has endeavored to clarify the activities of PRA in Panama and the status, authority and duties of its representative there. The Department has maintained the attitude that it is not a part of PRA's functions to contract for foreign government road building abroad.

The Department's concern in the above sense has recently been renewed by Panama's requests,

(1) that PRA extend the road from the Trans-Isthmian Highway to the proposed site of the new international airport by a distance of 2.3 miles;

(2) that PRA prepare the airport site for the laying of the runways.

Recently when Major General Fleming,⁹⁸ Mr. MacDonald⁹⁹ and Mr. James¹ were in Panama, informal agreement was reached with

⁹⁷ Continued from *Foreign Relations*, 1945, vol. ix, pp. 1252-1256.

⁹⁸ Maj. Gen. Philip Fleming, Administrator of the Federal Works Agency.

⁹⁹ Thomas MacDonald, Public Roads Commissioner.

¹ E. W. James, Chief of the Inter-American Regional Office, Public Roads Administration.

the Embassy and the Panamanian Government that PRA would do the work requested. The Washington office of the PRA has now received for approval documents designed to authorize PRA to extend the highway by 2.3 miles. That office will be receiving in a few days for approval documents covering the preparation of the airport site for the runways.

At the Department's request Mr. Wilson came in to discuss the whole field of PRA's activities in Panama and it was decided:

(1) that the PRA representative in Panama be authorized to proceed with the extension of the highway;

(2) that before the representative be authorized to comply with the Panamanian request to put the airport site in shape for the runways the Washington office of the PRA and this Department should be given opportunity to study in detail the proposal (This decision was made because of the lack of details concerning how much work the Panamanians want PRA to do on the airport. The Department had understood that PRA was only going to do some grading and leveling off, but Mr. Wilson believes that Panama is interested in doing practically a complete job on the preparation of the airport site, including grading, leveling, drainage, access roads, arrangements of the bed for the concrete runways and possibly even the pouring of the cement for the roads and runways.); and

(3) that upon their return from India it would be well to discuss PRA activities in Panama with General Fleming and Mr. MacDonald for the purpose of deciding as to whether PRA should do any further work for the Panamanian Government.

Upon leaving, Mr. Wilson admitted that PRA was probably stretching its authority by agreeing to do some of the work it has been doing for Panama, that PRA was becoming more and more involved in Panama; namely, that of contracting with a foreign Government for construction work abroad, and that he personally felt the sooner PRA left Panama the better it would be.

Mr. Wilson was shown the Department's draft letter to Major General Fleming in which concern was expressed over PRA activities in Panama. He said that while he agreed with the principle expressed he felt the draft was not entirely accurate and put the onus on PRA when, in fact, it had done some of its jobs in Panama with the complete approval of the Embassy and the Department. It was, therefore, decided to hold the letter with the hope that the whole matter could satisfactorily be solved through discussions with General Fleming and Mr. MacDonald upon their return from abroad.

819.154/5-2746

Memorandum of Conversation, by Mr. Murray M. Wise and Mr. Fred G. Heins of the Division of Caribbean and Central American Affairs

[WASHINGTON,] May 27, 1946.

Participants: Mr. MacDonald, Public Roads Administration
 Mr. James, Public Roads Administration
 Mr. Wilson, Public Roads Administration
 Mr. Braden, Assistant Secretary of State
 Mr. Briggs—ARA Mr. Heins—CCA
 Mr. Cochran—CCA Mr. Wise—CCA

PRA officials called at the request of the Department to discuss activities in Panama and the \$25,000,000 Inter-American Highway Appropriation Bill now in Congress.

Airport

There was a discussion of the situation in Panama which led to the signing by Mr. Humbard, PRA representative in Panama, and the Panamanian Minister of Public Works, of an agreement which provides that:

- (1) Panama will rent from PRA equipment necessary for the airport construction;
- (2) PRA will lend the necessary technical personnel for the execution of the work which will be subject to the direction and approval of Panama;
- (3) Panama will have an option to buy this equipment, deducting rentals paid; and
- (4) Panama will make available for use on the Inter-American Highway any equipment thus purchased.

The agreement had been made in Panama subject to the approval of Mr. MacDonald and the question before the meeting was whether the Department would approve of the arrangement as the best possible solution to the situation which had arisen in Panama.

Ambassador Hines had given his full support to the request of the Panamanian Government that the Department assist in securing Mr. MacDonald's approval of this agreement.² PRA officials were advised that the Department went along with this arrangement although it was in principle opposed to United States Government agencies operating abroad in competition with local enterprises.

Mr. MacDonald felt that PRA had been unjustly accused of pushing itself into a position of assisting the Panamanians on the con-

² In a memorandum of May 8, 1946, by Murray Wise, which indicates the terms of this agreement, a marginal comment appears as follows: "I'm not convinced of wisdom of this. S. B[raden]." (819.154/5-846)

struction of the airport beyond that which was generally agreed to during a meeting in Panama at the time of the visit of General Fleming and Mr. MacDonald.

Later, upon leaving Mr. Braden's office, Mr. Wise remarked that he assumed Mr. MacDonald would approve the agreement entered into between Mr. Humbard and the Panamanian Minister of Public Works. Mr. MacDonald replied "maybe" with somewhat of a doubtful tone in his voice and added that the work was going on at the airport without any agreement. He said that he was "fed up" with the whole situation in Panama and wondered if it might not be well to pull out.

Corridor Road

Mr. MacDonald said the main reason for proposing, in the agreement for the work at the airport, that Panama make available for use on the Inter-American Highway any equipment purchased was to provide a legal basis for making the transfer to Panama. He indicated that the Bureau of the Budget would probably approve such a transaction only if it were in some way related to the Inter-American Highway Project. Mr. MacDonald went on to say that some of this equipment could be used in realigning the Corridor Road, if an agreement were reached on this project.

It came out in the meeting that both Panamanian and Canal Zone authorities were interested in changing the route of the Corridor Road and that while Panama would probably ask this Government to provide some \$200,000 of the total cost this would presumably be borne by the War Department. It was agreed that this was a matter for Panama to work out with the Canal Zone authorities and that the State Department would come into the picture when the question arose as to whether the proposed realignment of the Corridor Road deviated so much from the 1936 Treaty³ stipulations that a new political convention would be required. PRA officials felt that such a convention would not be necessary. The Department's Legal Section had informally expressed an opinion that a new convention would be required.

With respect to the question of the future of PRA activities in Panama Mr. Braden was emphatic in his statement that he was opposed to any agreements between PRA and the Panamanian Government for road building or construction work which could be undertaken by local firms. Mr. Briggs had emphasized this same point with respect to the airport, stating that once the provisions of the proposed agreement, if it should become effective, had been complied

³ Department of State Treaty Series No. 945; 53 Stat. (pt. 3) 1807.

with any completion work beyond the stipulations of the arrangement should be contracted for by the Panamanian Government on the basis of bids.

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819.154/6-2446 : Airgram

The Acting Secretary of State to the Ambassador in Panama (Hines)

CONFIDENTIAL

WASHINGTON, July 12, 1946.

A-739. Authorization is given for an exchange of notes (your despatch 1852, June 24, 1946⁴) outlining the changes which have already been made in modification of Article VIII of the General Treaty of 1936 and the further modifications desired relative to the proposed Colon Corridor. No objection is perceived to taking advantage of the presence of equipment and labor already in the vicinity of the Corridor in order that the necessary work looking to the final completion of the Corridor will go forward pending the final approval of a new convention which the Department considers necessary.

It would seem advisable that any new convention with Panama authorizing changes in the Corridor should also include the additional related items which are of concern to Governor Mehaffey (your despatch 2910, October 8, 1945⁴). Thus all desired and appropriate changes in boundary between the Canal Zone and the Republic of Panama can be authorized by one Congressional act.

The Embassy is requested to consider carefully with Canal Zone authorities all paragraphs of Article VIII, particularly the last four, and advise whether in making the contemplated Corridor changes this Government will be called upon to assume any commitments different or additional to those already in effect or authorized, and if so, to what extent. Drafts of proposed exchange of notes, when prepared to satisfaction of all local authorities should be submitted to Department for approval before final negotiation.

Department would like confirmation of its understanding that all expenses of the Corridor changes will be borne by the Government of Panama except those between the Escondido River and Randolph Road, a section of the Boyd-Roosevelt Highway, for which money presumably is at hand in the accounts of the Public Roads Administration. In other words, the Department is interested in knowing whether the exchange of notes and the eventual negotiation of a new convention will all be effected without this Government's being called upon for any appropriation or designation of funds not already made.

ACHESON

⁴ Not printed.

819.51/9-1146

Memorandum of Conversation, by the Ambassador in Panama (Hines)

[WASHINGTON,] September 11, 1946.

At the suggestion of the Acting Secretary, Mr. Clayton, at 4:45 p.m. I called to see Mr. Ness⁵ and discuss with him and his two assistants the matter of an application for a loan which it is expected the Republic of Panama will make in the near future.

We went over the economic situation in Panama and I explained to Mr. Ness what in my judgment the important factors were in relation to the necessity of the loan and the advisability of our giving most careful consideration to Panama's request. I indicated that the President had requested authority of the Assembly to make two loans; one for \$5,000,000 locally and one for \$25,000,000 from the Export-Import Bank or other agency approved by the State Department.

The purpose of the loan is to complete Panama's portion of the Inter-American Highway, materials needed for the completion of the International Airport, the building of roads within the Republic and materials used in the construction of additional schools which Panama considers badly needed. Mr. Ness advised me that when the Comptroller General of the Republic of Panama was in Washington approximately a month ago that he indicated to Mr. Obarrio the detail necessary to properly present an application to the bank. Mr. Ness also made certain suggestions relative to the application which I will make available to the Comptroller General at the proper time.

No commitments relative to making the loan were made by either Mr. Ness or his assistants and I advised him that my conversation with him relative to the loan was solely to be in a better position to give advice to the President of Panama or members of his cabinet when the subject comes up.

FRANK T. HINES

819.154/10-2946

Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)⁶

[WASHINGTON,] October 24, 1946.

Attached are various despatches⁷ from Panamá dealing with a proposed change in alignment of the Colón Corridor, and certain changes in small sections of the Canal Zone-Panamanian Boundary. The Department has taken the position (see A-739 of July 12, 1946) that the proposed changes are so significant as to require a new con-

⁵ Norman L. Ness, chief economist of the Export-Import Bank.⁶ Addressed to LE/T: Mr. Barron and LE: Mr. Fahy.⁷ Not printed.

vention with Panama. Canal Zone authorities agreed. Accordingly, the Embassy has, in cooperation with local U.S. and Panamanian officials, prepared a proposed exchange of notes on the matter under reference and in despatch no. 2625 of October 14⁸ has requested the Department's approval.

Would LE/T and LE go into a careful study of the proposal, handling as expeditiously as possible, and advise as to whether on technical and legal grounds the proposed exchange of notes may be approved.

Also, please advise whether it is believed clearance will be necessary in Washington with the Public Roads Administration and the Secretary of War.

M. WISE

[The proposed notes referred to in the memorandum printed *supra* were exchanged on May 26, 1947; for text, see Department of State Treaties and other International Acts Series No. 2029.]

819.51/12-346

*Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)*⁹

[WASHINGTON,] December 3, 1946.

Before the National Assembly of Panama adjourned several weeks ago it authorized the President to negotiate a loan of \$25,000,000. In a subsequent press statement the President said the authorization did not necessarily apply to an external loan, however, he had previously sent his Comptroller General to the United States to see what the possibilities might be here. The Comptroller General was pretty much discouraged, as a result of his interviews in Washington.

The attached recent newspaper clippings indicate that Panama still has hopes of getting a \$25,000,000 loan from the United States, but feels that because of the issue which has arisen over our continued occupation of defense sites in Panama¹⁰ under the 1942 Agreement, the moment is not opportune to apply for the loan.

Ambassador Hines, following his visit to Washington in September, I believe, encouraged the President of Panama to presume that a loan could probably be obtained from the United States provided the El Encanto claim¹¹ were settled and provided the loan could be distributed over a period of years and made available in payments not to

⁸ Not printed.

⁹ Addressed to CPA: Mr. Newbegin; ARA: Mr. Briggs; FN: Mr. Corliss; ED: Mr. Stenger; A-Br.: Mr. Smith.

¹⁰ For documentation on this subject see pp. 1095 ff.

¹¹ For reference to this claim, see telegram 556, October 28, 1946, to Panamá, p. 1126.

exceed \$8,000,000 or \$10,000,000 at any one time. If a loan is obtained, I understand it would be used primarily in the construction of roads and school buildings. It is natural that the Export-Import Bank cannot give serious consideration to Panamanian desires in the above respect until it has received formal application which specifies the conditions under which Panama wishes to obtain the money. Furthermore, Panama is making no move at present to pay the El Encanto claim.

819.7962/11-2946 : Telegram

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

CONFIDENTIAL

WASHINGTON, December 16, 1946—2 p. m.

612. Depts A-699 July 8¹² and previous. As in case May 1 agreement between PRA and Panama for preparatory work on airport including clearing, grubbing, grading, etc., Dept does not, on principle, favor current suggested agreement (Embs desp 2943 Nov 29 and urtel 750 Dec 12¹³) for paving runways on grounds U.S. Govt agencies should not operate abroad in suggested capacity due to possible criticism for alleged competition with local enterprises.

However, in view urgency of beginning paving,¹⁴ in interest assisting Panama complete airport as soon as possible and with Emb's assurances that no local contractor is prepared to handle work, Dept interposes no objection PRA effecting agreement with Panama provided: (1) Agreement is identical in principle to May 1 arrangement under which supervision is under Ministry of Public Works with necessary equipment rented from PRA and necessary technical personnel lent by PRA on reimbursable basis and (2) provided written assurances are received from Panamanian Govt to effect it assumes all responsibility and saves U. S. Govt harmless with respect to any complaints which may be made by local contractors.

Dept has not seen copy proposed agreement and requests Emb make sure arrangements meet foregoing conditions.¹⁵

BYRNES

¹² Not printed.

¹³ Neither printed.

¹⁴ In telegram 750, December 12, 1946, 11 a. m., the Ambassador urged that agreement be reached speedily with the Public Roads Administration to avoid a loss of a year in completing the airport (819.7962/12-1246).

¹⁵ In telegram 754, December 17, 1946, 1 p. m., the Ambassador indicated that the Panamanian Government agreed to the conditions (819.7962/12-1746).

PARAGUAY

INTEREST OF THE UNITED STATES IN THE DEVELOPMENT OF DEMOCRATIC GOVERNMENT IN PARAGUAY

834.00/1-446 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

RESTRICTED

ASUNCIÓN, January 4, 1946—noon.

[Received 7:20 p. m.]

4. Chiriani¹ told me this morning President² had met with both civilian and military leaders and has authorized him to give me formal assurance that Paraguayan Govt during present year will establish press and political freedom and will hold elections for and install a House of Representatives.

Chiriani is seeing President tonight and he has agreed to urge President on my behalf to give early publicity to govt's decisions.

Repeated to Buenos Aires, Montevideo and Rio de Janeiro.

BEAULAC

834.00/3-446 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, March 4, 1946—4:10 a. m.

[Received 3:29 p. m.]

100. President confirmed to me this morning plan to hold elections for Congress this year. I expressed hope Liberal Party as such would not be barred from elections. He said status of Liberal Party would be decided by the courts.

He again expressed hope we would help to reorganize Paraguayan police as necessary aid to development of democratic institutions in Paraguay. I said it would not be possible for us to do anything at this stage but that we might be helpful after positive steps toward democratization had been taken.

President expressed gratitude for extension of Stica³ agreement.

BEAULAC

¹ Juan Horacio Chiriani, Paraguayan Minister for Foreign Affairs.

² Higinio Morínigo.

³ Servicio Técnico Interamericano de Cooperación Agrícola, an agriculture development company.

711.34/4-1146

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, April 11, 1946.

No. 1608

[Received April 23.]

Subject: Reporting a series of conversations I have had with the new Foreign Minister concerning matters pending between our governments and matters of interest to the two governments

SIR: I have the honor to report that I have had a series of conversations with the new Foreign Minister, Dr. Antonio Taboada, concerning the matters pending between our governments, and matters of interest to the two governments.

Yesterday morning I discussed, among other things, the status of Stica (Servicio Técnico Interamericano de Cooperación Agrícola). I told the Minister that I had been able to obtain my Government's consent to the extension of the Stica agreement for eighteen months from June 30 of this year, largely because of the circumstance that I was able to convey President Morínigo's commitment that Congressional elections would be held in Paraguay during 1946.

I assured the Foreign Minister that my Government had no intention of intervening in Paraguay's internal affairs. I said also that it recognized that internal political conditions were not alike in any two countries. I said that my Government, nevertheless, could not but have friendlier and closer relations with governments that really tried to carry out the democratic ideal than with other governments.

I then told the Minister that the President had told me in conversation recently that the Liberal Party would be permitted to take part in this year's Congressional elections under any name but that of Liberal. I said that I had made no comment on this statement of the President at the time. However, I intended to speak to him later on, and I intended to express my preoccupation that the Government was lending itself to the charge that one of the major Paraguayan political parties was being excluded from this year's elections.

The Minister said that he would tell the President of his conversation with me and would contribute his bit to seeing that all parties were allowed to participate in the coming elections. He said that before accepting his post as Foreign Minister he had received the President's assurance that the Government would work sincerely toward democracy, and he was confident that the President intended to carry out this assurance.

For the Department's information, the Brazilian Ambassador, who has recently returned from Rio de Janeiro, has told me that his Government has instructed him to speak to President Morínigo on the subject of democratization. The Ambassador told me he intended to urge the President not to exclude the Liberal Party from the elections.

Respectfully yours,

WILLARD L. BEAULAC

834.00/4-1846

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

No. 1641

ASUNCIÓN, April 18, 1946.

[Received May 1.]

SIR: I have the honor to report that the Minister of Foreign Affairs, Dr. Antonio Taboada, told me yesterday that he had recounted my conversation with him concerning Congressional elections (see my despatch no. 1608 dated April 11, 1946, Subject: "Reporting a series of conversations I have had with the new Foreign Minister concerning matters pending between our governments and matters of interest to the two governments") at the last meeting of the Council of Ministers. The President had authorized him, in the presence of the other members of the Council, to tell me that elections for Congress will be called this year. I asked the Minister whether that meant that elections would be held this year. He said he did not know. I said that the President had told me that elections would be held this year. He said that he did not believe that the President was as precise as that in his statement before the Council.

I asked him concerning the Government's plans with respect to participation in elections by the Liberal Party. He said that the President had said that the Party would be allowed to participate but that certain party leaders would be charged with offenses against the State, and their cases would be placed before the courts. He was not able to enlarge further on the subject except to say that some of the Liberal leaders already were charged with common offenses.

I intend to let the matter of Congressional elections rest for a while, unless the President gives me an opportunity to bring it up. I am fearful that in the present political situation any further conversations I may have with the President will be interpreted by his opponents as pressure by the Government of the United States and used against the President.

Respectfully yours,

WILLARD L. BEAULAC

834.00/6-1446

The Ambassador in Paraguay (Beaulac) to the Secretary of State

SECRET

ASUNCIÓN, June 14, 1946.

No. 1809

[Received June 21.]

SIR: Supplementing my telegram no. 269 of June 14 2 p.m.,⁴ I have the honor to report that I called on President Higinio Morínigo this morning in order to give him an opportunity to present his version of recent events. It was not necessary for me to ask the President any questions. He proceeded immediately to tell me the story which I shall summarize below.

The President started out by saying that there was evidence that behind Benítez Vera's rebellion was a plot to overthrow the Government, the leaders of which included Colonel Victoriano Benítez Vera; his brother-in-law, General Juan B. Ayala, Ambassador to Washington; Minister of Finance, Agustín Avila; Acting Chief of Staff, Colonel Bernardo Aranda G.; Dr. Gómez Freire Esteves, who was Minister of Interior under Colonel Franco;⁵ and Justo Pastor Benítez, a Liberal politician who is credited with having drafted the present Constitution of Paraguay and who frequently, from his place of residence in Brazil, criticizes the present Paraguayan government as undemocratic. In connection with the foregoing, the close connection between Benítez Vera, Aranda, and Avila, and between Avila and Freire Esteves have already been reported. It is perhaps not without interest that Benítez Vera is reported to have dined in Buenos Aires the night before his departure for Asunción with Manuel Ferreira, wealthy Liberal opponent of the present regime and systematic critic of the present government and of the Cavalry Group.

The President told me that Benítez Vera had told General Amancio Pampliega, Minister of War and President of the Paraguayan Special Mission to the Perón inauguration,⁶ that his companions at Campo Grande had called him back, and requested permission to return to Asunción from Buenos Aires ahead of the rest of the delegation. Pampliega refused to grant this permission. Benítez Vera thereupon committed his first act of insubordination by obtaining the use of an Argentine military plane to carry him from Buenos Aires to Formosa. The President said that he obtained the plane by pleading illness of one of his children. From Formosa he came overland as far as Clorinda where he crossed the Paraguay river to Ita Enramada where he arrived at one a.m. on June 7. General Pampliega had meanwhile reported Benítez Vera's unauthorized departure to the President by

⁴ Not printed.

⁵ Former President, Col. Rafael Franco.

⁶ Juan Perón was inaugurated President of Argentina June 4, 1946.

telegram. Benítez Vera failed for some time to report his presence either to the President or to the Commander in Chief of the Armed Forces.⁷ Finally (I am not sure on which day) he called the President by telephone and asked for an audience. The President told him to meet him at his house. He came to the President's house where he complained against General Machuca. The President reprimanded him for having left Buenos Aires without permission and charged him with insubordination. Benítez Vera then charged Machuca with inciting Benítez Vera's subordinates to rebel against his authority. He said his subordinate officers did not accept Machuca as Commander in Chief of the Armed Forces and that he was going along with his officers. The President then asked him whether he was presenting the President with a *fait accompli*. Benítez Vera admitted that that was the case. The President then ordered him to return to his Division, keep his men in quarters, and refrain from using arms. The President then called Lieutenant Colonel Enrique Gimenez, told him of Benítez Vera's rebellious attitude, and instructed him and officers loyal to him to take orders only from him, the President, directly. In order to remove Benítez Vera's apparent cause for rebellion, the President himself assumed direct command of the Armed Forces. He then contacted heads of military units in Asunción and other places, told them of the situation as he knew it, and received from them pledges of loyalty.

Meanwhile Lieutenant Colonel Dario Cantero, commanding the Second Cavalry Regiment, who was loyal to Benítez Vera, was captured by his own men. When Benítez Vera heard this he called the President on the telephone, said that a rebellion against his, Benítez Vera's, authority had occurred, and asked the President for reinforcements. He said that two of the regiments had declared against him. The President told him that he would send him no reinforcements and that what had happened was a logical consequence of his own rebellious attitude.

Benítez Vera then opened fire against the Second Cavalry Regiment. This started the battle. The President ordered units in Asunción to surround Campo Grande in order to isolate the fight while he tried to stop it. He succeeded in telephoning some of the officers opposing Benítez Vera even though all telephone communications went through Benítez Vera's headquarters, and instructed them to maintain their positions. He promised them support.

Finally, when Benítez Vera realized that he was not going to receive reinforcements he gave up and asked permission to come into town. He came to the President's house and tried to talk to the President. The President told him he had nothing to say to him and ordered him

⁷ Gen. Vicente Machuca.

to his home to await the results of an investigation. Instead, Benítez Vera, with several other officers, went to the Brazilian Embassy where they sought and obtained asylum.

The Paraguayan government has not accepted unreservedly the Brazilian Embassy's contention that the officers were entitled to asylum. Notes have been exchanged on the subject and will be given to the press. The Paraguayan government maintains the right to request their extradition in the event they are allowed to leave the country.

Conditions are still unsettled at Campo Grande. The Liberals and communists are working on the younger officers in an effort to undermine discipline. The President has refrained from declaring martial law even in the capital. He has merely prohibited street demonstrations.

At this point I told the President that there was considerable popular criticism of the Government because of alleged indecisive and equivocal action in handling the situation. I said it was being alleged, for example, that Colonel Aranda, all during the night of June 8-9, was actually cooperating with Benítez Vera, and it was presumed that he was doing so under the President's instructions since he was in and out of the President's house all during the time. The President said that the report was true but that the President and other military leaders did not know what Aranda was doing until after the fighting had stopped. He said Colonel Aranda had been Acting Chief of Staff for many years, he had the whole machinery in his hands and no one else had it, and it was necessary to work through him. He said, incidentally, that he had intended to remove Aranda shortly, in any case, and had told Machuca so before the recent incident. He said he had advised Machuca to keep his head in handling Benítez Vera and Aranda; that he, the President, would get them out without any fuss. He implied that Machuca was hot-headed and clumsy in his effort to get rid of Benítez Vera.

I said that it was obvious that Aranda, Benítez Vera, *et al.*, with the military machinery apparently in their hands, had been defeated because they lacked moral strength. I then suggested that the Paraguayan government improve its own moral position by making a prompt and categorical declaration that complete political liberty would be reestablished in Paraguay. I said, with particular reference to his statement that the communists and Liberals were trying to undermine discipline in the Army, that so long as the Liberals were deprived of their right to participate in politics they were justified in resorting to subversive tactics. I said that it seemed to me that the Government's best defense against subversive tactics was to end the period of political repression which had already lasted too long.

The President said that he had always planned to grant complete political liberty but that he had to proceed cautiously. He admitted that the deposed military group had been trying to sabotage the program through indirect methods. He said he had no objection (*no hay inconveniente*) to making the kind of categorical declaration of political freedom that I had suggested.

The President was worried and at times during our conversation he showed considerable emotion. His explanation of his own role was not entirely convincing, although he may have been sincere in the impression he tried to give that he had temporized with Benítez Vera in order (1) to gain time to gather forces with which to oppose him and (2) to prevent bloodshed, if possible.

Respectfully yours,

WILLARD L. BEAULAC

834.00/6-2846

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL
No. 1861

ASUNCIÓN, June 28, 1946.
[Received July 5.]

SIR: I have the honor to report that following a conversation with the President this morning on various matters pending between the Embassy and the Paraguayan government, I asked the President how things were going politically. The President said that while he was absent in Misiones province last weekend the Government had frustrated a plan involving young officers in the Army and communists to take over the Cavalry Regiment at Campo Grande as well as the Police Department in Asunción (see my telegram no. 291 of June 26, 3 p. m.⁸). He confirmed the arrest of Colonels Vásquez, Espinoza and Arrua on the charge of being involved in this plan and said that Lieutenant Colonel Vera Vargas, who took asylum in the Mexican Embassy on June 25, was one of the leaders.

He said that Vera Vargas was, for a number of years, a professor in the Military Academy. Last year one of the cadets, who is a distant relative of the President, told him that Vera Vargas was indoctrinating the cadets with Russian propaganda. He would talk to them between classes and at rest periods of the extraordinary efficiency of the Russian Army, its democracy, the excellent conditions pertaining in the Russian zone of occupation in Germany as well as the chaotic conditions existing in the American and British zones. He would say that Paraguay had sold itself to the United States.

The President said that following this conversation he called General Andrés Aguilera, now Minister to England and France and then Head of the Military Academy, and told him of the conversation.

⁸ Not printed.

Aguilera stoutly defended Vera Vargas and said that there was nothing to the allegation. Some time passed, and the President received similar reports concerning Vera Vargas from other sources. He then instructed General Machuca, at that time Minister of National Defense, to transfer Vera Vargas out of the Military Academy. Machuca transferred him to the Chaco.

Several months later General Andino returned Vera Vargas to Asunción as an unsatisfactory officer. Vera Vargas was given a minor post in Asunción.

When Benítez Vera rebelled against the Government Vera Vargas, Vásquez and presumably Arrua, although the President did not mention his name, began to contact the younger officers in both the Cavalry Regiment and the Air Force. Vera Vargas knew a great many of them personally because he had taught them in the Military Academy. These high-ranking officers incited the younger officers to believe that they could take over the Government and make it really democratic. The plot of last weekend was a result of their agitation. The President said, in passing, that he thought Colonel Espinoza was innocent of any wrong doing.

The President did not allege that any of the officers had Liberal affiliations. He said that he believed that Colonel Vásquez, who was mentioned in my telegram no. 291 of June 26 as having Liberal affiliations, was brought into the plot through his brother-in-law, Rafael Oddone. The President said that he had long believed that Oddone, a University professor, was one of the behind-the-scenes intellectual leaders of the communists. He said that he was a demagogue of the first water, always associated himself with anything that had a democratic color, but belonged to no party. There is enclosed for the Department's information a brief memorandum from the Legal Attaché⁹ concerning Rafael Oddone. It will be noted that the Legal Attaché says that, "Oddone has previously been reported as one of those individuals active in labor circles who is believed to be a member of the Communist Party". The Embassy files indicate that Oddone was a member of the "Committee in Defense of the (Franco) Revolution", and that he conducted a newspaper during the Franco regime which that regime closed. In December 1944 he signed the petition for a Constituent Assembly and on June 21, 1945 he was deported to Argentina.

The President said that as a part of the plan to take over the Cavalry Regiment and Police Department, some 150 communists, armed with guns and machetes, assembled on the night of June 22 at a place near the waterfront. In this connection the Legal Attaché reported on June 22 that a communist "concentration" was to be held that night.

⁹ Not printed.

He later reported that the concentration had been postponed for one day.

The President said that he himself had warned Vera Vargas, after the President's return from Misiones, to cease his political activities, and had ordered him to go to his house and await instructions from his superiors. Vera Vargas, after disclaiming any connection with the plot, sought and was given asylum in the Mexican Embassy. He left for Argentina yesterday.

I told the President that it was being rumored around that the young officers at Campo Grande were refusing to accept the higher officers assigned to the Cavalry Regiment. The President said that the situation at Campo Grande was, indeed, bad. He said that a number of officers from Campo Grande were under arrest, others had fled, and that discipline among the younger officers was very deficient. (From another source the Embassy obtained a report that fourteen officers were sent to the military prison at Peña Hermosa today).

I told the President that there was general complaint, in and out of the Army, that the Government was too vague in its promises of democratization. It had failed to fix dates for the various measures promised and in other ways had not been specific. This, it seemed to me, gave ammunition to persons who alleged that the Government had no real intention of restoring democratic institutions. The President said that the Government needed stability before it could become precise in these matters. I said that it seemed to me that there was a good chance that stability would not be obtained until more precise information were given out.

The President then said that some of the steps contemplated would have been taken already had it not been for Benítez Vera's rebellion and the complications that had subsequently arisen. He could tell me that press freedom would be reestablished during the first half of July and that the political truce would be lifted during the latter part of the month. The electoral law would have to be studied by the political parties. The list of registered voters would have to be revised. I reminded the President that he had said these same things months ago but that nothing had been done, and that it seemed to me that he had to hurry.

The President said that he had talked with Colorado and Franquista leaders, recently, and advised them to get ready to participate in the coming political campaign. He implied, without saying it, that they had agreed to cooperate. (The Embassy had received a report from a member of the Governing Board of the Colorado Party that Federico Chaves, head of the Party, had a three-hour conversation with Morínigo a few days ago. Federico Chaves denied this report to a member of the Embassy staff today. The Embassy is inclined to

believe that the conversation actually took place). I asked the President whether Colonel Franco would be allowed to return to Paraguay. He said he would.

I then asked the President what the status of the Liberal Party would be. He said that he was going to put this question up to the Franquistas and Colorados. He was tired of pulling other people's chestnuts out of the fire and he wanted to handle the question of the Liberal and the Communist parties in a "democratic" way.

Respectfully yours,

WILLARD L. BEAULAC

834.00/7-3146 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, July 31, 1946—4 p. m.

[Received 7 p. m.]

353. All parties engaged in intense political activity. One or more rallies held daily in public plazas in Asunción in complete freedom. Press also apparently free to say what it pleases and Liberals attacking Government daily for failure to derogate decree which declared Liberal Party illegal. President while assuring political freedom to all parties is delaying derogation of decree, still looking for device which will allow him to derogate it without admitting he was wrong when he signed it. However, pressure on him from many sides increasing and may threaten his position.

Huge demonstration for Franco being prepared for his arrival August 3. Some persons fear Franquista coup on that date or later. Informed confidentially Government seized arms shipment from Argentina intended for Liberals. Apparent all parties intending to participate in coming elections while leaders not neglecting possible opportunities to attain power through traditional Paraguayan device of *coup d'état*.

BEAULAC

834.00/8-246 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

ASUNCIÓN, August 2, 1946.

[Received August 2—1: 44 p. m.]

357. Council of Ministers yesterday approved (1) broad political amnesty (2) right of workers to organize in principle (3) participation of Communist Party in politics.

BEAULAC

834.00/8-846

*The Ambassador in Paraguay (Beaulac) to the Secretary of State*CONFIDENTIAL
No. 1987ASUNCIÓN, August 8, 1946.
[Received August 16.]

SIR: I have the honor to report that during a recent conversation which I had with Don Federico Chaves, Minister of Public Works in the new Cabinet and Vice President and active head of the Colorado Party, he told me that he anticipated that the decree abrogating the earlier decree which declared the Liberal Party illegal would be promulgated within a month. I expressed the hope, in a personal way, that the decree would be promulgated before that time.

Señor Chaves said also that the Government had decided that no elections for Congress would be held but that there would be elections for a Constituent Assembly. He estimated that these elections could not be held until at least a year has elapsed. He said that everything had to be done over. No electoral register had been made in years, and the last was fraudulent in many ways. Things are done slowly in Paraguay under the best circumstances. Communications are difficult, and for these and other reasons, it would take a year to do the job well.

I expressed disappointment that the job could not be done sooner. At the same time I congratulated Señor Chaves on the surprising rapidity with which civil and political rights have been restored following the entering into office of the new cabinet. He said he was hopeful that, for the first time in its history, Paraguay might have truly fair elections. He said that the Army appeared to be one hundred per-cent behind the Government and one hundred per-cent determined not to mix in politics, and he doubted that any political group was in a position to obtain any substantial support from within the Army for any extra-legal scheme that might occur to it.

Respectfully yours,

WILLARD L. BEAULAC

834.00/8-1346

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

No. 2002

ASUNCIÓN, August 13, 1946.
[Received August 30.]

SIR: I have the honor to report that the Acting Chief of Staff of the Paraguayan Army, General José A. Migone, told the Military Attaché¹⁰ recently that the Government had begun to reduce military

¹⁰ Lt. Col. Harold J. Pearson.

expenditures and that further reductions would take place. He said that the present two-year conscription period, which has been reduced in practice to one and a half, will be further reduced to one year.

The plan to reduce military expenditures, coming after the restoration of press freedom, freedom of political activity and restoration of civil and political rights, increases the likelihood that the Government's efforts to establish democratic Government in Paraguay will be successful.

Respectfully yours,

WILLARD L. BEAULAC

834.00/8-1546 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

RESTRICTED

ASUNCIÓN, August 15, 1946—noon.

[Received 5 : 54 p. m.]

376. Re Embassy telegram 374, August 14, 4 p. m.¹¹ While press, including Government press, admits students and others interfered with Liberal Party procession Ministry of Interior yesterday issued communiqué placing entire blame on Liberals. Communists, while declaring attitude of students understandable and refraining from attacking Govt, named six individuals most of sinister reputation, as having stirred up students. Communists denied they were involved although it is known they are closely associated with student agitators. One radio station owner arrested and censorship on outgoing press despatches imposed. Govt and parties supporting it have lost prestige because of Government's evident partiality.

BEAULAC

834.00/8-1946 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, August 19, 1946—4 p. m.

[Received 9 : 10 p. m.]

380. I had long talk this morning with Federico Chaves, active head of Colorado Party and Minister of Public Works, who came to talk about road building program. I told him how disappointed I was at partiality shown by Government in its statement of events of August 15. He admitted Government communiqué gave only one side of case. However, he said no arrests made and whole matter now in

¹¹ Not printed ; it reported the reception of the Liberal leader and ex-President José P. Guggiari (834.00/8-1446).

hands of judge who has Liberal Party leanings. Chaves, in whose sincere devotion to democratic ideals I have no doubt, said he hoped incident would be lesson to both sides.

Chaves denied any censorship on outgoing news officially imposed and said he gave strict orders this morning none to be imposed. Since he is responsible Minister I accept his word.

Guggiari leaving Argentine Embassy (reEmbtel 377, August 17, 11 a. m.¹²) this afternoon for private house where Government providing guard for him at his request, Liberals defending themselves freely in press.

Colorados had no participation in events of August 14.

Situation quiet.

BEAULAC

834.00/8-2146

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

CONFIDENTIAL
No. 2020

ASUNCIÓN, August 21, 1946.
[Received August 30.]

SIR: I have the honor to refer to numerous telegrams and despatches concerning the riot of August 14, which took place when a number of university and secondary school students and others, including persons affiliated with the Febrerista Party, attempted to interfere with the progress of the Liberal Party parade which was taking place in down-town Asunción in honor of the President and members of the Board of Directors of the Liberal Party who were returning to Asunción from Buenos Aires following the political amnesty recently granted by the Paraguayan Government.

As already reported, the Embassy considers that the Paraguayan Government showed partiality in its communiqué concerning the riot, which placed all the blame on the Liberal Party. I have expressed this opinion in friendly conversations with the Minister of Public Works, the Minister of Finance, and President Morínigo. All of them maintained that the Liberals were the aggressors in the sense that "they threw the first stone". In justice to the official view, the Legal Attaché's Office reported that the actual fighting started when shots were fired from the Liberal ranks.

Nevertheless, I have thought it desirable to let the Government know, in a friendly way, that I did not share its published view that

¹² Not printed.

the Liberals were entirely to blame for the events of August 14. In this connection, I asked the President this morning whether the Government might not lift the one-month period of suspension imposed on the Liberal Party. He declined to say that the Government might do this. He did say, however, that the suspension was solely for the record and that the Liberals were free to carry on their political activities and were, in fact, carrying them on. He said that the Government was continuing to give thought to means of restoring the legal position of the Liberal Party.

The Liberals are taking their suspension very calmly. The Embassy has been informed, without confirmation, that Guggiari, who was described to me by the head of the Colorado Party recently, as a "good but unfortunate man" would shortly resign from the Presidency of the Party and would be replaced by Gerónimo Zubizarreta who has great prestige among all classes and political parties in Paraguay. Guggiari will then return to Buenos Aires.

Respectfully yours,

WILLARD L. BEAULAC

834.00/9-2546 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

RESTRICTED

ASUNCIÓN, September 25, 1946—2 p. m.

[Received 5:50 p. m.]

423. Minister Foreign Affairs¹³ informs me Council of Ministers yesterday agreed: (1) To derogate decree which made Liberal Party illegal; (2) to prohibit Communist Party activities during period of 30 days and; (3) subject to Colorado Party approval expected within a few days to fix December 25 next year as day of opening of Constituent Assembly.

Soler said differences between parties in Govt which threatened Govt's stability last week have been overcome and he is confident democratization program will proceed according to plan.

BEAULAC

834.00/12-546

The Ambassador in Paraguay (Beaulac) to the Secretary of State

No. 2307

ASUNCIÓN, December 5, 1946.

[Received December 19.]

SIR: With reference to the Embassy's despatch no. 2144 of September 27, 1946, subject: "Summary of recent political developments," and supplementing its despatch no. 2302 of December 4, 1946, subject:

¹³ Miguel Angel Soler.

"Dismissal of government workers leads to strike of postal employees," and to telegram no. 489 of December 5, 1946,¹⁴ I have the honor to report that relations between the Colorado and Febrerista Parties, which make up the Government coalition, in Paraguay have deteriorated to a point that both parties are criticizing each other publicly and bitterly, and continuance of the coalition is threatened.

The Febreristas accuse the Colorados of wholesale discharge of government personnel, particularly Febreristas, in Colorado ministries. The Colorados in turn make similar charges against the Febreristas and also charge them with extreme demagoguery and political abuse of the opportunities given to them by control of the Ministry of Agriculture, the Department of Labor, and the Ministry of Health.

There seems to be little doubt that the Colorado Minister of Finance,¹⁵ particularly, has started what approaches a clean sweep of his Ministry and dependent offices. He, as well as the President, have alleged to me that officials who have been discharged from that Ministry were trying to sabotage the Minister's work. He has also taken the view that surplus government employees must be released in order to permit payment of a living wage to those who remain.

The Colorados allege also that the Department of Communications which comes under the Colorado Ministry of Public Works and Communications was strongly infiltrated with Communists. The Minister of Foreign Affairs, a Febrerista, admitted to me yesterday that there were Communists in the Department of Communications. He said that he had found one in his own code room.

Most of the discharges, however, have been made for political reasons.

I took the opportunity yesterday to explain to the Minister of Foreign Affairs my gratification that the various cooperative projects in which the United States is engaged in Paraguay have escaped the purge. I expressed the hope, also, that technicians in general, would not be discharged for political reasons. I referred to our various cooperative projects and also to the numerous scholarships we had granted and were prepared to grant to Paraguayans, under proper conditions. I said that these projects and scholarships were costing the Government of the United States a considerable amount of money and could not possibly be justified if the Paraguayan Government simultaneously was going to discharge technicians from Government departments, even though they were not trained in the United States. The Minister said he quite agreed. I then requested him to convey my views to the Cabinet at today's meeting. He said he would.

The Colorado's charge that the Febreristas are misusing their position in the Government is of course not without foundation. The Min-

¹⁴ None printed.

¹⁵ J. Natalicio González.

ister of Agriculture and Acting Minister of Industry and Commerce, Dr. Arnaldo Valdovinos, has used both the Ministry of Agriculture and the Department of Labor for electioneering purposes. He has personally traveled throughout the countryside donating modern plows to farmers at what amounted to Febrerista Party rallies. The plows of course are paid for by the Government. It is notorious, also, that a workman or group of workmen must register in the Febrerista Party before getting any satisfaction out of the Department of Labor.

Whether the Colorados object to these Febrerista tactics on principle or because they are being used by the Febreristas with some success, it is hard to tell.

One example of Febrerista demagogy which has not yet been corrected is the Party resolution which in effect prohibits Febrerista lawyers from defending employers in disputes with labor and from defending large landholders in disputes with tenants (see Embassy's telegrams no. 481, November 23, 1946 and no. 482, November 27, 1946¹⁶). Despite the Minister of Foreign Affairs' assurance to me that this resolution would be rescinded, it still stands. I spoke to him about it again yesterday and told him that I could not recommend any investment in Paraguay by my government or by American capital while that resolution stood and the Febreristas remained in the Government. He said that he understood this perfectly well and that the resolution was sure to be rescinded.

It is of particular interest that this anti-democratic resolution of the Febrerista Party, which might have been expected to be condemned in violent terms by other political parties, has met with little public criticism. The Colorados so far as I know have said nothing. The Liberals have criticized it only mildly. It appears evident that the other parties prefer to remain practically silent rather than oppose a measure or decision which is very partial to labor.

Respectfully yours,

WILLARD L. BEAULAC

THE PROVISION OF ARMAMENT FOR PARAGUAY¹⁷

834.24/3-1346 : Telegram

The Secretary of State to the Ambassador in Paraguay (Beaulac)

SECRET

WASHINGTON, March 13, 1946—6 p. m.

48. Dept has notified Paraguayan representative of availability for their purchase from surplus of military ground equipment for 1 Battalion of Infantry.

¹⁶ Neither printed.

¹⁷ For documentation on the interest of the United States in Paraguayan defense problems in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1282 ff.

Details concerning prices and terms to be arranged by Paraguayan representatives directly with Foreign Liquidation Commission.

Above equipment excludes some civilian items, particularly motor vehicles, not now available in surplus.

BYRNES

834.34/3-2246 : Telegram

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

SECRET

WASHINGTON, March 27, 1946—8 p. m.

63. Before giving its approval Dept wishes your recommendation on Navy Dept proposal to sell to Paraguay from surplus 18 landing craft of assorted sizes and types armed with small guns and suitable for river transportation of personnel and vehicles. These small vessels requested by Paraguay in staff conversations, and constitute Navy interim program for Paraguay. Similar allocations being made to several other countries including Uruguay, Peru, Ecuador, Chile.

ACHESON

834.34/4-346 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

SECRET

ASUNCIÓN, April 3, 1946—4 p. m.

[Received 10:30 p. m.]

145. Embassy agrees to proposal urtel 63 March 27, 8 p. m. providing following criteria observed: (1) Navy's principal wartime, as well as peacetime, mission is transport; (2) vessels incapable of being utilized for transport purposes will probably not be operated during peacetime for reasons of economy; (3) no craft that is burning gasoline should be furnished because Paraguay cannot afford to operate them. Diesel or oil burning craft acceptable.

For Department's information 6 gasoline engined picket boats furnished Paraguay under lend lease have never been used because of cost of operation; (4) having on [*in*] mind Paraguay's extreme poverty and our fundamental [interest] in improving rather than retarding Paraguay's economy, only most economical type of craft available should be furnished and these at lowest possible prices.¹⁸

BEAULAC

¹⁸ In telegram 73. April 5, 1946, 7 p. m., the Department indicated that the vessels offered fulfilled the criteria indicated (834.34/4-346).

810.20 Defense/11-2946

*The Ambassador in Paraguay (Beaulac) to the Secretary of State*CONFIDENTIAL
No. 2296ASUNCIÓN, November 29, 1946.
[Received December 12.]

SIR: I have the honor respectfully to call the Department's attention to a report from the Military Attaché¹⁹ dated November 23, 1946 entitled, "Probable purchases of arms and equipment from foreign countries and reaction to continued non-receipt of military equipment from United States," in which Colonel Pearson tells of conversations with Paraguayan military men concerning Paraguay's failure to date to receive military equipment from the United States following staff conversations between our two governments.

It is becoming more and more evident that unless Paraguay receives arms from the United States within a reasonable period of time and in adequate quantity, it will have no recourse but to purchase some arms abroad.

I agree with the Military Attaché that failure to implement the staff conversations will have some effect on relations between Paraguay and the United States. I cannot believe that that effect will be good.

Respectfully yours,

WILLARD L. BEAULAC

834.24/12-546

The Acting Secretary of State to the Paraguayan Chargé (Campos)

CONFIDENTIAL

WASHINGTON, December 5, 1946.

SIR: I transmit herewith two copies each of Statement LL-9 and supporting schedules²⁰ reporting charges made against the Government of Paraguay during the period from March 1, 1946 through May 31, 1946, covering defense material transferred in accordance with the terms of the Lend-Lease Agreement signed on September 20, 1941 by representatives of the Governments of the Republic of Paraguay and the United States of America.

It will be noted that there were no charges during the period under reference, and that charges through May 31, 1946 for all defense material transferred to the Government of Paraguay aggregate the grand total of \$1,620,746.85. Of this grand total the sum of \$43,000 represents the approximate appropriate percentage due on account from the Government of Paraguay. However, since a reimbursement payment on account in the amount of \$33,000 has already been received, the balance now due is \$10,000.

¹⁹ Lt. Col. Harold J. Pearson.²⁰ None printed.

It would be appreciated by this Government if payment of the sum of \$10,000 could be made by the Government of Paraguay in the form of a check drawn to the order of the "Treasurer of the United States". Such a check should be sent to this Department for appropriate disposition.

It is requested that the enclosed statement and supporting schedules be treated by the Government of Paraguay on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

CONCERN OF THE UNITED STATES IN THE ELIMINATION OF AXIS INTERESTS IN PARAGUAY²¹

740.34112 RP/1-1746

The Chargé in Paraguay (Reed) to the Secretary of State

[Extracts]

No. 1405

ASUNCIÓN, January 17, 1946.
[Received January 28.]

SIR: I have the honor to inform the Department of the progress that has been made toward the completion of the replacement program in Paraguay since the submission of this Embassy's restricted despatch no. 1310 of December 1, 1945²² . . .

The Banco del Paraguay is the interventor of those interests placed under intervention and the administrator and liquidator of those interests whose liquidation has been decreed. The Bank has not accepted an interpretation of existing legislation which would give it the duty of fully carrying out measures outlined in basic legislation for the control of enemy interests. Although Art. 10 of decree no. 8479 of April 28, 1945 states that the Banco del Paraguay is empowered to comply with the recommendations adopted at the Interamerican Conference on the Systems of Economic and Financial Control held in Washington in 1942,²³ the Bank's opinion is that because that decree is only regulatory to the basic legislation, Decree Law no. 7867 of March 23, 1945, the regulating decree can not modify the original legislation which gave the Banco del Paraguay only limited powers

²¹ For previous information on this subject, see *Foreign Relations*, 1944, vol. VII, pp. 1479-1503. Documentation concerning negotiations with the Government of Paraguay during 1945 with regard to the application of the Proclaimed List of certain blocked Nationals is filed in the Department under 740.24112A.

²² Not printed.

²³ For recommendations of the 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); for documentation, see *Foreign Relations*, 1942, vol. V, pp. 58 ff.

in the program. The Liquidating Commission, appointed by Decree 10,696 of October 29, 1945, can act only within the powers given it by the Banco del Paraguay. The result is that nobody has accepted the duty of giving full implementation to Paraguayan legislation for the control of Axis assets. The matter is still being discussed by this Embassy with the Paraguayan Government officials and it is hoped that a definite decision in the matter can be reached in the near future.

In accordance with Decree no. 11,138 of December 3, 1945, the resignation of Pablo E. Bergemann, the representative of the Ministry of Finance on the Liquidating Commission, was accepted and Dr. Máximo Duarte Bordón was named as his replacement. A copy of Decree no. 11,138 is attached hereto.²⁵

Respectfully,

LESLIE E. REED

740.34112 RP/3-1146

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

No. 1518

ASUNCIÓN, March 11, 1946.

[Received March 22.]

Subject: Attempts to Remove Axis Drugs and Pharmaceuticals from Paraguayan Market.

SIR: I have the honor to refer to this Embassy's unrestricted despatch no. 1513 of March 7, 1946 entitled "Paraguayan Government Takes Possession of Certain Assets of Kurt Doellstadt and Prevents Sale of Drugs and Pharmaceuticals with Axis Trademarks,"²⁵ in which the Department was informed that through the promulgation of that decree the sale of drugs and pharmaceutical products with trademarks of Axis origin has been forbidden in Paraguay. The promulgation of this decree resulted from the Embassy's continued attempts to remove those products from distribution locally.

Whether or not suppliers of Axis or spearhead drugs and pharmaceuticals will be able to circumvent decree no. 12357 is not known but the Embassy believes that with the support of the two Ministries mentioned above it will be possible to keep such products off the market at least until such time as the supplying houses, chiefly spearhead firms in Argentina, are nationalized or taken possession of by the Argentine Government. Any further developments will be reported to the Department. A copy of this despatch is being sent to the American Embassy in Buenos Aires.

Respectfully yours,

WILLARD L. BEAULAC

²⁵ Not printed.

740.34112 A/3-1246

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

No. 1524

ASUNCIÓN, March 12, 1946.

[Received March 25.]

Subject: Progress Toward Accomplishment of Proclaimed List Objectives.

SIR: I have the honor to submit the following report on the progress of the replacement program in Paraguay since January 1, 1946. . . .

Later, on February 13, 1946, the Chargé d'Affaires a.i. and this Embassy's officer in charge of the replacement program²⁶ called on the Foreign Minister, at his request, to review the status of the program. The Director of the Office of Economic and Commercial Affairs of the Ministry, who was present at the meeting, summarized progress that had been made in the program undertaken by Paraguay, told the Minister that no advance in it had been made for several months, and described the impasse that had developed between the Ministry of Finance and the Banco del Paraguay. The Embassy's representative furnished more detailed information at the Minister's request, elaborating on the following points (because the Ministry of Foreign Relations has very little part in the execution of the program it is invariably the case that the Embassy is better posted on it than that office) :

1. Liquidation of certain Axis firms in accordance with the decree issued in September, 1945 had not been carried out,

(a) Axis employees had not yet been separated from these houses and that their salaries had not been adjusted as required by current legislation,

(b) The Banco del Paraguay and the Ministry of Finance had not yet agreed on a plan for the liquidation of those firms,

2. The action of the Banco del Paraguay in allowing Bayer products to be placed on free sale on the grounds that they were only consignments to, and not the property of, Staudt y Cia. whose liquidation had been ordered. (See this Embassy's restricted despatch no. 1518 of March 11, 1946 "Attempts to Remove Axis Drugs and Pharmaceuticals from Paraguayan Market."),

3. The status of other enemy assets in which no action has been taken (S.I.P.A.G.,²⁷ La Colmena, etc.),

4. The enemy trademark situation,

5. The failure to take action on local assets of enemy nationals or entities resident outside of Paraguay, and

²⁶ Frederick J. Cunningham.

²⁷ Sociedad Industrial para Artículos General, S.A.

6. The reluctance of any person or entity to accept responsibility for the completion of the program.

Respectfully yours,

WILLARD L. BEAULAC

740.34112 RP/4-2646

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extract]

SECRET

ASUNCIÓN, April 26, 1946.

No. 1663

[Received May 9.]

SIR: I have the honor to inform the Department of the progress of the replacement program in Paraguay since the submission of Embassy restricted despatch no. 1524 of March 12, 1946, "Progress Toward Accomplishment of Proclaimed List Objectives".

Developments since the submission of that report indicate that the liquidation of Axis spearhead firms,²⁸ in Paraguay will be completed by the end of May or the middle of June if the Axis commercial houses taken possession of by the Paraguayan government are successfully disposed of at public auctions which are to be held in May and early June.

The government-owned Banco del Paraguay was delegated in Paraguay's basic legislation in the matter to carry out the replacement program. The Department will recall that on several occasions the Embassy has referred to the fact that the apparent reluctance of the bank to perform the duties assigned it has continuously retarded execution of the program. On March 14, after submission of despatch no. 1524 referred to above, the Embassy officer in charge of that program discussed it with Dr. Pedretti, the president of the bank. Dr. Pedretti was told that the Embassy was concerned over the fact that so little progress was being made in its execution and was asked if there was any way in which the Embassy could be of assistance to the bank in the work. Dr. Pedretti stated emphatically that the Ministry of Finance is to blame for all delays that have taken place in carrying out the program.²⁹

He reviewed each case on which the government has initiated action and finally stated that for the first time he realized that the bank was responsible for many of the delays that had occurred and that its failure to act in other matters had delayed further execution of the pro-

²⁸ A footnote in the original at this point indicates that no action had been taken against the Sociedad Industrial para Artículos General.

²⁹ A footnote in the original at this point refers to strained relations between the Banco del Paraguay and the Ministry of Finance.

gram. He instructed one of the bank's two attorneys to devote his entire time to the program until its completion and to work with the Secretary General of the Ministry of Finance in its execution. Because the bank has renewed its activities it has been possible to make further progress in the program, and several important pieces of legislation in connection with it have since been enacted.

Respectfully yours,

WILLARD L. BEAULAC

462.00R/5-2446

The Ambassador in Paraguay (Beaulac) to the Secretary of State

No. 1739

ASUNCIÓN, May 24, 1946.

[Received June 7.]

SIR: I have the honor to inform the Department that the Paraguayan Government has promulgated Decree Law no. 13,608, of May 13, 1946, which establishes war indemnities against the Axis Powers. The decree law fixes the amount of indemnity for indirect damages, states that a subsequent law will establish the amount due for direct damages, specifies which enemy assets in the country shall be encumbered toward the satisfaction of these claims, specifies the order of preference of claims, etc.

The sum of G[uaraní] 16,985,515.87 (about US\$ 5,261,565) is established as a war indemnity against the Axis Powers for the extraordinary war expenditures incurred by Paraguay during the years 1942, 1943, 1944 and 1945. This sum is stated to be the increase in the cost of the country's defense program during these years as compared to 1941 as a base. The Embassy understands that the amounts budgeted for the Ministry of National Defense for the years mentioned are those on which the Paraguayan Government based its calculations. The stated sum is the amount claimed by Paraguay for indirect war damages.

The decree also states that a subsequent law will establish the amount to be claimed from the Axis Powers for direct damages to Paraguayan citizens in their life, physical integrity, liberty and interests.

The enemy assets which, according to Decree Law no. 13,608, will be encumbered for the satisfaction of these claims include all those assets (named in the decree law) which have already been taken possession of by the Paraguayan Government, trademarks, patents, and other assets of enemy ownership whose occupation may be directed by the Executive before the conclusion of peace with the Axis Powers.

The decree law also establishes certain standards to be used in connection with claims that may be presented about alleged ownership of these assets or to show that they are not enemy assets, and states that in the adjudication of such cases as may be presented legal principles and procedures will be followed but that primary importance will be given to the general interests of the Paraguayan nation over private interests without limiting the defense of private interests.

The following priority is established in the payment of war indemnities:

- (1) Reimbursement to the General Treasury in the amount of G 16,985,515.87, and
- (2) Indemnity for direct war damages suffered by Paraguayan citizens.

From the amounts assigned to the General Treasury certain sums are to be used 1) to finance refugee and colonization centers in Paraguay for the benefit of countries damaged by the war, and 2) for the Paraguayan quota to the United Nations Relief and Rehabilitation Fund (UNRRA).

A copy and a free translation of Decree Law no. 13,608 are enclosed.³⁰

Respectfully yours,

WILLARD L. BEAULAC

740.24112 RP/7-1146

The Ambassador in Paraguay (Beaulac) to the Secretary of State

[Extracts]

SECRET

No. 1879

ASUNCIÓN, July 11, 1946.

[Received July 26.]

SIR: I have the honor to inform the Department of the progress of the replacement program in Paraguay since the submission of Embassy secret despatch no. 1663 of April 26, 1946, . . .

The newly appointed Minister of Finance,³¹ who relinquished his position as Paraguayan Minister to Uruguay to accept the appointment, took his oath of office about the end of June. He has since assured the Embassy that the replacement program will have his complete support and that he will do whatever he can to expedite its completion. After the Embassy officer in charge of the replacement program discussed it with the new Minister of Finance he also talked with the Minister of Foreign Relations³² about it. The Minister of

³⁰ Not printed.

³¹ Augustín Avila.

³² Miguel Angel Soler.

Foreign Relations said that he would consult with the Minister of Finance and, with him, decide what action should be taken toward the reorganization of the Liquidating Commission so that its powers could be broadened to enable it to complete the local replacement program, and what further steps both ministries should take to insure completion of the program. The Embassy is hopeful that this action will be taken in the near future. On July 10, 1946, the Embassy was informed by the Ministry of Foreign Relations that a note from the latter office recommending reorganization of the Liquidating Commission as outlined above would be delivered shortly to the Ministry of Finance.

The replacement program is more advanced than the number of completed liquidations indicate. The registration of those spearhead firms whose liquidation has been ordered but not been completed has been cancelled and it is unlikely that the Paraguayan Government would permit re-registration of companies now in liquidation either in the same names or under control of their former owners or managers. The Department will recall that all of these firms have been closed since their liquidation was ordered. Certain assets of enemy aliens resident in Germany have been declared to the government in accordance with Art. 1 of Decree Law 7867 and, although the government has not expropriated these assets, it is believed that it would not permit transfer of ownership or of the assets themselves. The Paraguayan Government has taken no action in connection with enemy trade marks and patents, but inasmuch as Paraguay is almost completely a distribution area in which there is only a small manufacturing industry, it is apparent that these assets will lose their value as the enemy products which they cover become no longer available.

Respectfully yours,

WILLARD L. BEAULAC

740.34112 RP/10-2546

The Chargé in Paraguay (Reed) to the Secretary of State

No. 2222

ASUNCIÓN, October 25, 1946.

[Received October 30.]

SIR: I have the honor to report that by decree law no. 16,142 dated October 23, 1946, most of the functions carried on by the Bank of Paraguay under decree law 7867 of March 23, 1945, in connection with enemy property were transferred to the Ministry of Finance. As an exception, the central bank's activities in connection with liquidation of the former Banco Germánico de la América del Sur will continue under the control of the bank. The same decree transfers administra-

tion of the Compañía Internacional de Teléfonos from the bank to the Ministry of Public Works and Communications.

Since creation of the Advisory Committee on Enemy Property (unrestricted despatch no. 2017 dated August 21, 1946: "Transmitting text of decree no. 14,953 creating an Advisory Committee on Enemy Property"³³) operations in connection with the replacement program already had been removed from the control of the liquidating commission, whose powers were not clearly defined with the result that for some months there was little action toward carrying out the Paraguayan government's program for liquidating enemy properties. Abolition of the liquidating commission and the creation of the Advisory Committee on Enemy Property was the principal step in overcoming this difficulty. The present decree serves to strengthen the authority of the Ministry of Finance in carrying out the recommendations of the Advisory Committee.

Administration of the Campaña Internacional de Teléfonos by the Ministry of Public Works and Communications will consolidate control over all Paraguayan communications under a single government agency.

Respectfully yours,

LESLIE E. REED

**POLICY OF THE UNITED STATES RESPECTING PARAGUAYAN DEBTS
AND LOANS³⁴**

834.51/2-746

*Memorandum of Conversation, by Mr. J. J. Stenger of the Division
of Investment and Economic Development*

[WASHINGTON,] February 7, 1946.

Participants: Mr. Norman Ness of the Export-Import Bank
Ambassador Beaulac
Messrs. Gilmore and Hoit of RPA and Mr. Stenger
of ED

At the request of Ambassador Beaulac, a meeting was held in the Department to discuss the plan presented by the Government of Paraguay for the extension of the period of amortization of the two outstanding Export-Import Bank credits, as outlined in the Embassy's despatch no. 1375, dated January 4, 1945.³³

Ambassador Beaulac reviewed the situation in Paraguay and outlined the proposal of the Paraguayans, which is substantially as follows:

³³ Not printed.

³⁴ For previous documentation, see *Foreign Relations, 1945*, vol. ix, pp. 1299.

1. The Paraguayan Government wishes to obtain the \$425,000 still remaining under the \$3,000,000 loan.

2. Paraguayan Government proposes to repay the two existing loans in 20 years from 1946.

3. The Paraguayan Government wishes to send each month, in advance, to the Export-Import Bank a specified sum of money which will be accumulated in a special account, these funds to be applied to the payment of coupons on the bonds as they fall due, the accumulated funds to bear interest at 4% which will be destined to build up a fund for the service of the loan.

Mr. Ness stated that the Export-Import Bank would not be interested in accepting the 20 year plan because in theory this would mean a 25 year credit as one of the loans has already been in existence for five years. The Bank does not wish to go beyond an additional 15 years. Mr. Ness also said that the proposal of the advance payments could probably be worked out, but this was a mechanical detail which would have to be considered. His thought was that if and when the loans were recast the terms could be changed to a monthly payment basis instead of a quarterly payment as at the present time.

The question of advancing the remaining \$425,000 is one that Ambassador Beaulac wishes to consider very carefully and intends to make some suggestions as to how this credit may be used. The Ambassador mentioned the fact that he was disappointed that the Department had not consulted him prior to giving its approval for the \$450,000 which was advanced in the month of September 1945.

Ambassador Beaulac briefly reviewed the present political situation in Paraguay and talked about Paraguay's financial problems.

It was finally agreed that the Export-Import Bank would prepare a memorandum in answer to the Paraguayan proposal.

S34.51/5-2546: Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, May 25, 1946—noon.

[Received 3:55 p. m.]

225. Minister Foreign Affairs told me yesterday Paraguayan Govt thru Embassy in Washington had requested additional one million dollar Eximbank credit for highway extension to Encarnación.

Pending details Paraguayan request I am prepared in principle to support additional one million dollar credit for purpose stated. While my view which I have communicated to Dept as well as informally to Paraguayan Govt has been that military expenditures should be reduced before additional credits requested I believe that in present international situation, having in mind Perón election in Argentina,

we should refrain from commenting to Paraguay on size and cost of its military establishment, particularly in view of apparently successful effort being made by President to cleanse army of politics.

I consider rather that at this stage consideration of any request for additional loans should be based on Paraguay's credit which I and the Commercial Attaché consider to be excellent and on use to which funds are to be put.

Foregoing is not yet a definitive recommendation. I hope, however, Dept and bank will not reject Paraguay's request without first consulting Embassy.

BEAULAC

834.51/7-3046 : Telegram

The Acting Secretary of State to the Ambassador in Paraguay (Beaulac)

CONFIDENTIAL

WASHINGTON, July 30, 1946—noon.

171. Eximbank Board Jul 24 unfavorable to \$1 million credit for road building because unsatisfactory Paraguayan economic prospects, but in view urtel 334, Jul 19,³⁷ Board withheld final action pending receipt Embassy's final views.

ACHESON

834.51/9-746 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

RESTRICTED

ASUNCIÓN, September 7, 1946—noon.

[Received 2:40 p. m.]

404. Recommend million dollar credit requested by Paraguay be granted for following reasons: 1. Continuation of highway to Encarnacion necessary to economic use of highway already built with Eximbank funds. 2. Paraguay's ability to repay undoubted. 3. Embassy's analysis shows current economic prospects in Paraguay very good (see for example Commercial Attaché reports 98, April 12, 162, August 3, 168, August 13 and 174, September 4.³⁸ 4. Service of old loan is budgeted and service of new loan will be also. 5. Government has arranged for service on present loan and new loan to be carried out automatically by bank of Paraguay. 6. Government now taking adequate steps to insure conservation of all highways.

In order that most economic use can be made of funds, I urge credit be approved promptly.

BEAULAC

³⁷ Not printed, but see telegram 225, May 25, *supra*.

³⁸ None printed.

834.154/9-2446

Memorandum of Conversation, by Mr. S. D. Dillingham of the Division of River Plate Affairs

[Extract]

[WASHINGTON,] September 24, 1946.

Participants: Dr. Acosta, Paraguayan Chargé d'Affaires a.i.
A-Br—Mr. Braden
RPA—Mr. Dillingham

Dr. Cesar R. Acosta, Chargé d'Affaires of Paraguay, called by appointment on Mr. Braden at 12 noon, the undersigned being present during the conversation.

Primarily Dr. Acosta wanted to know the status of the Paraguayan application for an additional million dollar credit from Ex-Im Bank for highway construction since, in view of the long delay in reaching any decision, he feared that the Bank would turn it down. The present policy of the Bank was explained to him, namely an effort to re-orientate its activities along the original concept of granting credits only for purchases in the US or for the stimulation of trade that would develop foreign exchange with which the credits might be repaid, the recent two millions granted to Czechoslovakia to purchase tobacco in the US for the rehabilitation of the local tobacco industry being cited as an example. Mr. Braden pointed out that the Bank had been reorganized and that the present directors were strictly adhering to this policy. Mr. Braden declared that the Department had supported Paraguay's application, but suggested that Acosta might talk to the Bank about it and try to explain Paraguay's needs therefor.

(In a pre-appointment chat with the undersigned Acosta had mentioned he was under the impression other LA countries had obtained favorable consideration of credit applications and wondered if we had "lost faith in Paraguay").

834.51/10-346 : Telegram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

CONFIDENTIAL

ASUNCIÓN, October 3, 1946—noon.

[Received 7 p. m.]

434. I have purposely refrained from asking favorable consideration on political grounds of Paraguay's request for one million dollar loan because I believe loan is fully justified on economic grounds.

However, I should like to call your attention to circumstance that in contrast to cooperation we gave this Government during the military

dictatorship, our attitude since political and individual freedoms have been restored in Paraguay has been negative.

This negative attitude is bound to confirm the skepticism of many political leaders here who feel that now the war is over and relations between US and Argentina are improved the US has no further interest in this little country.

This is not a situation helpful to our long term relations or to the achievement of whatever objectives we may have in the future in Paraguay.

Brazil's attitude has paralleled ours. Her insistence on monopolizing air traffic between Rio and Asunción (following denial of textile exports) may have cost her all prestige and friendliness gained during last several years.

Our attitude as well as Brazil's has already adversely affected the prestige of this Government and if persisted in will cause Paraguay to look once more toward Argentina for cooperation which will be given on Argentine terms.

BEAULAC

834.154/10-1146: Airgram

The Ambassador in Paraguay (Beaulac) to the Secretary of State

RESTRICTED

ASUNCIÓN, October 11, 1946.

[Received October 15—2:15 p. m.]

A-283. In my airgram, A-281, October 10, 1946,³⁹ I summarized reasons for continuing highly successful cooperative projects in Paraguay in fields of Health and Sanitation, Food Supply, and Vocational Educational.

There is one additional American project in Paraguay which does not cost Government of U.S. one cent and involves sending no American Government personnel to Paraguay. That is the Road Building Project which has been carried out by Hebard & Company, an American corporation with funds lent to Paraguay at 4 per cent interest by Export-Import Bank.

Hebard & Company is training Paraguayan engineers, setting new standards for honest work and cooperative relationship with Paraguayan Government, and carrying American prestige and influence into hitherto isolated areas in Paraguay.

The Road Building Project, which is now halted due to failure of Paraguay to obtain additional credit from Export-Import Bank, supplements and increases the utility of the other projects, which have been largely financed with United States Government funds up to now.

³⁹ Not printed.

I attach so much importance to this project that I discussed it with the President yesterday. I expressed the opinion that Paraguay could not afford to let the project drop. He said he was of the same opinion and that he had ordered that funds be provided from some source to enable Hebard to continue the work, for the time being at least.

BEAULAC

834.51/10-346: Telegram

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

CONFIDENTIAL

WASHINGTON, October 14, 1946—7 p. m.

215. Embtel 425 Sept 23, 433 Oct 3, ⁴⁰ 434 Oct 3. Eximbank denial Paraguayan \$1 million loan based on considered opinion re Paraguay's capacity service increased debt burden.

Eximbank considers Paraguay's economic prospects far from satisfactory. Analysis Paraguay's wartime balance of payments reveals increased gold and foreign exchange position due in large part to heavy borrowing—US, Brazil, Argentina, and that with serious diminution value exports due to world market conditions, climatic or other factors, debt service commitments already assumed likely to prove excessive. Other weighty considerations were Paraguay's delays Eximbank debt service remittances, failure to establish organization or provide funds for systematic maintenance existing highways, and unauthorized use Eximbank credits for highway maintenance.

Dept carefully considered Emb reports referred to and concluded information contained or other factors did not justify pressing for favorable consideration.

Exambank informed Paraguayan Embassy Oct 2 denial loan application.

ACHESON

⁴⁰ Neither printed.

PERU

THE RELINQUISHMENT OF MILITARY BASES AND THE PROVISION OF MILITARY ASSISTANCE BY THE UNITED STATES¹

823.248/1-1146 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Pawley)

SECRET

WASHINGTON, January 11, 1946—9 p. m.

26. In conversation January 8, Assistant Secretary Braden² agreed with General Arnold³ to approve interim allocation of military aircraft to Peru as follows: 3 PB Y's or OA-10's, 8 B-25's, 25 P-47's, 9 C-47's, 2 C-45's, 5 AT-11's.⁴ Because certain of these types of planes are now in short supply, it may be necessary to substitute other types for them.

Approval of this interim allocation is subject to your concurrence and subsequently to views of Peruvian Govt should it not wish to receive full number approved by you. Approximately the same number of tactical planes (P-47's and B-25's) have been allocated to Colombia, Peru and Chile, with a smaller allocation to Venezuela.

It was further understood that any "implied commitment" on the delivery of planes to other American republics resulting from staff conversations will be discharged when planes in interim allocation are made available. No further allocations of military planes to other American republics will be made until State and War Depts review and agree on basic policies of program of military collaboration.

No decision as to exact price for planes has as yet been made, but combat planes will probably be made available at low figure, and prices will be same to all countries. Dept has recommended that General Arnold not discuss question of price with officials of other govts on his forthcoming trip.

Please telegraph Dept whether you approve allocations mentioned above. Although you will no doubt wish to consult U.S. military

¹ For documentation on discussions of defense problems in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1317 ff.

² Spruille Braden, Assistant Secretary of State for American Republic Affairs.

³ Gen. Henry H. Arnold, Commanding General, Army Air Forces.

⁴ PB Y's or OA's were Navy patrol bombers; B-25's and P-47's were horizontal and dive bombers; C-47's, 45's and AT-11's were transport planes. In telegram 221, March 14, 1946, 9 p. m., the Department modified these figures as follows: 8 (instead of 9) C-47's, 6 C-45's, AT-11's or AT-7's, and 5 AT-6's (823.24/3-1446).

air officers, your decision should, of course, take political and economic factors into account.

The foregoing information is not to be disclosed to Peruvian officials. For your information questions of procedure on disposal of planes are still to be worked out. Dept will inform Peruvian Ambassador here ⁵ as soon as ground and air force equipment can be made available, and you will be informed.

ACHESON

823.248/1-1946 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, January 19, 1946—5 p. m.

[Received 7:52 p. m.]

64. ReDeptel's 26, Jan 11, 9 p. m.; 46, Jan 17, 8 p. m.⁶ General Arnold and General Rowell ⁷ concur in delivery to Peruvian air force upon their arrival 2 PBY's or OA-10's, 5 B-25's, 10 P-47's, 3 C-47's, 5 AT-11's, 2 C-45's and in addition 5 liaison, and 5 AT-6's. The balance of the planes allocated to Peru and mentioned in your Deptel 26, Jan 11, 9 p. m. will be held in dead storage Talara Army Air Base, custody of Ambassador, for delivery as and when Air Mission chief and Ambassador agree Air Force can absorb.

PAWLEY

823.30 Missions/1-2446 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

CONFIDENTIAL

LIMA, January 24, 1946—11 a. m.

[Received 2:42 p. m.]

94. On January 18, 1946 the Minister of Aviation ⁸ called to inform me that he approves of the termination of the United States Naval Aviation Mission contract and the installation in July 1946 of a United States Army Air Force Mission. Speaking informally he indicated that the Peruvian Air Ministry will request that the new Army Air Force Mission include 2 or 3 naval aviation officers and that the total size of the Mission not exceed 10 officers with a proportionate number of enlisted personnel because of financial limitations. This information has been conveyed to General H. H. Arnold, Commanding General Army Air Forces, during his current visit in Lima.

⁵ Pedro Beltrán.

⁶ Latter not printed.

⁷ Maj. Gen. Ross E. Rowell, Chief of the United States Military Mission to Peru.

⁸ Gen. Carlos A. Gilardi.

On January 19, 1946 General Arnold approved the following program for supplying military aircraft to Peru in implementation of the bilateral staff conferences:

A. To be consigned to the American Ambassador and shipped Talara, Peru, for distribution at the rate the Peruvian Air Force can receive and maintain it, aircraft as enumerated in Embtel 64, Jan 19, 5 p. m.

B. Maintenance and training literature sets, complete, sent at once to the Ambassador in order that the training may begin before the above airplanes arrive, also all training films for crews and pilots which are available as well as equipment for projection of same.

C. A Spanish speaking officer should be sent at the command of a group of officers and enlisted personnel. This should be done at once to commence operations for pursuance of this project to the end. All officers and crews sent will be assigned to the US Naval Aviation Mission and will thereby provide a connecting link between the present Naval Aviation Mission and the replacement US Army Air Force Mission.

D. Instructor pilots should make up 30 percent of the crew ferrying planes to Peru and top notch instructor mechanics who can successfully instruct Peruvians on the airplane maintenance should make up 30 percent of the enlisted crews sent.

E. It is imperative that all necessary equipment for maintenance be sent, and that which is not available immediately should be sent as soon as possible, not to arrive any later than April 1.

F. Tools and spare parts are available here only for the AT-6's. It is, therefore, necessary to send 6 month's supply of maintenance tools, spare parts, and engines required for ground handling as well as test equipment for all the airplanes listed above.

General Arnold has informed the War Dept on the above program in which the chief of the Naval Aviation Mission⁹ and the Embassy concur.

PAWLEY

823.20 Missions/1-2346 : Airgram

The Secretary of State to the Ambassador in Peru (Pawley)

CONFIDENTIAL

WASHINGTON, February 6, 1946.

A-65. As soon as final details have been worked out, Embassy will be informed and Peruvian representatives will be notified that the United States is ready to make available, in addition to the aircraft mentioned in the Department's recent telegram number 26 of January 11, equipment for 1 regiment of infantry and 1 battalion of field artillery. It is believed that this equipment will furnish desirable support for the United States military missions, which was the con-

⁹ Rear Adm. Jack H. Duncan.

cern of General Arnold and the head of the mission, as reported in your telegram number 89 of January 23.¹⁰

The Department regards the staff conversations as having been purely preliminary and exploratory, a fact which was stated to the Peruvian Government in the note, proposing the conversations, which was attached to the Department's circular instruction of August 1, 1944.¹¹ The proposed allocation of ground equipment and aircraft should serve to liquidate any implied commitment on our part which may exist in the minds of the Peruvian authorities by reason of having participated in the conversations. As was pointed out in your recent conversation with Mr. Braden, it is with great hesitancy that the Department approaches the question of further, fuller implementation of the staff conversations and proposes to do so only after it has, with the War and Navy Departments, reexamined the entire program of military collaboration to formulate basic policies in the light of present conditions.

BYRNES

823.248/2-1546 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, February 15, 1946—4 p. m.

[Received 10:34 p. m.]

171. ReDeptairgram 65, February 6. I concur in program of scheduled equipment for Peruvian Army. In full accord with expressed belief this equipment will furnish desirable support for US military mission.

When combined with interim allocations military aircraft to Peru reDeptel 25 January 11, 9 p. m.,¹² implied preliminary commitments to War and Air Ministries made during exploratory staff conversations will have been liquidated. However Dept will recall that Navy Ministry also participated in staff conversations and that General Arnold conferred with Peruvian Navy Minister¹³ on same basis as with War and Air Ministers. From Navy Minister General Arnold also received list of interim equipment required by Peruvian Navy.

US Naval Mission to Peru probably more than any US agency has stimulated sympathy and desire for cooperation with US. Navy mission first US mission assigned to Peru and Peruvian Navy of all Peruvian Armed Forces is most frankly pro-US. I earnestly hope that Dept is formulating list of interim equipment for Peruvian Navy

¹⁰ Not printed.

¹¹ For text, see *Foreign Relations*, 1944, vol. VII, p. 105.

¹² Presumably Department telegram 26, p. 1206.

¹³ Rear Adm. José R. Alzamora.

in order I may be empowered to assure Navy Minister, at time US Army representatives receive authority to inform Peruvian War Minister of interim army implementation, that interim equipment for Navy will be forthcoming and details will be available at some date in near future.¹⁴

PAWLEY

811.24523/4-346

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET
No. 1227

LIMA, April 3, 1946.
[Received April 18.]

SIR: I have the honor to report that I took occasion on March 25, 1946, to discuss the future status of the United States Air Base "El Pato" at Talara, Peru, with the Peruvian Minister for Foreign Affairs, Dr. Enrique García Sayán. Discussion of the subject consumed more than two hours during which time the Minister reiterated the previously expressed fears of President José Luis Bustamante y Rivero that the sovereignty of Peru is intimately involved in approval of the draft contract proposed by the Department and that approval of the contract proposed may occasion disturbing domestic political repercussions in Peru. The Foreign Minister declared the President to be both willing and anxious to cooperate with the United States in consolidating a program of hemisphere defense and to find no objection to dedication of the Talara base to joint use by the United States and Peru under this program. However, in the words of the Foreign Minister, the President prefers to approach the subject of the future status of the "El Pato" base not via negotiation of a unilateral agreement or contract with the United States, but rather in concert with all the American republics within whose several territories strategic bases are located.

Dr. García Sayán informed me that during the course of his conference with Peru's chief executive on this subject, President Bustamante y Rivero had suggested that an Inter-American Conference might be convened for the express purpose of designating the strategic air bases essential to accomplishment of the program of hemisphere defense, bases both projected and those already in existence. All interested American republics represented at such a conference could, thereupon, mutually and by common consent establish an equitable basis for joint maintenance and use of the bases designated. Result-

¹⁴ The Department advised the Ambassador in airgram 90, February 26, 1946, that legislative restrictions prevented the transfer of surplus armed vessels, but surplus equipment and observation planes were scheduled for disposal to Latin America (823.248/2-1546).

ing assurance that all of the American republics would be mutually and equitably bound in the interests of the hemisphere defense program would, in the opinion of President Bustamante y Rivero, serve to allay damaging domestic criticism which would inevitably arise should the Peruvian Government alone commit the "El Pato," Talara base to the program through negotiation of a contract with the United States on a unilateral basis.

The Foreign Minister assured me that the President at no time has expressed an intention or desire to disturb the present temporary and informal agreement for use of the "El Pato" base by the United States Army Air Forces, but that the President desires a permanent and final solution of the problem in the immediate future.

I mentioned to the Foreign Minister in reply, that President Bustamante's suggestion of a Pan-American conference on hemispheric defense for the selection of and negotiation for strategic air bases would be submitted to the Department. I pointed out, however, that much time would be consumed thereby, even if the suggestion appeared feasible to the other American republics, and that in the meantime the United States would be unable to expend funds for repair of the runway of the "El Pato" air base which is of no use in its present condition. I declared that I could not recommend that the United States proceed further on the basis of the hemisphere defense program in so far as Peru was concerned until I received more definite assurances that the Peruvian Government was genuinely interested in the subject and prepared to lend serious cooperation and assistance.

I explained to the Foreign Minister that it was difficult for me to understand how the question of sovereignty could be raised in connection with the joint use of an air base constructed by the United States Government on lands owned in fee by a Canadian corporation, 90 per cent owned and controlled by citizens of the United States. I reminded the Foreign Minister that in supplying of military aircraft to the Peruvian Air Force, that the "El Pato" base at Talara had been designated as the principal base for training and that the United States Government, in its desire to continue a policy of cooperation, was furnishing a large number of technical personnel, including officers and enlisted men of the United States Army Air Forces who are scheduled to remain in Peru, based at Talara, at the United States Government's expense, for the sole purpose of training Peruvian pilots and mechanics in the operation and maintenance of the most modern type of aircraft which is now being made available to Peru by the United States Government. I informed the Foreign Minister that in good faith and upon receipt of repeated assurances that Peru was willing and determined to participate actively in the program of hemisphere defense, the United States Government had ex-

pended over \$100,000 (U.S.) during the past sixty days in the installation of some of the finest radio equipment obtainable, equipment superior to anything installed in any other country in South America.

I stated to the Foreign Minister that I could not understand how Peru, unable at present to finance the building and maintenance of a strategic air base such as Talara, which now requires an expenditure of \$350,000 (U.S.) for the re-building of the runway (which has deteriorated to a point where it is dangerous to use it), would hesitate to enter into a contract with the United States Government in the accomplishment of a matter of such vital importance to Peru itself, to say nothing of the program of hemispheric defense. I then referred the Foreign Minister to the discussions in the National Congress of Peru of the new legislation which will enable foreign petroleum companies to expend a possible 150 million dollars in the eastern Montaña for exploration and exploitation of acknowledged oil reserves. I sought to emphasize that if oil were produced in the quantities which everyone believes it will be, the defenses of this tremendous Peruvian industry will be vital and that the "El Pato" base at Talara, which has already been constructed and which can be made available, is the logical air base of defense.

I told the Foreign Minister that the United States has demonstrated over a period of twenty-five years its great respect for the sovereignty of the smaller nations; that the people of the United States have fought two wars at a tremendous sacrifice of men and matériel as a result of which Peru and other smaller nations continue to exist as independent and free countries; and that the Government of the United States is now endeavoring to fortify and strengthen its neighboring republics of the Americas in the hope of avoiding further conflict. I said that I was drawn to the conclusion that a request on the part of the United States Government for permission to use the strategic air base "El Pato" at Talara jointly with the Peruvian Air Forces constitutes an extremely small contribution on the part of the Peruvian Government.

The Foreign Minister unhesitatingly declared that he understood my point of view thoroughly and expressed personal agreement that the point of view was both logical and consistent. He said that the President had wished to speak with me for the past week but had been engaged on domestic political matters of the moment. The Foreign Minister said, however, that a meeting would be arranged for the next day or two and that he would greatly appreciate my conveying the same message directly to the President. In the meantime, he added, he would inform him of my views.

I do not believe that the Peruvian Government has any intention of asking us to withdraw from Talara. I do believe, however, that

the basis of resolving this matter in contractual form is important. I shall ask the President, who is a very capable lawyer, to suggest an alternative basis in the hope of finding some solution to the "El Pato" Talara air base negotiations without resorting to a hemispheric conference, although a conference convened for this purpose at a later date might fulfill a desirable function.

Respectfully yours,

WILLIAM D. PAWLEY

893.85/4-1046 : Telegram

The Secretary of State to the Ambassador in Peru (Pawley)

SECRET

WASHINGTON, April 10, 1946—7 p. m.

U.S. URGENT

331. Approval has been given by Dept to sale from surplus of following vessels to Peru (your 372 Apr 1¹⁵). You may inform Peruvian authorities. Navy Dept has informally discussed matter with Peruvian representatives.

- 6 Submarine chasers (SC)
- 8 Landing Craft, Infantry, (Gunboat) (LCI(G))
- 2 Oilers (AO)
- 2 Rescue Tugs (ATR)
- 10 Landing Vehicles, tracked (LVT)
- 1 Gunboat (PG)
- 3 Landing Craft, tank (LCT)

Symbols in parentheses refer to Navy nomenclature for vessels concerned.

BYRNES

823.248/4-2646 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, April 26, 1946—6 p. m.

US URGENT

[Received 8:35 p. m.]

504. I delivered today to the Minister of Finance¹⁶ in the presence of the Minister of Aeronautics, a number of Govt officials and Mr. Losa of the Rubber Development Corp two letters: The first confirming sale to the Peruvian Govt of two RDC Catalina planes for \$100,000 and termination of the Air Transportation Agreement; the second turning over to the Peruvian Govt the airport at Iquitos and the Itaya Marine Air Base facilities together with installations, materials, etc.¹⁷

¹⁵ Not printed.

¹⁶ Manuel Vásquez Díaz.

¹⁷ In telegram 489, April 23, 1946, 3 p. m., from Lima, Mr. Losa, an official of the Rubber Development Corporation had requested authorization for this transfer (103.9151). The Department advised the Embassy in telegram 371, April 25, 8 p. m., that this authorization was granted (103.9151/4-2246).

Mr. Losa of the Rubber Development Corp collaborated in drafting the letters. The transaction will be consummated upon receipt \$100,000 and acknowledgement letters.

The Govt officials were most appreciative of the decision of our Govt to turn over the airports, etc., and said they would give ample publicity to the event. The transfer was well timed because it coincides with the decision of the Peruvian Govt to furnish me today or tomorrow a statement of its policy regarding the Talara Air Port which the President and other Govt officials have assured me will make possible our joint operation of that strategic base.

PAWLEY

811.24523/5-346

Memorandum by the Assistant Chief of the Division of North and West Coast Affairs (Wells)

SECRET

[WASHINGTON,] May 6, 1946.

A meeting was held in Mr. Briggs' office on Friday, May 3, with the following in attendance:

Ambassador William D. Pawley
 Mr. Ellis O. Briggs¹⁸
 Mr. Joseph Flack¹⁹
 Mr. Fred Searls²⁰
 Mr. Milton K. Wells

The Ambassador reported a definite disposition on the part of the President and other Peruvian officials, as well as Haya de la Torre, to reach some mutually agreeable arrangement for joint postwar use of the Talara air base. This disposition finally took shape the day before he left Lima in a note from the Foreign Office (being transmitted under cover of an Embassy despatch), which states that (1) the Peruvian Government notes that the emergency which occasioned the establishment of this US air base no longer exists, but that (2) the Peruvian Government, motivated by a desire to further the hemisphere defense, et cetera, would welcome discussions with the US regarding the postwar use of Talara for this purpose. The Ambassador believes this proposal definitely opens the way for a suitable arrangement. What Peru has in mind is a base commanded by a Peruvian officer, with US technical and operational personnel.

It was agreed:

¹⁸ Director of the Office of American Republic Affairs.

¹⁹ Chief of the Division of North and West Coast Affairs.

²⁰ Director of Production, Liaison and Coordination, Office of War Mobilization and Reconversion.

1. To await the receipt of the Peruvian Government's proposal before talking up the matter with the Army and Navy (possibly through SWNCC).

2. In the meantime, Ambassador Pawley will sound out the Standard Oil people in New York in regard to future contractual arrangements for the land on which the base is located.

3. To delay decision on ITP's request for permission to put down a well inside the present boundary of the field until agreement in principle is reached with the Peruvian Government.

811.24523/5-246

*Memorandum by the Assistant Chief of the Division of North and West Coast Affairs (Wells)*²¹

[WASHINGTON,] May 17, 1946.

The Communist news organ continues to denounce the presence of U.S. troops at the Talara airbase who only serve "imperialist and capitalist interests." It demands that the Peruvian Government negotiate for the immediate withdrawal of these foreign troops and the return of the base to Peru.

In even more vitriolic language the newspaper challenges the recent statement of Ambassador Pawley that American troops at Talara now number only 40, and darkly hints that the US is digging in for a long stay. This non-fulfillment of the commitment to abandon the base after the war "disturbs and worries all Peru, especially when that Government patronizes a policy openly imperialistic and of intervention in the internal politics of the American countries."

The Communist organ also asks the Foreign Minister to fulfill his duty and inform the Peruvian public as to the reason for the Talara situation.

103.9151/5-2246 : Telegram

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

CONFIDENTIAL

LIMA, May 22, 1946—7 p. m.
[Received May 23—1: 07 p. m.]

605. Deptel 37, April 26.²² I have just received two letters from the Minister of Finance. The first acknowledges with thanks transfer of Iquitos airport and marine airbase facilities and confirms purchase two Catalina planes. The second states Peruvian Govt unwilling accept cancellation air agreement without construction or improvement

²¹ Addressed to NWC: Mr. Flack; ARA: Mr. Butler and Mr. Briggs. This memorandum is a condensation of despatch 1405, May 2, 1946, from Lima, not printed.

²² Not printed.

four airports as provided in article XII Air Agreement. In view importance matter and since there is no official in Embassy familiar with original negotiations, Losa, RDC representative here today obtained RDC's approval return Washington next week to discuss matter with appropriate authorities there.

The Catalinas and airport facilities will not be turned over to the Peruvian Govt pending settlement this point.²³

DONNELLY

811.24523/5-3146 : Telegram

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

SECRET

WASHINGTON, May 31, 1946—3 p. m.

US URGENT

475. Amb Pawley proceeding Lima tomorrow from Miami to carry on Talara airbase negotiations.

Copy proposed draft agreement ²⁴ which embodies desires Army and Navy sent direct to Pawley other copy being sent Lima first courier.

Please draw Ambs attention to fact new wording Article First would give Peru access to Panama bases and that greatest possible general reciprocity of facilities is assured Peru. Also that Article 7th not intended to secure other than disciplinary jurisdiction over acts of personnel within bases. Suggest Article 13th be first cleared with IPC.

With draft as basis Amb has full latitude to secure best possible agreement with Peru. If and when agreement is reached with Peruvian Govt draft should be referred to Dept for clearance and instructions re signature.

BYRNES

811.24523/6-646 : Telegram

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

RESTRICTED

LIMA, June 6, 1946—5 p. m.

[Received 10:06 p. m.]

650. Conference held with President Bustamante 4 p. m. June 3. Handed him Spanish translation new agreement covering El Pato air base. President stated no objection formalizing agreement and he

²³ The delivery of the planes and receipt of a check for \$100,000 were indicated in telegram 858, August 8, 1946, from Lima (103.9151).

²⁴ The substance of this draft agreement was quoted in telegram 479, May 31, 1946, to Lima. The El Pato air base, all other airports, and the air corridors of both countries, including facilities and equipment were to be accessible to both parties. Official personnel of each country would not be exempt from the laws of the other country while in that country, although each Government was to have jurisdiction over its personnel at bases in the other country. A Technical Commission of three members from each country was charged with overseeing El Pato, but a Peruvian was to have direct command assisted by American personnel. In time of war, the United States would assume control. (811.24523/6-146)

was willing to sign document to be agreed upon during these negotiations with understanding that it would not become official until approved by Congress, which convenes July 28, 1946, and we could jointly operate under the temporary arrangement until formal agreement by Congress obtained.

After studying contract he suggested elimination some paragraphs and modification others. Stated immediately following conference he would meet with Acting Foreign Minister²⁵ and Air Minister to determine if additional changes required. He worked with two Ministers until 2:30 a. m. June 4, and Mr. Donnelly and I called on him June 4th, 4 o'clock. Proposed changes in contract follow:²⁶

1. Existing agreement should be terminated.
2. Air base should be delivered to Government of Peru.
3. New agreement should be in two parts:
 - (1) General agreement for reciprocal use airports in both countries, etc.;
 - (2) Second agreement would contain specific references to El Pato Talara air base in accordance with the authority contained first agreement.

[Here follow 11 other suggested changes including revision of the revenue allocation, war-time controls, and accessibility of Panama air bases to Peru.]

DONNELLY

811.24523/6-846: Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

RESTRICTED

LIMA, June 8, 1946—1 p. m.

[Received June 9—2:50 a. m.]

655. President Bustamante this afternoon sent me drafts of two documents covering use of strategic airports. Accompanying the drafts was a memo stating that these drafts were purely intended for bases of discussion and did not constitute any obligation on part of either Govt; that they do not express official opinion of Govt of Peru nor should it be implied that Peru is accepting in principle the United States Govt's proposal; that upon the return of the Foreign Minister he and other Govt organizations with the President will arrive at an official decision and when accepted in principle with any proposed modifications will consult with the United States representative and then submit same to Congress for ratification.

Donnelly and I have carefully examined the above mentioned drafts and we believe that if the Congress will ratify these two documents

²⁵ Ismael Bielich.

²⁶ The Department indicated agreement to these changes, with certain additional clarifying sentences, in telegram 507, June 7, 1946, 8 p. m. (811.24523/6-646).

that then our Government will have a satisfactory working basis for the hire of Talara air base for a minimum of 5 years and possibly much longer. I hope Department of State and War Department concur in the reasonableness of the Peruvian Government plan which has been worked on for 4 consecutive days by President Bustamante and several members of the Cabinet working until the early hours of the morning in an effort to place the draft proposals in my hands prior to my departure for Brazil tomorrow morning, June 8.²⁷ No finer bases of cooperation can be found than has been given us by the President and Cabinet. Letter follows addressed to Ellis Briggs.²⁸

[For the Ambassador:]
DONNELLY

811.24523/6-2846 : Telegram

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

SECRET

LIMA, June 28, 1946—6 p. m.

[Received 9:50 p. m.]

720. Although the Embassy has not yet received a reply to its note of June 11 to the Foreign Office relative to El Pato Talara Airbase referred to in the Embassy's telegram 662, June 11, 6 p. m.,²⁸ the Minister of Aeronautics sent to the Embassy on June 26 (without previous advice) copy of supreme resolution (as yet confidential) dated June 18, signed by President Bustamante and the Minister, appointing three Peruvian officers to a commission to negotiate with a similar commission appointed by the U.S. Government to inventory real property, supplies and equipment installed at the airbase. (Fon-Off confirmation resolution expected momentarily). The preamble of this resolution declares that adequate steps now be taken for delivery of the airbase to the Peruvian Government and cites as authority the notes exchanged between this Embassy and the Minister of Foreign Affairs, May 26 and July 8, 1942.²⁸ The supreme resolution provides that the commission shall complete its work within a maximum period of 15 days. I have informed Minister it is impossible for us to meet this time limit and that I would refer the matter to the Department requesting that the Department and the War Department expedite the appointment of three U.S. officers to accomplish with the Peruvian officers the inventory of the El Pato Talara Airbase. It is recommended that officers designated be in-

²⁷ Ambassador Pawley was leaving Peru to assume his duties as Ambassador in Brazil. The assumption of his duties in Rio de Janeiro was reported in telegram 1090, June 13, 1946 (123 Pawley, William D.).

²⁸ Not printed.

structed to report to this Embassy before going to Talara for orientation and further instructions.

It is evident President Bustamante and Minister of Aeronautics desire to initiate negotiations for delivery of airport to Peru before Congress convenes on July 28 and before President sends to Congress the proposed agreements for the future joint operation the airbase.

Repeated to Ambassador Pawley and to Panama for General Crittenberger.²⁹

DONNELLY

823.24/8-2046

The Secretary of State to the Peruvian Chargé (Fernández-Dávila)

CONFIDENTIAL

WASHINGTON, August 20, 1946.

SIR: I transmit herewith two copies each of Statement LL-8 and supporting schedules³⁰ reporting charges made against the Government of Peru during the period from December 1, 1945 through February 28, 1946, for material transferred in accordance with the terms of the Lend-Lease Agreement signed on March 11, 1942³¹ by representatives of the Republic of Peru and the United States of America.

It will be noted that the amount of charges during the period under reference is counterbalanced by credits to a net sum of \$67,017.25 credit, and that charges through February 28, 1946 aggregate the grand total of \$15,657,453.25. Of this grand total the sum of \$6,479,000 represents the approximate appropriate percentage of reimbursement due on account from the Government of Peru. Payments on account in the total sum of \$4,000,000 have been received. Accordingly the remaining balance due is \$2,479,000.

It is requested that the enclosed statement and supporting schedules be treated by Your Government on a most confidential basis.

Accept [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

811.24523/9-1246 : Telegram

The Acting Secretary of State (Clayton) to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, September 16, 1946—8 p. m.

798. War Dept being requested formally to turn over El Pato, date and details to be arranged by Army representatives in conformity your suggestions.

²⁹ Lt. Gen. Willis D. Crittenberger, Commanding General of the Panama Canal Department and the Caribbean Defense Command.

³⁰ None printed.

³¹ *Foreign Relations, 1942*, vol. VI, p. 673.

Documents attesting delivery of Base and installations must include explicit statement same is effected without prejudice to title to soil and subsoil rights claimed under Peruvian law by IPC to be held by it in fee simple (Embdesps 336, 353 May 19 and 20, 1944 ³²). Waiver of future obligation of US to IPC or other persons or entities for use of said land must also be clearly expressed.

In view importance occasion Dept believes you should attend delivery ceremonies making speech touching upon US appreciation Peruvian collaboration in Continental defense etc. In order obviate future misunderstandings or possible charges by opposition elements of bad faith, it is important that statement be made by you, or preferably by high official Per Govt, prior to or during ceremony, to effect that continued presence at Talara of limited number US technicians is in connection with training Peruvian personnel. For your inf in the case of transfer Galápagos Base similar statement to press was made by Ecuad FonMin. If possible text of statement agreed upon by you and Per FonMin this sense should be transmitted Dept for simultaneous release by US press.

Request you advise Dept reg delivery arrangements arrived at by Emb WarDept representatives and Per authorities before execution same.

CLAYTON

811.24523/10-146 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 1, 1946—6 p. m.

[Received 8 : 20 p. m.]

1036. Department's 798, September 16. The Minister Aeronautics ³³ desires we turn over El Pato base by October 15th at official ceremonies to be held at base. If Department and Army approve, I request telegraphic authority proceed with plans and assurance that disposal property, in accordance with inventories now before Department and Army has been cleared and approved by FLC.

With regard surplus property under paragraph two (2) Minister Aeronautics has sent a letter to Peruvian Foreign Minister, text will probably reach me later, requesting information on following points:

1. What items are available and at what prices? Price list and inventory believed to be price list new equipment.

³² Neither printed.

³³ Gen. Enrique Góngora.

2. Requesting substantial reduction due age and condition equipment.

3. Arrangement for installment payments.

4. Assurance negotiations purchase surplus equipment will not interfere October 15th official return El Pato Airbase.

Although Peruvian Government interested continuing air program, I desire obtain views Department and Army re anticipated duration program. Military Attachés will clear with General Crittenberger number of technical points that must be settled before the base is returned.

COOPER

811.24523/10-146 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, October 3, 1946—5 p. m.

US URGENT

835. Embtel 1036 Oct 1. Any delivery date satisfactory to Per Govt Gen Crittenberger and you satisfactory to War and Dept. However Dept considers of utmost importance that prior written agreement be reached with Per Govt re IPC claims as instructed Deptel 798 Sept 16. Proposed agreement should be cleared with Dept before execution same.

WarDept also reiterates necessity reaching prior understanding with Per Govt reg retention personnel for guarding US property and continuance ARP (Deptel 830 Oct 2³⁴). In this connection War and State attach great importance arrangement publicity outlined Deptel 798.

In view authorization given you Deptel 829 Oct 2³⁴ Dept presumes no surplus property will be left for disposal. Cable promptly if this is not case giving full details.

If last par your 1036 refers ARP Wardept states primary training almost completed. Commander El Pato should give you best estimate duration advanced training.

Advance copy your desp 299 Aug 31³⁴ received yesterday. After we secure waivers from and deliver Base to Per Govt, IPC should apply to latter for permission drill test well.

ACHESON

³⁴ Not printed.

823.24/10-846

The Ambassador in Peru (Cooper) to the Secretary of State

RESTRICTED

No. 506

LIMA, October 8, 1946.

[Received October 18.]

SIR: I have the honor to report that the Peruvian Minister of War ³⁵ in a conversation with the chief of the United States Military Mission ³⁶ on October 7 exhibited considerable disappointment over a report from the Peruvian Embassy in Washington stating that the United States Government was unable to furnish the War Department with (1) sufficient ammunition for training purposes for the Lend-Lease arms which Peru had recently purchased and (2) a definite promise from the United States that were Peru to purchase the arms and equipment sufficient for one Infantry Regiment and one battalion of artillery as offered by the United States Government, at some future time additional equipment could be purchased.

In reference to his inability to obtain ammunition for training purposes, the Peruvian Minister of War showed the Chief of the Mission a request which he had sent to the chief of his purchasing commission in the United States for ammunition amounting to 307,000 soles. He stated that he had just received information from his representative in Washington which stated that the United States Government would not permit Peru to purchase this ammunition. This leaves Peru in the position of having some Lend-Lease American arms but not ammunition even for training purposes.

In reference to the receipt of American equipment he is reluctant to purchase equipment for one regiment of infantry and one battalion of artillery without definite assurance that at some future time he will be permitted to purchase sufficient equipment to equip the peacetime Peruvian Army entirely with American equipment.

The Chief of the United States Military Mission is of the opinion that, if possible, Peru should receive at this time definite assurance of the willingness of the United States Government to continue making available to Peru, after the initial interim allocation of equipment for one regiment Infantry and one battalion of artillery, sufficient American equipment to equip at least the Peruvian peacetime army.

He is also of the opinion that a sufficient allowance of training ammunition should be made available to Peru for use in training with the Lend-Lease arms that have been purchased by Peru. The Chief of the Military Mission is reporting this conversation with the Minister of War to his headquarters in Panama.

The above information is being transmitted to the Department to keep it advised of the situation.

Respectfully yours,

PRENTICE COOPER

³⁵ Col. Antonio Luna Ferreccio.

³⁶ Col. D. Charles McFarland.

811.24523/10-1046 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 10, 1946—5 p. m.

[Received 7:08 p. m.]

1069. Remytel 1059, October 8, 9 p. m.³⁷ No new developments respect fixing dates for turning over air base after conference with Foreign Minister yesterday and 2-hour conference today at which Foreign Minister, Minister of Aeronautics and Colonel McCoy³⁸ were present. Foreign Minister was firm in objecting to signing agreement which includes granting of transit rights. Conference today ended with understanding that Minister of Aeronautics and Colonel McCoy would carry on informal conversations for 2 days in endeavor to reach a workable agreement.

COOPER

811.24523/10-2246

Memorandum of Telephone Conversation, by the Chief of the Division of North and West Coast Affairs (Wells)

RESTRICTED

[WASHINGTON,] October 23, 1946.

The Ambassador³⁹ referred to the proposed press release contained in the Embassy's telegram 1105 of October 22,⁴⁰ and asked whether it would be satisfactory. I replied affirmatively, stating that the War Department likewise believed it would be satisfactory, provided, of course, that General Crittenberger's concurrence is obtained. (The press release simply states that the Talara Air Base will be turned over to the Peruvian Government with appropriate ceremonies on October 29, 1946.)

The Ambassador reported that he would have a meeting this afternoon with the Foreign Minister in which he hoped to thrash out the final details. He will telephone the Department before 6 o'clock whether or not full agreement has been reached on release of said press statement to the morning papers of October 24. The only remaining points to be solved are:

1. Payment of \$91,000 for the equipment listed in category 2, which Peru is buying. The Peruvians wish to deposit soles and to be permitted to deliver a dollar check at a later date. The FLC Commissioner, however, insists upon the dollar check, and the Ambassador

³⁷ Not printed.³⁸ Col. George McCoy, Representative in Peru of the Commanding General, Caribbean Defense Command.³⁹ The Ambassador in Peru (Cooper).⁴⁰ Telegram not printed; the press release was issued October 27, 1946.

inquired whether the Department could authorize delayed dollar payment. I replied that the responsibility is solely that of FLC; that I only hoped satisfactory arrangements could be made this afternoon so as to remove this obstacle. The Ambassador thought it might be possible to do so.

2. Colonel McCoy is still endeavoring to arrange for the operation of the weather and meteorological equipment (which the United States Government is not permitted to sell to Peru) by the U.S. Aviation Mission personnel. I remarked that the War Department concurs in the Department's opinion that this matter should not further delay delivery of the Base on the 29th, and that, if necessary, as a last recourse the Army should remove said equipment.

3. The Peruvian Government still refuses to give direct publicity to the fact that a small number of technical personnel will remain in Peru in connection with the ARP program. I told the Ambassador the Department feels that in this matter we probably must defer to Peru to judge the probable effect on the local political situation, and that here again we feel that disagreement on this point need not delay the turning over of the Base. I suggested that it might be feasible to make at least indirect references to this situation by referring to the recent signing of the Air Mission contract and, in this connection, to make some references to the fact that there will be continued cooperation in a training program which will be conducted by this Aviation Mission.

Upon the Ambassador's inquiry, I replied that State and War are fully satisfied with the assurances relieving the United States Government of present or future claims in connection with the land rights of International Petroleum Company as reported in the Embassy's telegram 1104 of October 22.⁴¹ I told the Ambassador that the Department, as well as the War Department, feel that in general the arrangements as now effected are satisfactory; and therefore feel that the aforementioned difficulties can be entrusted to the good judgment of the Ambassador and General Crittenger and that they should not be permitted to delay delivery of the Base on October 29. I mentioned at this point that Dr. Ulloa, Peruvian Delegate to the U.N., had urged in the strongest terms that the Base be delivered promptly.

The Ambassador said that he understands that the Foreign Minister, who probably will leave shortly for New York, would welcome an opportunity to visit Washington. I said that the Department would, of course, more than welcome an opportunity of talking to the Minister either en route to New York or at some later date which might be arranged at the Minister's convenience. The Ambassador thought the Foreign Minister would prefer to go directly to New York first. In any case, he will report further on this subject.

⁴¹ Not printed.

811.24523/10-2646 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 26, 1946—9 p. m.

US URGENT

[Received October 27—5:55 a. m.]

1122. Embtel 1110, October 24.⁴² I received from Foreign Minister this afternoon following letter:

"I have honor to refer to Your Excellency's communication handed to me during our interview October 23, 1946 and in which you state that after reference to my note No. 6-3-224 October 19 the Govt of United States of America desires, prior to giving publicity to simultaneous communiqué announcing turning over of base of El Pato on 29 this month, that the four preliminary points which Your Excellency specifies be arranged satisfactorily and cleared up.

In agreement with Minister Aeronautics I proceed to deal with those four points which are now presented as preliminary by Your Excellency.

(1) Due arrangement for transfer of property included under category 2-G-2 of agreement of April 24, 1942.

In my note No. (L)-6-3-216 of October 15 I stated to Your Excellency proposal of Govt of Peru to acquire property of category 2-G-2 and to pay for same. In my note October 19, 1946 I reiterated said purpose of Minister Aeronautics and that of formalizing the purchase.

In view of what Your Excellency states that 'whatever detail relating to transfer of property be arranged satisfactorily prior to announcing date of turning over base' I contacted Minister Aeronautics who immediately made arrangements for facilitating payment of aforesaid property with result communicated to me under yesterday's date that said Minister delivered on 24 October to Colonel George McCoy duly authorized check No. B 34563 drawn by Central Reserve Bank of Peru upon Federal Reserve Bank New York and to order of 'the Treasurer of the United States' for sum of US dollars 91475.26 in cancellation of price agreed upon for purchase of property included in clause 2-G-2 of agreement April 24, 1942.

In this respect Minister Aeronautics requests that Embassy take necessary step to designate commission of suitable technical personnel to proceed at once in cooperation with members of Peruvian commission for inventory and reception for the recheck of property acquired by clause 2-G-2 which recheck naturally should not be cause for delay in arrangements for turning over base on date agreed upon.

(2) Meteorological and radio communication equipment presently at base that United States Govt cannot sell.

Opinion of Peruvian Govt about disposal of this equipment was explained in point (7) of my note of 19 this month to which Your Excellency refers.

Your Excellency now states your Government is agreeable for this property to remain at El Pato base for use of American Republics training program providing this equipment continue to be operated by United States Army personnel.

⁴² Not printed.

As regards this proposal I must inform Your Excellency, in accordance with above-mentioned criterion of Peruvian Govt, that the referred to equipment can only be operated under Peruvian authority from moment it takes over base on 29 this month. This indispensable condition does not exclude possibility while training program is in effect that United States technicians, in their capacity as such and not as armed force, continue operating these services but under Peruvian authority and control. Otherwise the Peruvian Govt does not have any observation to make concerning evacuation of equipment by United States.

(3) Public announcement regarding stay of small group of technicians at El Pato base.

Under heading No. 8 my note No. 6-3-224 October 19 I informed Your Excellency that the stay of a small group of technicians of United States Army for purpose of completing training program was matter independent from termination of agreement April 24, 1942 and that therefore I did not believe that it was necessary nor pertinent to make special reference in the publications concerning delivery and reception of base to training plan agreed to by Minister Aeronautics.

However, in view of requested proposal of Your Excellency's that such reference be made on occasion of delivery of base and with desire to clear preliminary questions that may delay that delivery, Minister of Aeronautics agrees, under the two alternatives that Your Excellency suggests, to issue the day following that of delivery of base a communiqué, the text of which I am pleased to enclose, and in which it is stated that North American technicians will continue at El Pato base until completion of training program initiated in April this year.

Finally, and with respect to last part of paragraph (3) of your letter October 23, I must state that no date being anticipated for termination of training program agreed between Minister Aeronautics with Chief American Aviation Mission, it is understood that it is the Ministry Aeronautics which will determine date on which cycle of preparation of Peruvian Air Forces is completed.

(4) Formal exchange of notes in relation to transfer of base in addition to the act.

As I have informed Your Excellency Govt of Peru will be pleased to effect exchange of notes to which Your Excellency refers.⁴³

In view of foregoing I shall appreciate it if Your Excellency will state your conformity in order to issue communiqué announcing that delivery of base will take place October 29."

Communiqué referred to in Minister's letter which is to be released by Minister Aeronautics on October 30 reads as follows:

"(1) As was announced in communiqué of Ministries Foreign Affairs and Aeronautics of October 26 the ceremony of delivery of El Pato Air Base to Govt of Peru by Govt of United States of America took place at Talara yesterday.

(2) At that ceremony the authorized representatives of both Governments signed the pertinent documents thus terminating agreement signed April 24, 1942.

⁴³ Not printed.

(3) Commander Captain Samuel Morante Jara, appointed by supreme resolution of October 28, assumed command of base yesterday; evacuation of armed forces of United States of America which occupied base is taking place.

(4) A group of officers and technicians of United States Army Air Forces will remain in the capacity of instructors at the base until the termination of the training program of officers and mechanics of the Peruvian Air Corps initiated in April 1946. The status of that group of officers and technicians is that of unarmed personnel, temporarily assigned to the United States Aviation Mission for the execution of said program, which will end prior to December 31, 1946."

Since Minister's letter and the communiqué clear up all remaining points I shall proceed with delivery of base to Peru on October 29.

Repeated Panama for General Crittenberger.

COOPER

**THE STATUS OF THE PROGRAM FOR LIQUIDATING OR REPLACING
AXIS FIRMS⁴⁴**

740.00112A E W/3-1246 : Airgram

The Ambassador in Peru (Pawley) to the Secretary of State

[Extracts]

CONFIDENTIAL

LIMA, March 12, 1946.

[Received March 21—11:47 a. m.]

A-146. Reference circular secret airgram of March 4, 1946, 9:25 a. m.⁴⁵ requesting a report on the current status of each of the spear-head firms.

Approximately one dozen firms on the prevailing List are still operating, but all of them are firms locally recognized as Peruvian or as of friendly nations (such as Mandl⁴⁶), against whom drastic action never has been taken and quite certainly never will be. Apart from these so-called Peruvian firms or firms of friendly nations, the prestige of the Proclaimed List remains comparatively high, but of course with the tendency to pay less and less attention to it as the war feeling recedes. The Embassy is of the opinion that complete withdrawal of the Proclaimed List on May 8 will definitely be in the best interests of both countries.

PAWLEY

⁴⁴ For documentation on the elimination of Axis business interests in Peru in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1325 ff.

⁴⁵ Not printed.

⁴⁶ Fritz Mandl; see telegrams 1348, June 26, 1945 and 3115, December 13, 1945, from Buenos Aires, *Foreign Relations*, 1945, vol. ix, pp. 463 and 493, respectively.

740.23112A/6-546

*The Chargé in Peru (Donnelly) to the Secretary of State*CONFIDENTIAL
No. 1689LIMA, June 5, 1946.
[Received June 18.]

The Chargé d'Affaires ad interim has the honor to refer to the Department's confidential instruction No. 401 of April 26, 1946,⁴⁸ accompanied by a list of 24 spearhead firms of which 11 are indicated to be completely eliminated, 11 are indicated to be in the process of elimination, and 2 are shown to be in operation and against which no action has been taken.

There has been no change in the legal status of those in process of liquidation since Embassy's despatch No. 999 was sent February 11, 1946.⁴⁸ However, Sr. Javier Vargas, Liquidator, Superintendency of Economy, states that in most of the particular cases the firms in the process of elimination are practically eliminated in that they are not in operation and all that remains is the settlement of minor claims or final approval of their liquidation. Casa Welsch is the only exception to this status.

There is no change in the status of the two spearheads against which no action has been taken, and it seems certain that these firms will continue as far as the Peruvian authorities are concerned.

740.10112 RP/8-1346

*The Ambassador in Peru (Cooper) to the Secretary of State*CONFIDENTIAL
No. 220LIMA, August 13, 1946.
[Received August 28.]

The Ambassador has the honor to refer to the Department's confidential circular airgram of July 22, 1946, 11:05 a. m.,⁴⁸ emphasizing the importance of maintaining close working relations with local governments.

A copy of the Embassy's communication in this regard to the Peruvian Minister of Foreign Affairs is enclosed.

The Lima morning press of July 7 [*sic*] reported that on Wednesday, August 6 [7?] there was read in the Peruvian Chamber of Deputies a report of a Commission appointed to investigate the activities of the Superintendency of Economy regarding the handling of assets of Axis nationals. The report stated that during and since the war there have been serious irregularities, illegal transfers, partiality and preference, auctions for less than a third of value, accounts not certified, errors in

⁴⁸ Not printed.

proceedings, etc. The report recommends that new evaluations be made, that proceedings be reviewed, that new auctions be held, that responsibility be ascertained and that the officials involved be accused of negligence and personal interest. There may be further developments. Additional details will be reported by the Embassy.

[Enclosure]

No. 100

August 13, 1946.

EXCELLENCY: I have the honor to refer to the Embassy's communication No. 614 of June 7, 1946 ⁴⁹ regarding the withdrawal of the Proclaimed List of Certain Blocked Nationals.

In further connection therewith I am instructed to inform Your Excellency's Government that the withdrawal of the Proclaimed List of Certain Blocked Nationals has not lessened the need of my Government for information regarding any progress made in divesting individual spear-head firms of enemy ownership and in the general program of replacing Proclaimed List Nationals. On the contrary, it is considered that the termination of the Proclaimed List makes it more important than ever for our respective Governments to maintain close working arrangements for the most effective continued development of the replacement program.

My Government considers that it is particularly important that this Embassy and the Department of State be afforded an opportunity to review proposed reorganizations or liquidations of spear-head firms before such firms are officially or legally removed from intervention by Your Excellency's Government. New information regarding enemy ownership of firms in the Western Hemisphere is constantly reaching the authorities of my Government from Germany, and the examination of this information may disclose enemy ownership hitherto unknown to this Embassy or to the Peruvian Government.

Although the Proclaimed List of Certain Blocked Nationals has been withdrawn, such withdrawal does not mean that former Proclaimed List Nationals are regarded as satisfactory agents for American business. It is therefore highly desirable that my Government be informed promptly of reorganizations or liquidations of spear-head firms so that the Department of Commerce of the United States will be able immediately to inform interested United States business firms.

I wish to reiterate that my Government has every confidence that Your Excellency's Government will fulfill its inter-American commitments and complete the replacement program which has progressed so satisfactorily.

I avail myself [etc.]

PRENTICE COOPER

⁴⁹ Not printed.

800.515/12-1246

*The Ambassador in Peru (Cooper) to the Secretary of State*CONFIDENTIAL
No. 837LIMA, December 12, 1946.
[Received December 31.]

SIR: I have the honor to refer to the Department's confidential instruction No. 543, July 3, 1946,⁵⁰ enclosing a copy of a report on I. G. Farbenindustrie; to the Embassy's confidential despatch No. 320 [220], August 13, subject: "Reporting on Former P/L and Enemy Owned Firms"; and to the Department's confidential instruction no. 730, November 5,⁵⁰ transmitting information regarding the participation of I. G. Farben in five Peruvian firms.

On Monday, December 2, an officer of the Embassy was unofficially informed by Dr. Javier Vargas of the Superintendency of Economy that liquidation of the following spear-head firms has been completed:

Agrícola "Retes" Ltda., Soc.
Emmel S.A., Ltda., Fernando
Hardt y Cía. E.
La Química Bayer, S.A.
Nonomiya Shoten, S.A.
Ostern & Company, S.A.
Perú Menka Kabushiki Kaisha
Arens & Lessel, S.A., Ltda.
Otten y Cía., S.A.
Telefunken Union S.A., Radio Distribuidora

Liquidation of H. Roedinger y Cía., S.A., has not yet been completed but is progressing. This firm is reported not to be operating, and outstanding accounts are being collected under the control of the Caja de Depósitos y Consignaciones.

The firms Casa Welsch, F. Klinge y Cía., S.A., and Sociedad Anónima Comercial e Industrial Woyke y Cía., have not been liquidated and undoubtedly will not be. No further action by the Peruvian Government with respect to these firms need be expected.

The Embassy informally inquired concerning the future activities of the Superintendency of Economy and was orally informed that that office is being liquidated and that no new proceedings against former P/L firms and individuals are contemplated.

In view of the foregoing the Embassy has requested an official statement on the status or liquidation of spear-head firms and the position of the Peruvian Government with respect to additional firms indicated as having enemy ownership. A copy of the Embassy's note no.

⁵⁰ Not printed.

285 of December 12, 1946, to the Ministry for Foreign Affairs is enclosed.⁵¹

Inquiry has been made of the British Embassy with respect to its interest in further actions by the Peruvian Government regarding former P/L firms and entities now indicated as having enemy ownership and was informed, unofficially of course, that no instructions had been received in the premises and that it was improbable that the British Embassy would seek further action through the Peruvian authorities.

It is the Embassy's opinion that the Peruvian Government plans to do nothing more after the spear-head firms named above have been liquidated.* Dr. Vargas stated that it had been decided not to review the proceedings of the Superintendency of Economy in disposing of intervened property as recommended by a Congressional Committee,† but to let them stand. The Embassy respectfully suggests that if the forthcoming reply to its note no. 285 confirms an already expressed unwillingness on the part of the Peruvian Government to institute new proceedings regarding enemy ownership, it would be impractical to press for action regarding newly disclosed enemy ownership of firms never included in the Proclaimed List.

Likewise, with respect to the penultimate paragraph of instruction no. 730,⁵² the Embassy does not believe that further exhaustive and time-consuming investigations of enemy ownership cases would be warranted unless the Peruvian Government shows some willingness to take action. This would seem particularly to be so in as much as since the departure from the Embassy last June of Mr. Jesse Benson there is no person now in the Embassy who participated in the wartime P/L activities of this office or who can at present devote the time necessary for thorough investigations of enemy ownership cases without neglecting other current required work.

Upon receipt of a reply from the Peruvian Government the Embassy will report to the Department.

Respectfully yours,

For the Ambassador:

THOMAS S. CAMPEN

Acting Commercial Attaché

⁵¹ Not printed.

*Ref. Embassy's unrestricted report no. 196 of September 30, 1946, entitled "Lifting of Restrictions against Axis Nationals". File no. 711.5. [Footnote in the original; report not printed.]

† Ref. Embassy's unrestricted report no. 171, September 4, 1946, entitled "Report of the Parliamentary Commission Investigating Activities of the Superintendency of Economy". File 711.12. [Footnote in the original; report not printed.]

⁵² Not printed.

THE UNITED STATES POSITION ON JURISDICTION IN CRIMINAL MATTERS OF PERUVIAN COURTS OVER AMERICAN MILITARY PERSONNEL

811.24523/8-1546 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

[Extracts]

SECRET

LIMA, August 15, 1946—10 p. m.

US URGENT

Received August 16—noon.

881. Reurtel 713 August 9 and 723 August 14⁵³ requesting complete details including antecedents to Talara incident occurring at US Army Air Base "El Pato" 28 July 1946 involving American soldiers and Peruvian Naval personnel.

Basic trouble at Talara is there have been too many men at lonely base with little or no amusement or diversion. This opinion is based on conversation with Army personnel familiar with base and also civilians employed at Talara. Understand number US Army personnel located at Talara is 237 officers and enlisted men. Howard A. Grimes, resident manager International Petroleum Company and Canadian Ambassador, informed me there have been at least two prior incidents involving Canadian personnel but so far as I am advised this is only incident involving US Army or American personnel.

Incident first came my attention August 4, 1946 during course of reception honor Fleet Admiral William Halsey when I was informed by Chief US Naval Mission⁵⁴ to Peru that incident involving Peruvian naval personnel at Talara had occurred during celebration national holidays and had resulted in shooting and wounding of American Sergeant attached to US military complement operating "El Pato" Air Base.

I communicated immediately with Military Attaché Colonel O'Malley and requested his assistance securing full details of incident. I also requested Lt. Col. Charles M Walton, Jr, Military Air Attaché, who was going to Panama anyway August 5 to stop in Talara and request Base Commander Talara furnish me with full particulars relating to incident as well as to request information from authorities in Panama if they had information relating to incident. It should be noted here no telephone communications exist between Lima and Talara, that cable facilities woefully inadequate, and only practical manner communication is by air courier. No information was forth-

⁵³ Neither printed.

⁵⁴ Rear Adm. Jack H. Duncan.

coming as result of Col Walton's visit to Talara or Panama from Army sources.

August 6, I saw in papers and was otherwise informed National Senate in its session previous evening had approved motion introduced by Senator Rubio of Piura protesting alleged assault by 10 American aviators against one Peruvian naval ensign, one Alberto Rubio. According Senator Rubio's account to Senate, Ensign Rubio became involved with American military personnel at Peruvian dance in commemoration national holidays, during course of which American personnel molested one or more Peruvian women whom Ensign Rubio was escorting. No mention in Senator's report was made of fact, of which I was already informed, Ensign Rubio was armed and he had fired and critically wounded one of American military personnel.

About 4:30 p. m. Acting Foreign Minister Ismael Bielich requested conference Foreign Office. When I saw Foreign Minister in office he informed me what had happened in Senate relating Talara incident and informed me Peruvian Govt would have to take notice of incident. He stated his Govt would be compelled send formal note protest to Govt United States and also claimed Peruvian Govt jurisdiction over United States Army enlisted personnel involved. I assured him my Govt's deep regret and grave concern over incident and told him since Sunday, August 4, I had been endeavoring ascertain facts of incident and that would appreciate postponing further discussion until next morning 11 o'clock when I hoped have more facts at hand. However I replied my strong belief that best interests all parties would be served by court martial proceedings being instituted United States Army to summarily punish those found guilty. Also asked him refrain from sending note that time since I believed would only result harmful publicity. Acting Foreign Minister promised would take no action until further conference with me.

Morning August 7 talked Mr Ellis Briggs⁵⁵ of Dept, in which he advised on point jurisdiction Peru technically had right try United States Army personnel civil courts of Peru. About 10 o'clock morning August 7 was informed United States representative Air Force was flying Lima to inform me details incident and he would arrive about noon. Then informed Acting Foreign Minister Army representative could not arrive prior our scheduled conversation and he then suggested our conference postponed until 6 o'clock afternoon August 7.

⁵⁵ Director of the Office of American Republic Affairs.

Being fully satisfied report Major Hanford⁵⁶ our personnel were at fault, prepared formal note regret, which I presented Acting Foreign Minister when I saw him 6 o'clock. Acting Foreign Minister accepted note in lieu sending formal note protest to me, stating in substance he believed incident would be presented better light to public if I took initiative send first note. I agreed and did so.

Acting Foreign Minister Bielich insisted my yielding on point jurisdiction over US Army personnel. This connection facts are: incident occurred off limits Talara Air Base and Staff Sergeant Oscar J. Eiland at present located hospital International Petroleum Company Talara and not on air base, although he is being guarded, according my best information by US Army personnel as well as Peruvian police. Other 2 US Army personnel, Corporal Miller and Sgt Bethany, back on base Talara and under arrest and in confinement.

Air Minister Enrique Góngora acted as interpreter this occasion and apparently did all he could in circumstances to be assistance both to Peru and US.

When Acting Foreign Minister Bielich continued claim jurisdiction to try US Army personnel, I called attention heretofore unmentioned fact, namely, that Staff Sgt Oscar J Eiland critically wounded result bullet wound inflicted by Peruvian Ensign Rubio, Peruvian officer in question, and that bullet entered top his left shoulder, narrowly missing heart, punctured lung and spleen, ranging downward and passing from body through right hip and Sergeant had remained operating table very long time and his life hanging in balance. These facts learned Mr. Howard A. Grimes, Resident Manager International Petroleum Company, August 6, to whose hospital Sgt Eiland carried subsequent his injury.

COOPER

811.24523/8-1746 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, August 19, 1946—7 p. m.

736. Embtel 887, Aug. 17.⁵⁷ You may inform FonMin War Dept ordering immediate court-martial Corp Miller, Sgt Bethany, judges will proceed Talara from Panamá. Disciplinary action will be taken against others found implicated and eventually against Eiland. Since court will be public except for voting of judges representatives Peru-

⁵⁶ Maj. George Hanford, Staff Judge Advocate, Panama Canal Department.

⁵⁷ Not printed.

vian Govt will have full opportunity observe proceedings. Assume presence required witnesses will be facilitated by Govt.

Dept hopes further demands for jurisdiction by Paita or other police may thus be obviated.

ACHESON

811.24523/8-2046 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, August 20, 1946—4 p. m.

US URGENT

[Received 11:19 p. m.]

900. Reply of Foreign Office to my note of regret sent August 7 respecting Talara incident as follows:

"I have honor to acknowledge receipt Your Excellency's note No. 88 of 7th this month in which you express 'the sincere regret and profound concern of Government of United States of America in respect to the unfortunate incident which occurred at Talara early in morning July 28, involving three United States Army enlisted personnel and Ensign Alberto Rubio of Peruvian Navy and other persons'.

"Your Excellency states, in addition, you have 'caused thorough investigation to be made', and that as result of investigation you 'have learned that injuries sustained were inflicted coincident with shooting and wounding of United States Army Sergeant by this Naval officer'.

"Your Excellency adds that 'the Government of United States having assumed responsibility for this incident with respect to own personnel has already taken steps to vigorously punish those of its citizens found guilty'. Your Excellency also says in the note under acknowledgement that Government of the United States 'will do everything possible to prevent incidents of this nature recurring in future'. You finally add that 'Government of United States has most highly valued and greatly appreciated long friendship that has existed between Republic of Peru and Government of United States has taken great pride in doing its best toward maintaining these good relations down through the years and will continue to do so'.

"In accepting with pleasure expressions of sincere regret and profound concern of Your Excellency's Government contained in note under acknowledgement I believe it necessary to make evident that form on which Your Excellency refers to events which took place in Talara on early morning July 28 does not coincide with version this incident transmitted in official despatches sent to Minister Marine which have been transcribed in this office. According to those reports Ensign Alberto Rubio, walking in company of other persons, was attacked by surprise by group of approximately 10 members of enlisted personnel of American Air Corps from El Pato Base who were in drunken condition. The attackers without any motive made occupants of automobile in which Ensign Rubio was, get out of vehicle and then attacked them, forcing them to disperse. In these circumstances Ensign Rubio

was attacked in violent form by the majority of the North American soldiers. During the fight and in self defense Ensign Rubio, who was in uniform and in a calm condition, took out a pistol which he carried threatening them with a shot in the air, so they would not continue attacking him. The attackers did not pay attention to the threat and threw themselves on him, giving him strong blows to disarm him. It was under these circumstances and after attack of which Ensign Rubio was the object that one of the aggressors became wounded. The above mentioned Ensign Rubio was in state of unconsciousness and it was necessary to hospitalize him.

"I believe it necessary to express to Your Excellency for this reason that attackers Ensign Rubio have been submitted for judgment to Peruvian courts, which are the ones which must investigate the facts and apply legal sanction to guilty. Competent judge of Paíta has opened proceedings against North American citizen Oscar Eiland for crime of injury and has ordered his provisional arrest and Naval zone of Republic has instigated suit to make the clarifications and apply sanction for which there may be occasion.

"Agreement signed between Governments of Peru and United States of America 24 April, 1942,⁵⁸ does not grant any exception to Peruvian jurisdiction; rather it establishes that 'authorities of United States will take care that their personnel respect all police and traffic regulations of Peruvian Government outside of area where they are stationed and that they are subject to the laws of the country'.

"I reiterate to Your Excellency the pleasure of Government of Peru for expressions of regret contained in note under acknowledgement and take this opportunity to renew to you the assurances of my highest and most distinguished consideration."

My comment on Peruvian reply is that it was made just prior to evening session of Congress and represents only official statements so far of Peruvian Foreign Office on Talara incident. Consider it reasonably mild in tone, view local circumstances. In last night's Senate session Communist Senator Flores stated that more than 20 days ago the Talara incident had been reported but that the country still had no exact information as to what had happened. He characterized my note of regret as being in accord good neighbor policy. He stated that Minister of Marine had not sufficiently enlightened the Senate and that what he wanted to know was whether aggressors had been arrested or left country, and if they had left country they should be brought back and tried according to laws of Peru. He did state that he did not have the slightest doubt that the great Republic of the North would proceed in this case with due correctness and without hiding those who might be found guilty. He requested that Ministers of Foreign Relations and Marine be given a transcript of his remarks in the Senate. Deputy Ponce Ratto, Union Parliamentarian, referred to the request made by the Chamber in the last secret session

⁵⁸ Not printed.

and asked that communications again be sent to the Ministers of Marine, Aviation and Foreign Affairs with respect to his previous statement as to the legal status of the North American base El Pato at Talara.

See mytel 899⁵⁹ respecting interview with Haya de la Torre.

COOPER

811.24523/8-2346 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, August 23, 1946—7 p. m.

US URGENT

[Received 10:21 p. m.]

920. Yesterday I received invitation from President Bustamante to have conference on Talara incident. This was arranged for 4:30 p. m. and resulted in 2-hour discussion. Present were Foreign Minister⁶⁰ and Embassy Assistant Military Attaché who acted as my interpreter. Conference was exceedingly friendly in tone. President was careful to explain that we were met for only friendly exchange of views looking toward satisfactory solution of incident. There was no suggestion of any ultimatum respecting incident. My note 288 [88?], August 7⁶¹ was read to President expressing regret and stating that US had assumed responsibility for punishment its own personnel in affair. I also called attention to fact that court martial personnel had already arrived in Talara and were proceeding with case. President stated that while our action was consistent with my note August 7 yet he intimated that were he to yield on jurisdictional point it might involve reforming his Cabinet and more particularly might involve change of Foreign Minister. It developed that Peru has now lodged charges against 7 others in addition to Eiland. I stated my information was that Corp. Miller and Pvt. Bethany were only others directly implicated. Since Eiland's condition reported very critical I requested further delay until it is determined whether Eiland will live. While President stated death of Eiland would make no difference in respect to legal situation, I believe effect on public would tend to dismiss affair. I called attention to fact that Eiland was not armed and Rubio not justified in using deadly weapon. President replied that court would of course have to determine whether action of Rubio had exceeded the bounds of reasonable self-defense. President was emphatic in stating that this issue should be handled so as not to jeopardize hemispheric defense program and he feared repercussions not alone in Peru but throughout Latin America if Peru did

⁵⁹ Not printed.

⁶⁰ Enrique García Sayán.

⁶¹ Not printed, but see reply of the Peruvian Government, *supra*.

not exercise its jurisdiction in trying US personnel. President expressed high hope for future hemispheric defense cooperation. My position two points:

First, that trial in Peruvian civil courts would necessitate long drawn out trial inviting much unfavorable publicity before matter could be terminated, that much material for Communists or troublemakers to keep issue alive and before South American public with harmful results to hemispheric defense.

Second, that effect on US public opinion would be harmful since US had first apologized, with an American Sergeant's death probable, whereas Peruvian Ensign had already fully recovered according to President's own statement. I further pointed out to subject other personnel to bad jail conditions with possible mob violence and penalties which if regarded as too severe by US public would cause serious reaction. I further pointed out that as the President had previously admitted we were proceeding according to our August 7 statement to summarily and quickly punish our own personnel found guilty. I further stated that long line of precedent sustained US court martial proceedings and that clause 2 F in Talara agreement would be subject strict construction and that no ceding of jurisdiction could be implied in absence of specific provisions. President's reply conciliatory yet firm on point of jurisdiction. He stated his position backed up by long line of precedent plus tradition and that US precedent would only apply in international law when embodied in a treaty or agreement and that he construed clause 2 F clearly to give jurisdiction to Peruvian Govt in area outside base itself. President offered full support his Govt to expedite trial proceedings and minimize accompanying publicity. President said Peruvian Govt would view court martial proceedings as internal US Army matter and that his Govt would still have responsibility to evoke Peruvian court action.

The Talara truck incident (mytel 916, August 23⁶²) was referred to as accident and President intimated that it would have little importance unless the press took it up. However, Foreign Minister had previously informed us that civil authorities were proceeding in this case also.

No mention was made of airplane accident occurring at Talara August 18 (mytel 915, August 23⁶³).

My comment on interview is that if Eiland dies as is feared and court martial meets as planned August 27 and imposes appropriate penalties, barring unforeseen complications, Peru may eventually become satisfied and we would be nearer a termination of the incident.

COOPER

⁶² Not printed; it indicated that a Peruvian non-commissioned officer was killed in the accident which occurred off the base and that the driver was charged with involuntary manslaughter (811.24523/9-546).

⁶³ Not printed.

811.24523/8-2446 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, August 24, 1946—7 p. m.

US URGENT

[Received August 25—12:06 a. m.]

922. Remytel 920 August 23, 7 p. m. I received following note from FonMin respecting Talara incident.

"I have honor to address Your Excellency to inform you that Ministry of Justice has transmitted to this Chancery cable graphic report from the President of Superior Court of Piura, dated yesterday, with reference to judicial proceedings instituted in connection with incident which occurred at Talara early in the morning of July 28 last in which it is stated that Judge of Criminal Court has encountered difficulties in effecting arrest of indictées who are members of El Pato Base, because commander of that base states that he cannot comply with that order unless it is given by Embassy of US or by Caribbean Defense Command located at Panama. That information appears to indicate that North American Govt is maintaining same criterion with regard to jurisdiction which Your Excellency expressed in conversations held with Dr Ismael Bielich who was in charge of office of FonAffairs and with the undersigned.

I believe it necessary to recall that in those conversations we both stated to Your Excellency that North American soldiers responsible for incident should submit themselves to Peruvian jurisdiction for their trial, an opinion confirmed in my note of 17th [7th?] of this month. I maintain in that note that in the agreement April 24, 1942 no exception to Peruvian jurisdiction was stipulated and that on the contrary the North American authorities assumed the commitment to see that Peruvian laws are respected by personnel of base outside of station area. This appears to be clearly set forth in clause 2, section F of agreement of April 24, 1942, the original of which in English reads as follows:

'2. US agrees (. . .).

F. It will caution its personnel to respect all political laws and traffic regulations of Govt of Peru in areas outside of base and which are subject to laws of the country.'

Jurisdiction is one of the forms of expression of the sovereignty of states which would be a mockery without it. No exception can be made to this jurisdiction, nor waiver of this or of any other right except in an explicit, clear and definite form. In the agreement entered into between the Govt of Peru and that of Your Excellency of April 24, 1942, there is not even the most remote reference to a waiver of jurisdiction, but on the contrary, an express assertion of the latter.

The present case does not concern an internal act susceptible of being considered within the sphere of disciplinary regulations of a military character applicable to members of an organization having similar rank. Neither is this a crime which may be tried according to special jurisdiction. It is a common crime, committed outside of the base area of the North American forces, provoked and carried out in violation of the norms of social intercourse, and of the respect for human beings.

When the Govt of Peru authorized the stationing of North American forces by the agreement of April 24, 1942, it did so without detriment to its own sovereignty and only for purposes of cooperation with the policy of continental defense. Therefore, the Govt of Peru and its judicial authorities maintain the right to require the chiefs of the base to deliver the persons indicated for ordinary crimes such as that which has caused this incident.

In view of the reasons given to Your Excellency by my office, with the desire of continuing the good neighbor policy which the Govt of Peru so sincerely follows, and in accordance with the spirit of cordial understanding which inspires the good and long established relations between our two countries, for which appreciation was expressed by Your Excellency's note of the 7th of this month, I request that Your Excellency be kind enough to ask your Govt that the necessary instructions be issued so that North American soldiers who are subject to proceedings instituted by Judge of Paita may appear before that judicial authority."

Suggest no action on above pending outcome of Sgt Eiland's critical condition which should be known early next week.

Above note somewhat out of line my conference with President Bustamante (mytel 920, Aug 23) who stated incident must not be allowed to interfere larger issues. As previously advised much support exists in Peruvian Govt to minimize incident.

My comment re clause 2 F English text of which FonMin quotes in above note is that words "which are subject to the laws of the country" only impose obligation of cautioning Army personnel to respect Peruvian traffic and political laws outside of base areas and neither inherent US courtmartial jurisdiction is ceded nor is there constituted agreement that Peru shall exercise exclusive jurisdiction. Possible interpretation of 2 F is that concurrent jurisdiction is recognized. However, inasmuch as US courtmartial jurisdiction has already attached and court now sitting at Talara base, the courtmartial has prior jurisdiction and is entitled to proceed with trial. If accused soldiers are convicted, assertion such prior jurisdiction includes right to carry sentence into execution.

COOPER

811.24523/8-2746 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET
US URGENT

WASHINGTON, August 27, 1946—6 p. m.

754. War Dept advises court martial at Talara deferred accordance your instructions. Presume this action taken as consequence of ForMin's note insisting on Peruvian jurisdiction. Dept would

appreciate your views as to why court martial should be deferred pending understanding Peruvian Govt on question jurisdiction. If military trial held should deal with all seven soldiers named by ForMin and none should be allowed leave Perú pending adjudication.

Base Commander Talara complains Lima authorities not responding his requests make available necessary Peruvian witnesses.

Cable reply requested.

ACHESON

811.24523/8-2346 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, August 28, 1946—4 p. m.

756. Urtel 892, Aug. 19.⁶⁴ Re par 12 erroneous reference was made to draft unexecuted agreement.

Re jurisdiction over accused military personnel: Jurisdiction is inherent in sovereign and is exclusive. Any exception must be based on consent of sovereign—express or implied. In view of express provisions of 2 (f) of Agreement of April 24, 1942 difficult conclude that Peruvian Government consented to immunity of American military personnel from its jurisdiction. Provisions of 2 (f) seem to Dept. to indicate clearly that American personnel who commit offenses against political laws or traffic regulations outside the base are subject to laws of Peru.

While continuing to exert every proper effort to persuade Peruvian Government to relinquish claim to jurisdiction Embassy will be guided by foregoing and will not base such efforts on any claim to immunity from local jurisdiction on legal grounds in absence of express instructions from Dept. (Embtels 900, 920, 922). In this connection you should informally and personally advise FonMin and President Bustamante that highest Brazilian courts including Supreme Court and Supreme Military Tribunal in similar and even more serious cases affecting our troops stationed in that country have disclaimed jurisdiction allowing same to rest with US military courts. After pointing out that publicity here attending trial by Peruvian courts might well lead to public demand for withdrawal all assistance to Peruvian Air Force, particularly should shooting of Sgt Eiland result fatally, if Peruvian Govt persists in demand for jurisdiction you should accede. In that case adequate assurances should be sought covering speedy trial, legal representation of accused and of course protection (should that in your judgment be necessary) of men to be tried.

ACHESON

⁶⁴ Not printed.

811.24523/8-2946 : Telegram

*The Ambassador in Peru (Cooper) to the Secretary of State*SECRET
US URGENTLIMA, August 29, 1946—4 p. m.
[Received August 30—6 : 37 a. m.]

941. Yesterday 4 : 30 p. m., I saw FonMin at FonOff for purpose of requesting assistance of Peruvian Govt in making available testimony of Peruvian witnesses for court martial proceedings at Talara. FonMin at that time refused but stated he would take matter under advisement. He also stated he would explore matter further of concurrent jurisdiction and stated he would advise me last night at 10 o'clock at Theatre Municipal which he expected to attend along with President Bustamante. I attended theatre expecting to contact FonMin there but he did not arrive. I then went to chancery and prepared following note which I personally delivered to FonMin at 10 a. m., this morning :

"I have honor to advise Your Excellency that pursuant to my note of August 7 assuring you that my Government had assumed responsibility for punishment of its own personnel involved in incident occurring at Talara July 28 wherein it was stated that all US Army personnel implicated would be vigorously prosecuted and that those found guilty would be summarily and severely punished. A US Army general court martial has been convened at El Pato Air Base Talara, Peru, to try US soldiers involved in assault of Ensign Alberto Rubio Watkins.

In view of fact that US Army Sgt. Oscar J. Eiland whom admittedly was shot by Ensign Alberto Rubio Watkins has been near death for many days as a result thereof, having undergone 16 blood transfusions, he will not be available for trial at present. However, I am advised the US general court martial is now prepared to proceed against the others. This note is to request your Government's assistance in securing appearance as witnesses of all Peruvian citizens who may desire to testify against US Army personnel involved. I am advised that those Peruvians especially having knowledge of the affair are Ensign Alberto Rubio Watkins, Lt. Juan Rodríguez, Sr Alvaro Macias, Sr Waldo Neves, Engineer Alfonso Carillo, Srta Teresa N.

I am sure Your Excellency agrees that US Army is justified in taking steps to discipline its own personnel and that a judicial proceeding of this character should have access to all relevant facts and that your Government will render appropriate assistance in securing attendance of above named witnesses and any others having knowledge of the facts.

The US general court martial will call the cases to trial at 10 a. m., on August 29 at El Pato Air Base Talara, Peru. As Your Excellency knows, for some days past in my conversations with you, my Government has endeavored to secure cooperation of your Government in securing the attendance of Peruvian witnesses. Therefore it would be appreciated if Your Excellency would advise me at your earliest convenience, whether attendance of Peruvian witnesses will be facilitated by your Government. Transportation to and from

Talara will gladly be furnished for all Peruvian witnesses who may attend.

I am authorized to say that representatives of your Government will have full opportunity to observe proceedings of court martial and that same will be open to public. Transportation facilities will be provided by my Government for any representatives of Government of Peru who may attend."

Assistant Military Attaché accompanied me and FonMin read note in my presence. He stated he had been called to appear before Senate this afternoon to be questioned on Talara incident and could not agree to send Ensign Rubio and other witnesses before US court martial. He stated he feared furnishing of Peruvian witnesses would be used by my Government to claim that Peru had ceded away its jurisdiction. I stated my Government would not construe attendance of Peruvian witnesses as ceding away of Peruvian jurisdiction. He then stated, in that event he would make available for use court martial, 40 pages of testimony taken down by Peruvian authorities shortly after incident occurred on July 28. He stated that since tomorrow was a holiday and allowing for difficulties of transcription, this testimony would be made available to US court martial on August 31. I again assured FonMin that my Government desired to work in complete cooperation with his Government toward satisfactory adjustment of Talara incident and that I personally appreciated his willingness to cooperate, as well as the fine spirit shown by President Bustamante in relation to whole affair. FonMin then asked if I had objection to changing one sentence in fourth paragraph of my note to strike out words "for some days past" so as to make sentence read "in my conversation yesterday with you" to which I agreed.

I have received word this morning from US court martial at Talara that they have adjourned until August 30. Sgt. Eiland's condition reported still serious.

Repeated AmEmbassy Panama for General Crittenberger.⁶⁵

COOPER

811.24523/8-3046 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, August 31, 1946—11 p. m.

US URGENT

764. Reurtel 948, Aug. 30.⁶⁶ We are profoundly concerned over development of Talara incident as indicated in Peruvian note although it appears the Peruvian preoccupation results at least in

⁶⁵ Lt. Gen. Willis D. Crittenberger, Commanding General, Caribbean Defense Command.

⁶⁶ Not printed.

part from misapprehension relative to implications contained in your note (yourtel 941, Aug 29) and in particular to your having apparently submitted this note without having previously answered Peruvian note of Aug 23. We appreciate of course that you could not have done so prior to receipt instructions contained in Deptel 756, Aug 28, but we have received no information from you thus far concerning action taken pursuant to that telegram. Please inform us whether you have in fact discussed the matter on the basis of that tel with Pres Bustamante and/or FonMin.

In any case, in view of Peruvian Senate's unanimous resolution Aug 29 (published in press here) and FonMin's note handed you that evening, Dept considers that Perú has in fact insisted on demand for jurisdiction and you should accordingly seek interview with both Pres and FonMin at earliest possible moment. After reiterating this Govt's regret over situation you should then explain that your note 146 was not in reply to Peruvian note of Aug 23, on the contrary latter had been immediately referred to Dept and Dept's reply was sent out 4 PM Aug 28 (unfortunately delayed in transmission) but did not reach you (Dept so assumes) until after you submitted note 146 which was in reference only to desire assure speedy military justice by obtaining evidence necessary Peruvian witnesses. Inform them US has at no time questioned Peruvian jurisdiction but, in accordance international comity and following well-established precedents in Great Britain Brazil and other countries where US Armed Forces have been stationed, it sought a quick and publicity-free solution of this regrettable incident in endeavor obviate serious repercussions.

You will orally assure Pres and FonMin your instructions envisage transmission of a note which will entirely satisfy Peruvian Govt and people.

Miller and Bethany and any others implicated should accordingly be surrendered to proper Peruvian authorities. We naturally assume that Peruvian Govt will be guided with respect to Sgt Eiland by views US Army Surgeon re moving him at present or even endeavoring take his testimony.

Please cable text note submitted in accordance with above and keep Dept fully informed.

War Dept has been informed and concurs.

ACHESON

811.24523/9-246 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, September 2, 1946—7 p. m.

US URGENT

[Received 11:20 p. m.]

954. Reurtel 764, August 31, 11 p. m., and mytel 953, September 2, 1 p. m.⁶⁷

President Bustamante proposed following compromise settlement of Talara incident when I conferred with him this morning at Palace:

First; United States court-martial complete its hearing of those involved in Talara incident. Impose appropriate sentences on those found guilty—say 4 or 6 months. But suspend execution of sentence until Peruvian court tried the same men, Peruvian jail sentences if any to be served first. Example if United States court-martial gave 6 months and Peruvian court gave 3 months the convicted man would serve 3 months in Peruvian jail and 3 months in United States place of confinement. If United States court-martial acquitted men Peruvian courts still to be allowed to try men and if sentenced to serve time in Peruvian jail. Or if United States sentence lighter than Peruvian—say 4 months and Peruvian 6 months then United States sentence could run concurrently and man only would serve 6 months in all.

Peru would agree to furnish the testimony written down by commissar of police of all Peruvian witnesses. But personal appearance of Peruvian witnesses for present would be refused account political reasons.

Second; United States court-martial's findings would be available to Peruvian court and United States witnesses would be made available to Peruvian courts. United States and Peru would appear before world as cooperating hand in hand in solution of this regrettable affair.

Third; President stated he would appoint a lawyer to expedite proceedings to have them over in a matter of few weeks and that his lawyer would "sit at the feet of the judge" to expedite hearings.

I assured President that I would forward his proposal with my recommendation it be approved.

I next saw Foreign Minister at his request who also expressed his approval of proposed settlement and stated he especially desired to get incident settled soon as possible.

Foreign Office this afternoon assigned legal adviser to work out details with chief legal officer Caribbean Defense Command now in Lima subject approval General Crittenger. Pursuant telephone call Secretary Braden this afternoon legal officers now at work.

⁶⁷ Latter not printed.

Private Borli inadvertently allowed to leave Peru should be returned as promised Peruvian Government.

Sergeant Eiland's condition still serious.

Repeated American Embassy Panama for General Crittenberger.

COOPER

811.24523/9-246 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, September 4, 1946—6 p. m.

US URGENT

769. Embtel 954 Sept. 2. Confirming Amb's tel conversation today with Braden you should inform Pres his proposal not found practicable by Dept for following reasons: (1) actual judicial cooperation not effective since only Peruvian court would hear all witnesses; (2) under US military law written police statements inadmissible as evidence; (3) in court martial accused would have no opportunity interrogate or cross examine Peruvian witnesses. Further for your own confid inf acquittals by US court followed by Peruvian convictions might expose former to ridicule and in any event unfavorable publicity might result here on question of double jeopardy.

You should accordingly comply Dept's 756 Aug 28 acceding to Peruvian Govt's position re jurisdiction after seeking assurances outlined and expressing this Govt's trust quick and speedy justice will be meted as well to all Peruvian citizens involved regrettable incident. Please cable text note submitted.

War Dept advised of above and is taking steps for immediate return Perú of Pvt Borli.

CLAYTON

811.24523/9-846 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, September 8, 1946—11 p. m.

US URGENT

[Received September 9—7: 37 a. m.]

972. After several conversations with both President and FonMin continued at intervals since September 5 when urtel 769 was received, following confidential memorandum was given me signed by FonMin same being required by me before sending note tomorrow acceding to Peru's jurisdictional demands respecting US personnel involved in Talara incident July 28.

"Talara incident July 28, 1946—memorandum of conversation between the Minister for Foreign Affairs of Peru and the Ambassador of the US in Lima September 8, 1946.

The Government of the US having given instructions to the Ambassador in Lima to submit the US soldiers implicated in the incident which occurred at Talara on July 27-28 last to Peruvian jurisdiction, the Ambassador above-named has requested and received from the Minister for Foreign Affairs of Peru the following statements:

1. The Government of Peru will take the precautions necessary to assure the personal safety and health of the accused US soldiers. Adequate protection will be furnished to avoid acts of violence or hostility on the part of individuals or groups during the legal process.

2. The Govt of Peru within the sphere of its powers will use its good offices to recommend the speeding up of the course of the legal process; being able to calculate reasonably that the judicial procedure shall be terminated in about 2 months from the time of the appearance of the US soldiers provided that the condition of the health of Sergeant Eiland permits him to give testimony and appear before the court of Piura.

3. While there is no order of detention or imprisonment emanating from the Peruvian judges the US soldiers implicated in the incident will be permitted to remain their barracks at the military base of El Pato during the time this base remains in charge of the US Air Forces.

4. If any of said North Americans shall be submitted to detention or imprisonment under orders of Peruvian judges those detained or arrested can receive provisions from outside to satisfy their customary food requirements in addition to those which they receive in accordance with the prison regime of Peru.

5. The Minister for Foreign Affairs stated that in the judgment of the Peruvian Government the process of trial of the US soldiers will be expedited by reason of the fact that a special judge has been named by the Superior Court of Piura in accordance with its power under the law."

Interviews culminating in above all readily granted and conducted in spirit of cordiality yet Peru unwilling to sign assurances until 8 tonight. Sent Legal Attaché to Piura Saturday to inspect jail conditions while Air Attaché, Assistant Military Attaché, Dr. Giesecke and prominent Peruvian attorney proceeded to Talara to ascertain present condition of Sgt Eiland and otherwise to report on situation prior to my submitting final request for assurances for protection US Army personnel involved. Sgt Eiland still in desperate condition having lost 50 pounds and undergone 20 blood transfusions with major operation still necessary on account bowel movement now through side. Unable to secure fuller protection Sgt Eiland in writing in spite desperate condition although abundant verbal assurance that he will be protected from molestation in any way and allowed every facility for recovery. I contemplate giving statement to press tomorrow respecting Sgt Eiland's condition pursuant telephone conversation this afternoon with Ellis Briggs. Jail condition at Piura bad with 3 large rooms containing about a hundred Peruvian criminals each. Jail food reported unfit for US soldiers. Necessary for US army to furnish food

for soldiers while in Peruvian hands and advisable to keep them on base as long as possible [and submit?] them to court when necessary. Little indication at present of mob violence although is a situation to be watched. Am working for prompt release of some of the 8 soldiers involved.

Again would appreciate authorization to employ Peruvian counsel for soldiers.

Repeated American Embassy Panama for General Crittenger.
COOPER

811.24523/9-946

*Memorandum of Telephone Conversation, by the Acting Assistant Chief of the Division of North and West Coast Affairs (Hall)*⁶⁸

CONFIDENTIAL

WASHINGTON, September 9, 1946.

The Ambassador reported that Staff Sgt. Eiland died at 2:55 A. M. today and asked whether he should present the note drafted by him last night acknowledging Peruvian jurisdiction over the Talara offenders. Mr. Cooper seemed to think that the Peruvians would believe that the note was presented only because of the Sgt's death.

Mr. Braden replied that this unfortunate demise did not change the principle involved and that the note should therefore be presented, preferably dated Friday, the day of his conversation with the Foreign Minister on this subject.

In reply to a query regarding legal assistance for the accused, Mr. Braden told the Ambassador that this was a question for the War Department, which has it under advisement. It was agreed that this should be made clear also to General Crittenger's representatives in Lima.

811.24523/9-846: Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, September 10, 1946—11 a. m.

US URGENT

776. Embtels 964 Sept 5⁶⁹ 972 Sept 8. War Dept is exhausting every possibility for allotment funds for defense but are not too sanguine results which should be determined tomorrow. Consequently Emb should be cautious engaging Peruvian counsel on own responsibility before War Dept's decision is made known.

If and when engaged Dept believes services Peruvian lawyer with solid background and criminal experience would be most advantageous.

⁶⁸ Conversation between the Assistant Secretary of State for American Republic Affairs (Braden), in Washington, and the Ambassador in Peru (Cooper).

⁶⁹ Not printed.

In view fatal result shooting Dept hopes your expression confidence that equal justice be meted Peruvians involved (Deptel 769 Sept 4) will have particularly decisive effect.

CLAYTON

811.24523/9-2146

*Memorandum by the Director of the Office of American Republic Affairs (Briggs)*⁷⁰

SECRET

[WASHINGTON,] September 25, 1946.

The preliminary investigation of the incident at Talara, in which eight American soldiers were involved, was initiated by the Peruvian authorities at Piura, Peru on September 22. This will be followed by a judicial trial which may be drawn out for several weeks. The Embassy at Lima has tentatively engaged Alfredo Porrás, a Peruvian attorney, to defend the soldiers. Since Porrás is not a trial lawyer, the services of another Peruvian attorney will also be required. The Department has admitted Peruvian jurisdiction over this case.

Claiming that it had no funds available to pay for this defense, the War Department endeavored to have the Justice Department assume the obligation. The matter has not yet been resolved but from the point of view of our Government's obligation to the soldiers in question, as well as the maintenance of the morale of them and other American troops, we feel that the Ambassador was justified in acting on his own responsibility in obtaining counsel, and that some way should be found to pay appropriate fees.

The Embassy has been instructed (attached telegram)⁷¹ to report the approximate cost of the required legal services, but in the meantime I think we should initiate steps to obtain the funds from the Emergency Fund, should that prove to be the only source available to us.

ELLIS O. BRIGGS

811.24523/10-746: Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 7, 1946—6 p. m.

[Received 9:08 p. m.]

1051. Reourtel 1037, October 2.⁷¹ In addition five men involved in Talara incident already released Cpl. Miller and Pvt. Bethany are now out on \$500 bail each, awaiting decision from Special Judge Ros-

⁷⁰ Addressed to A-R: Mr. Panuch, and to OBF: Mr. Kurth.

⁷¹ Not printed.

pagliosi. Miller and Bethany previously were confined barracks room of Talara jail until I called Foreign Minister's attention to fact last week in private conversation. He immediately sent confidential message to Judge Rospigliosi resulting in their release on bail. Attorney Porras, who will also be accompanied by special messenger from Foreign Minister, will leave for Piura tomorrow to do all possible to secure final release of five men as well as of Bethany and Miller in event Rospigliosi refuses to release Bethany and Miller. Am informed testimony does not warrant conviction of Bethany and Miller. Am working to get two men released prior to turning over Talara Air Base to Peru if possible.

COOPER

811.24523/10-1646 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 16, 1946—5 p. m.

[Received 7:25 p. m.]

1083. Remytel 1064, October 9, 5 p. m.⁷³ Status Talara incident as of October 15 is that preliminary investigation of facts by special Judge Rospigliosi has now been completed and his report has been made to Criminal Court at Piura. Procedure is for Criminal Court then to give this record to Prosecuting Attorney of court who makes report indicating whether or not he makes any charges against defendants. Prosecuting Attorney must also indicate what penalties if any should be meted out. Prosecuting Attorney on October 14 turned in his report on case in which he recommended that Ensign Rubio be given 10-month prison term and be made to pay 2,000 soles to Sergeant Eiland's heirs. He recommended that Corporal Miller be charged with assault and battery and given 6-month prison term and pay 500 soles as civil indemnity to Rubio. No charges are made against other six involved and it is expected that criminal court will uphold this part of Prosecuting Attorney's report. If this is done the six of US soldiers will be finally declared free. Court's decision should be made this week.

Possibly Criminal Court may disregard Prosecuting Attorney's charges against both Rubio and Miller, in which case no trial would be necessary. On other hand, court may fix date for the trial and in that event it is possible they may either be acquitted or punished as recommended by Prosecuting Attorney.

COOPER

⁷³ Not printed; it indicated that the Foreign Minister dispatched a messenger to Piura to obtain the release of the two men (811.24523/10-9).

811.24523/10-2446 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, October 24, 1946—3 p. m.
[Received 4:20 p. m.]

1111. Remytel 1098, October 19. Am pleased to report Talara incident closed with 4 months suspended sentence and 500 soles fine for Cpl Andrew Miller. Rubio was tried and acquitted. Trials concluded night October 23. Army has permission to remove all soldiers involved Talara incident from Peru. Porras and Col Miller representing Caribbean Defense Command returning Lima today. Above information based on telegram received this morning from Talara.

Repeated Panama for Gen Crittenger.

COOPER

**THE POLICY OF THE UNITED STATES ON LOANS TO AND DEBTS OF
THE PERUVIAN GOVERNMENT**

711.23/2-246 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, February 2, 1946—3 p. m.
[Received 6:02 p. m.]

129. I was assured by the President ⁷⁵ in brief conference Friday and by Haya de la Torre, ⁷⁶ who lunched with me at Embassy Friday that the entire program of debt settlement, lend lease payments ⁷⁷ and petroleum legislation will be approved by Congress during this special session. Both President and Haya extremely optimistic Peru's political future and state that Cabinet was selected with particular emphasis on close cooperative program with US. Reporting fully by despatch.

PAWLEY

823.51/2-1946

The Ambassador in Peru (Pawley) to the Secretary of State

[Extracts]

CONFIDENTIAL

No. 1026

LIMA, February 19, 1946.
[Received March 7, 1946.]

SIR: With reference to Embassy's despatches Nos. 963 and 987 of February 5 and February 8, 1946,⁷⁸ respectively, regarding the publication of objections to the debt settlement by former Ambassador

⁷⁵ José Luis Bustamante y Rivero.

⁷⁶ Victor Raul Haya de la Torre, leader of the Peruvian Aprista Party.

⁷⁷ See note from the Secretary of State to the Peruvian Chargé, August 20, 1946, p. 1219.

⁷⁸ Neither printed.

Pedro Beltrán, I have the honor to forward herewith a brief summary of Sr. Beltrán's ten principal objections together with matter in refutation supplied by members of my staff, for information and possible comment by the Department.

His objections may be summarized as follows:

1. Peruvian favorable balance of trade is not sufficient to permit of payment in accordance with ability to pay.

2. He objects to precipitate nature of negotiations.

3. Although 3.5 million dollars (for a petroleum concession) will be available in 1946 for debt service, he questions whether there will be similar sums available in succeeding years.

4. He cites uncertainties of postwar markets and experience after the last war as reasons for proceeding with more caution and not undertaking a new and large commitment on which in turn there might be a default.

5. He cites Peru's increasing demand for dollar exchange as further adversely affecting possibilities of recommended settlement.

6. National defense expenditures (since lend-lease termination) might have to suffer if present settlement terms are complied with.

7. He alleges his belief that proposed settlement terms are in excess of bondholders' expectations.

8. States that negotiations by Montero⁷⁹ have caused greatly increased speculative market activity and price rise in Peruvian bonds substantiated by total bond transactions during Montero's regime of 68 days amounting to \$13,900,000 as compared to total of only \$2,137,000 during previous Finance Minister Ferrero's incumbency of 78 days, requiring more dollars for Peru to retire debt.

9. States that export-import bank loans are not necessarily predicated upon external debt settlement and cites recent Ecuadoran and Colombian loans as proof.

10. He infers that the present good relations between Peru and the United States are being endangered by the diplomatic activity in trying to bring about the debt settlement which he states may be regarded as an intervention in an entirely domestic affair.

1. Sr. Beltrán's first objection that Peru's balance of trade is not sufficient to permit payment in accordance with the proposed plan is both hackneyed and specious. It has been reiterated *ad nauseam* by all opponents of debt settlement and has no basis in economic fact, since the payment of an external debt has little direct relation to a favorable balance of trade, but rather to the country's ability to secure additional revenue with which to meet the debt service requirements. The total foreign trade is therefore a better criterion since taxes are levied on the two-way flow. Peruvian foreign trade has shown consistent increases in recent years.

During recent years Peru has been able to purchase from foreign countries such as the Argentine and Brazil, at exorbitant prices, com-

⁷⁹ Carlos Montero Bernaldes, Peruvian Minister of Finance.

modities and consumer goods for which it has found the means to pay and, in spite of these purchases, has still been able to maintain a considerable balance of exports over imports. . . .

2. The complaint of precipitate negotiations is somewhat amusing coming from the lips of an individual who during five years maintained an unbroken record of procrastination in this regard as Ambassador in Washington. Any negotiations toward settlement would be to him precipitate.

3. Beltrán's indication that a specific government revenue of \$3,500,000 would be available in one year only is both misleading and incorrect. It implies that \$3,500,000 would be required the first year and every year thereafter, which is not the case. The proposed agreement was to pay 1% interest, or \$926,000 the first year, 1½% the second, 2% the third, 2½% the fourth, and 3% the fifth. Amortization was to be ½ of 1% annually during the first five years. After the fifth year, 3½% was to be paid—3% on interest and the rest on amortization.

The necessary amount of dollars to meet the debt payment together with other necessary imports for Peru will undoubtedly be available if only due to the production of goods in Peru formerly imported and paid for in dollars. . . .

A third factor which should stretch Peru's dollars further is, that with the return of competition, speculation in imported merchandise will be reduced and less foreign exchange will be necessary for purchase of these commodities. In any event, the argument against availability of dollars for debt payment is easily refuted by the fact that the present exchange control system has produced a reserve of \$15,000,000 up to the present time. While this may be regarded as a very small reserve, it is nevertheless being increased steadily, while Peru continues to purchase its many imports in dollars.

4. Sr. Beltrán's objection based upon postwar economic uncertainty is the usual reactionary pessimistic viewpoint which appears to be completely unrelated to the present economic prospects and is definitely out of tune with the aggressive, ambitious and optimistic program envisioned by the present government.

5. A fifth objection by Beltrán that there will be an increasing demand for dollars by Peru can be answered also by the reasons given against his third point regarding unavailability of dollars at present. It should be emphasized that there are dollars available and there will continue to be dollars available if present economic trends and government policies are continued.

6. Beltrán's argument that expenditures for national defense purposes would have to suffer should the debt settlement terms be complied with is an obvious but clumsy attempt to frighten the military and enlist their support and to put the whole debt settlement question upon a false nationalistic basis. As a result of the lend-lease supply of military equipment during the war, the Armed Forces are unusually well equipped and for the next few years might well restrict their needs merely to maintenance expenditures. Moreover, economic reasons do not support the argument that if the debt is paid, military procurement will have to suffer correspondingly.

7. Beltrán's seventh point is a bald statement that the debt settlement terms exceed even the bondholders' expectations. Sr. Beltrán's statement is at variance with statements of the Bondholders' Council⁸⁰ and it is left to the reader as to whose statement to accept.

8. Sr. Beltrán's eighth point that preliminary negotiations in the United States caused a flurry of speculative market activity in Peruvian bonds is just another "dead cat" argument. Naturally any announcement that Peru would undertake to honor her foreign financial obligations would of necessity give rise to an increase in the value of its bonds on the market, but this is hardly a reason to impute bad faith or culpability to Montero Bernales, who in good faith and duly commissioned by the Government of Peru, was carrying out a preliminary phase of the rehabilitation of Peru's credit.

9. Sr. Beltrán's ninth point is debatable. He states that it has not always been a policy of the United States Government to require the reestablishment of the servicing on an external debt as a condition precedent to the obtention of an Ex-Imp loan. He cites the examples of Ecuador, Colombia, and Chile as recent evidence that the United States is not requiring foreign debt undertakings before granting these Ex-Imp loans. An expression of policy by the Department in this instance would be of value to the Embassy.

10. As to Sr. Beltrán's accusation that good relations are being endangered between our respective countries, this I submit is patently absurd. I would venture to state that at this juncture Peruvian and American relations are as good as, if not better than, they have been in the past. From the standpoint of this Mission, good working relationships have been established with members of the present government who have indicated their firm purpose to abide by Montero Bernales' negotiations. Excellent cooperation has been evidenced also by Aprista leaders, in particular by Haya de la Torre himself. It must therefore be presumed that Beltrán is merely inventing this

⁸⁰ Foreign Bondholders Protective Council.

charge to support his own position and to frighten those less informed with that old buagaboo, "Intervention".

In spite of Sr. Beltrán's attempted attack upon the debt settlement, the fact that an item to provide for the first year's service thereon has been included in the 1946 budget just presented to the Peruvian Congress is ample proof that his protestations have had little political effect.

Respectfully yours,

WILLIAM D. PAWLEY

823.51/3-2046

Memorandum of Conversation, by the Assistant Chief of the Division of North and West Coast Affairs (Wells)

[WASHINGTON,] March 20, 1946.

Participants: Sr. Carlos Montero Bernaldes, Peruvian Ex-Minister of Finance
 Mr. Spruille Braden, Assistant Secretary of State
 Mr. Wright, A-Br ^{s1}
 Mr. Wells, NWC

Sr. Montero briefly described the difficult but successful fight which he had faced upon returning to Peru with the debt settlement proposal. He had obtained a vote of confidence in both houses of Congress. The budget* which he presented for Congressional approval provides for the first year's servicing of the settlement. He believes that the settlement will be approved exactly in the terms negotiated here with Mr. Rogers.^{s2}

Critics, including ex-Ambassador Beltrán, have used every conceivable argument against the proposal, however unavailing. One of their most effective arguments was that whereas other countries such as Chile, who had not satisfactorily settled their foreign debts, had nevertheless been able to obtain substantial Eximbank loans in the United States, Peru had not been so favored. He said both Chile and Colombia had obtained financing for steel mills (at that point Mr. Braden interrupted to inform him that the Colombia steel mill project had been rejected).

The Peruvian steel mill project had been reported upon favorably by two American engineering firms. While here, he wished to explore the possibility of getting approval for this steel project, and

^{s1} James H. Wright, Special Assistant to the Assistant Secretary of State for American Republic Affairs.

*Budget passed on March 1. [Footnote in the original.]

^{s2} James Grafton Rogers, President of the Foreign Bondholders Protective Council, Inc.

also for a zinc plant. It was emphasized to Sr. Montero that the Eximbank considers projects presented to it solely on their economic and technical merits; and that the Bank's own engineers had of course appraised the Brassert and Morfit surveys. Mr. Wright discouraged the idea of assistance on the steel mill, but indicated in his personal opinion that the zinc and ammonium sulphate projects may offer better economic justification.

Sr. Montero indicated he intended to discuss the matter directly with the Bank upon his return to New York in early April. It was agreed that we would inform the appropriate Bank officials of his impending visit in order that they could review both the steel and zinc projects to prepare to discuss these matters with him.

823.51/4-346: Telegram

The Acting Secretary of State to the Ambassador in Peru (Pawley)

RESTRICTED

WASHINGTON, April 4, 1946—7 p. m.

308. Vidal⁸³ called recently at Bondholders Council office with written authorization to invite and urge Council to send a representative to Lima immediately to discuss possible changes in plan for Peruvian bond settlement. Council April 3 telegraphed Minister of Finance⁸⁴ that Rogers is absent and no other officer of Council available, adding following comment with which Department fully concurs:

"We do not see how the Council could possibly acquiesce in changes in the plan which would make it less attractive to the bondholders. The plan now gives to the bondholders less than any arrangement which the Council has hitherto recommended in the case of any other country. We consented to it only after the most careful consideration of all the factors involved and after fullest discussion with representatives of the Peruvian Government regarding Peru's financial situation and balance of payments. We believe that a reduction in the proposed service would cause a much larger proportion of the bondholders to reject it, thus defeating the main purpose which we both have in view, namely, the satisfactory adjustment of the debt and the consequent restoration of Peru's credit."

Please support Council's firm attitude in endeavor to expedite definitive Peruvian action.⁸⁵

ACHESON

⁸³ Carlos Vidal, President of the Peruvian Amazon Corporation.

⁸⁴ Manuel Vásquez Díaz.

⁸⁵ Ambassador Pawley in telegram 492, April 24, 1946, 3 p. m., reported that President Bustamante had given assurances that Congress would approve the debt settlement at its next session (823.51/4-2446).

823.51/7-1146

*The Ambassador in Peru (Cooper) to the Secretary of State*CONFIDENTIAL
No. 60LIMA, July 11, 1946.
[Received July 24.]

SIR: I have the honor to refer to the recent negotiation between Peruvian authorities and the President of the Foreign Bond Holders Protective Council regarding the prospective settlement of the Peruvian external dollar debt and to the Peruvian interest in obtaining Export-Import Bank loans.

In this connection specific reference is had to paragraphs 1 (a) and (b) of the enclosure to the Department's confidential communication of May 23, 1946, concerning the status of current economic problems with Peru;⁸⁶ the Department's memorandum of March 20, 1946, reporting a conversation between Sr. Carlos Montero Bernales, Peruvian ex-Minister of Finance, and officers of the Department; and to the pertinent portions of "Policy and Information Statement" dated February 15, 1946, which was received under cover of the Department's secret communication of March 11 of this year.⁸⁷

I realize that the Department is being subjected to pressure from certain business and other interests in our country to liberalize credits to foreign governments and I am likewise aware of the temporary stimulus that could be expected to accrue to our foreign trade as a result of new United States credits at this time. Notwithstanding a full appreciation of those considerations, however, I wish to record with the Department my considered opinion that it would be most unfortunate if the Export-Import Bank or other agencies of our Government were to accede to the Peruvian desire for financial assistance prior to the satisfactory settlement of the Peruvian external dollar debt. I believe that such assistance not only would jeopardize the possibility of approval by the new Peruvian Congress of the terms of the settlement already negotiated but would, moreover, place our Government in a more difficult position in dealing with the settlement of any similar loan-debt problems that may be pending or which may later arise with respect to third countries. Finally, it would appear that the granting of loans to Peru at the present stage of the debt settlement negotiations and prior to the satisfactory consummation thereof would not enhance the prestige of our Government in the eyes of the Peruvians.

It is assumed that any proposed loans, extensions or augmentations of unused Export-Import Bank credits to Peru prior to the final

⁸⁶ Not printed.⁸⁷ Communication of March 11 and enclosure not printed.

settlement of the outstanding Peruvian dollar debt will be cleared through this Embassy.

Respectfully yours,

PRENTICE COOPER

811.2323/11-846 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, November 8, 1946—5 p. m.

[Received 7 p. m.]

1163. This morning I called on President Bustamante to extend official invitations to certain dinners and ceremonies incident to visit of units of US Fleet. President accepted our invitations and also is inviting Vice Admiral Fechteler to a luncheon on November 11 at palace. President has been ill for last few days and I was informed that I was first foreign diplomat he had seen since recovering from his illness.

Before leaving, yesterday's action of the Peruvian Senate in authorizing Government to apply for 30 million dollar Export Import Bank loan was raised and President stated that he had in mind having a conference with me on that subject within next few days. My view is that time has now arrived to arrange for settlement of Peru's external debt to US and that our position should be that no loan be forthcoming from Export Import Bank or any other US source until Peru's indebtedness has been satisfactorily arranged for. Frankly, outlook is not good and there is no room for optimistic statements. However, Senate's action again raises question and a firm stand on our part with reference to further loans could result in satisfactory settlement of Peruvian debt problem. Believe it would be ruinous to our chances of satisfactory settlement for US Government to give Peru any encouragement in Washington respecting 30 million dollar loan or any loan whatsoever until Peru's external debt is satisfactorily adjusted.⁸⁸

COOPER

823.51/12-1246 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, December 12, 1946—4 p. m.

US URGENT

[Received 7:45 p. m.]

1251. Yesterday I informed President Bustamante that no Export Import Bank loan would be made until Peru had made some satisfactory arrangement toward settling its external dollar debt. The

⁸⁸ In telegram 920, November 15, 1946, 7 p. m., the Acting Secretary observed: "Dept. entirely sympathetic your view no prospect favorable action on Peruvian loan application in absence acceptable settlement Peruvian bond default." (823.51/11-1146)

President in turn informed me that it would not be possible to secure approval of the Peruvian Congress for Montero Bernales' proposal for dollar debt settlement of last spring. President stated that he would ask Congress to make best offer now possible for Peru to make to bondholders and would do his best to secure passage of such a measure through Peruvian Congress now in special session. President's position was confirmed by previous conversation had with Haya de la Torre who stated that he could not go back to Peruvian Congress with old proposition which he considered dead and that new proposition was necessary as face saving proposition to win over necessary support from those opposing Montero Bernales' proposal.

President Bustamante designated Minister of Finance, President of Central Reserve Bank of Peru, and Senate Finance Committee and Chamber of Deputies Finance Committee to formulate the best proposal of which Peru is considered capable of making at the present time. All this was to be done in strictest confidence but President stated I would be kept fully informed. President Bustamante revealed in greatest confidence financial instability of present Govt and stated a loan of 20 million to 30 million dollars was urgently needed to purchase machinery and materials necessary to keep Peru's industry running and prevent unemployment of dangerous proportions in the next 60 days. President stated he is compelled to deny import licenses for machinery and materials on account of exchange situation, said action to cause shutdown of numerous Peruvian industries in near future. President stated he hoped to receive me by next Tuesday by which time he hoped to have Peru's offer formulated.

My appraisal of situation is as follows:

1. The debt should be settled at once with annual dollar debt payment placed in Peruvian budget by December 31 if the debt is likely ever to be collected. My reasoning being that to postpone matter for another year would in all likelihood invite developments which would result in a new loan to Peru which when made would nullify further chances of collecting the old debt. My belief is that a reasonable offer can be gotten at this time through the Peruvian Congress, even though this be a unilateral offer not receiving the 100 per cent approval of the bondholders at the moment, yet same would greatly benefit bondholders and would remove obstacles to good economic relations now existing between Peru and US.

COOPER

823.51/12-1746

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*⁸⁹

[WASHINGTON,] December 17, 1946.

Ambassador Cooper telephoned me yesterday morning with reference to his telegram No. 1251.⁹⁰ He said that the Montero proposition could not possibly pass the Congress. Therefore, the President would not resubmit it to the legislature. Instead, the Peruvians were suggesting a debt settlement on the basis of 47 years instead of 70 years, 2½ per cent interest instead of 3 per cent interest, alleging that Peruvian finances were in such poor shape that they could do no better. Cooper was anxious to get my approval to this change in plan, although he had made it clear that this had not been a formal offer.

In replying, I told him that, of course, we have nothing to say in the matter which was entirely up to the Foreign Bondholders Protective Council and, while I would talk to Mr. Rogers, I was extremely doubtful that they could possibly accept such an offer. On the other hand, I said that if they were willing to make some sort of an arrangement whereby 2½ per cent would be a minimum but that in good years the rate could go up to 3 or even 4 per cent, or that still better they issue noninterest-bearing scrip for the difference between 2½ per cent and 3 per cent, then I thought there might be a chance to get a meeting of the minds. The Ambassador said that he is having a meeting with the Finance Minister and the Bank shortly and would advance these latter ideas.

I immediately called Mr. Rogers and informed him of the foregoing information. He replied that he had not consulted with any of his associates in the Council excepting Dana Munro, Vice President thereof. Therefore, he did not have authority to speak but he knew that the Council would like to hold to something that looks like 3 per cent (*sic*), and seemed to be well impressed with my counter suggestions to Cooper. What he particularly wished to avoid was any "unilateral scheme". He said that when one got below 3 per cent, he was in the realm of those who would not pay their debts (*sic*).

Mr. Rogers promised that after consulting his associates he would call me back.

SPRUILLE BRADEN

⁸⁹ Addressed to ARA: Mr. Briggs and Mr. Trueblood; to A-Br: Mr. Smith; and to NWC.

⁹⁰ December 12, *supra*.

823.51/12-1946 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

CONFIDENTIAL

LIMA, December 19, 1946—8 p. m.

[Received 11:25 p. m.]

1273. Following President Bustamante's suggestion I met on December 18 with Dr. Manuel Vásquez Diaz, Minister of Finance and Dr. Francisco Tudela, President Central Reserve Bank, in regard to debt settlement. Dr. Tudela opened the discussion by stating his Government was surprised our Government should make Export Import Bank loan to Peru contingent upon satisfactory settlement dollar bonded indebtedness in view our policy with respect to Chile and Mexico,⁹¹ to whom we have made substantial loans despite unsatisfactory debt settlement arrangements. He also referred to the liberal provisions of our loan to Great Britain.⁹² Dr. Tudela, apparently acting as spokesman for the Peruvian Government with the Minister of Finance, also referred to recent Argentine-Chilean commercial-financial treaty and indicated hope of Peruvian Government to avoid a similar arrangement and to continue to maintain strong economic relations with the United States. (See Embassy's telegram 1269, December 18.⁹³) The Minister of Finance stated again that his Government considers Montero Bernales debt plan unacceptable and impossible to pass through Peruvian Congress and that a new offer was necessary to more nearly accord with Peru's present financial situation and secure Congressional approval. Both emphasized Peru's urgent need for Export Import Bank financing for internal improvements, especially irrigation, and importation of machines. A written proposal for a loan of \$200,000,000 was somewhat timidly presented to be arranged simultaneously with settlement of debt. I replied that while I was sure my Government desired to cooperate with Peru in straightening out her economic problems, yet in view fact Peru has been in default on its external dollar indebtedness for more than 16 years, my Government was not in a position to request an Export Import Bank loan until Peru settles its existing debt. I further stated that in my opinion Peru's credit would be harmed by giving publicity to any such proposal as was offered, whereupon the proposal was withdrawn.

In accordance with my recent telephone conversation with Secretary Braden, I told them that the least we could accept would be a plan

⁹¹ For documentation on loan policy toward Chile and Mexico, see pp. 591 ff. and pp. 997 ff., respectively.

⁹² For documentation on the extension of credit to the United Kingdom, see *Foreign Relations, 1945*, vol. VI, pp. 1 ff.

⁹³ Not printed.

providing for interest at 2½ percent with nonbearing interest script of ½ percent and amortization of principal within 50 to 70 years. While they said that the terms would be difficult to meet in view of the serious shortage of exchange in Peru and that it would be difficult to convince the Peruvian Congress of the need for a debt settlement at this time in view of the shortage of foreign exchange, the Peruvian Government is so urgently in need of new credits that they will reconsider the matter and will meet with me tomorrow afternoon when they will submit a counter-proposal.

COOPER

823.51/12-1946 : Telegram

The Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, December 20, 1946—7 p. m.

987. A dominating feature at the moment reur 1269, Dec. 18⁹⁴ and 1273, Dec. 19, is fact that Council polled and unanimously rejected 2½ percent proposal. Dept can not control Council's acts or public statement it would have to make on any Peruvian debt proposal. In circumstances Dept not in position to "accept" or sponsor any proposal Council has not accepted by formal action. Most Dept could do on any unilateral proposal would be to use its good offices with view to persuading Council to issue moderate rather than harsh statement to bondholders thereon. It should be emphasized constantly to Peruvians that you can not "accept" any debt settlement proposal. Dept will gladly transmit Council any counter proposal Peru may make but only Council can accept it.

Dept can establish no direct relation between debt settlement and Eximbank credit except that under present circumstances a proposal reasonably satisfactory to American financial opinion is *sine qua non* for consideration by bank of credit application. Dept appreciates and approves your reply to Tudela about harmful effects of proposing bank credit to be arranged simultaneously with settlement of debt. Any public suggestion of bartering an Eximbank loan for a debt settlement might in fact be disastrous. Consideration of any such proposal by Dept *ultra vires*. Statutory lending authorities will consider loan application only after Peruvian credit standing strengthened by action on bond default.

BYRNES

⁹⁴ Not printed.

823.51/12-2146 : Telegram

The Ambassador in Peru (Cooper) to the Secretary of State

SECRET

LIMA, December 21, 1946—1 p. m.

[Received 4:48 p. m.]

1276. At a meeting on December 20 with Dr. Tudela and Minister of Finance, the latter showed me his Government's latest proposal for settlement of dollar bonded debt providing for graduating interest payments from one-half percent first 2 years to 2 percent at end of 10 years and same rate thereafter; amortization payments starting with one-half percent and graduating to maximum 1½ percent at end 10 years and thereafter. The plan also provided for deposit of soles in Reserve Bank for amortization payment [apparent omission] conversion into dollars depending on Peru's balance of payments. I informed them that I would send it to the Department for transmittal to Council provided they wished me to do so, but that I could tell them in advance the Department's comment would be adverse and that Bondholders Council would reject it at once. I also pointed out that the proposed servicing for first year approximated only 15 percent of soles 11,200,000 included in Peru's budget for 1946 and soles 10 million which Senator Arrus, a member of Senate Finance Committee, informed me a few days ago would be included in 1947 budget for this purpose. They said it was their considered judgment that it would be difficult to obtain Congressional approval of any plan providing for interest payment in first year in excess of one-half percent. They did not ask me to send their proposal to Department.

I again invited their attention to views of Bondholders Council that a settlement of less than 3 percent interest would be unacceptable to bondholders. I advanced other arguments in defense of Council's position and after a long exchange of views on these and other points, Minister and Dr. Tudela indicated they would recommend debt settlement in accordance with scale provided for in Montero Bernales agreement except that Peru would pay only one-half percent first year and 2½ percent interest at beginning fifth year and thereafter plus noninterest bearing script of one-half percent payable termination amortization schedule. I again told them that I was confident that Bondholders Council would not accept initial payment of one-half percent. They then indicated they might propose settlement based on Montero Bernales scale but with interest of 2½ percent with one-half noninterest bearing script.

While we were unsuccessful in reaching an understanding on the one-half percent they said that they would submit matter to President

Bustamante on December 23 and would arrange for me to meet with them and President Bustamante next week.

The Peruvians have at no time made Export Import Bank loans a condition to debt settlement.

I have repeatedly informed Peruvians debt is an obligation to private bondholders US as represented by foreign Bondholders Protective Council and that I am not authorized to sponsor or accept any debt settlement proposal (Deptel 987, December 20), but that Department would cooperate by transmitting to Council any proposal Peru may make.

COOPER

823.51/12-3146

Memorandum of Telephone Conversation, by the Assistant Secretary of State for American Republic Affairs (Braden)

CONFIDENTIAL

[WASHINGTON,] December 31, 1946.

Ambassador Cooper telephoned to me at approximately 4:45 this afternoon. He said that he, Donnelly, and others had had luncheon today with President Bustamante. The President had informed him that speed was of the essence and that, therefore, the Peruvian authorities were rapidly preparing a unilateral offer to be presented next Thursday, and that in making this offer, they had to take into account not only Peru's ability but what they could get through Congress.

The Ambassador went on to say that not only the President but also Haya de la Torre and others were very much concerned about the Argentine loan to Chile. On the other hand, however, they had been given to understand by Argentina that she was willing to make a loan to Peru and, after all, Argentina had the two things that Peru needed most, to wit, money and food; that, of course, Peru did not wish to join a bloc, but it was necessary for her to get a loan. In fact, the Ambassador thought that one of the reasons why Haya de la Torre had cancelled his trip to Cleveland was that he did not wish to run the danger of returning to Peru without a loan.

The Ambassador had tried to impress on the President the idea of paying 3 per cent even though ½ per cent of this would have to be in the form of scrip.

I replied that insofar as a unilateral offer was concerned, I would keep to hell and gone "as far away from it as I possibly could", and that in my opinion the Peruvians were being very short-sighted and would do themselves much injury. The Ambassador replied that the

President had said that the debt was not of his making (*sic*), to which I observed that it was the making of the Peruvian government whether it was done by one of his predecessors or not and it was their obligation. The Ambassador agreed with me but said that they definitely had the debt on their agenda. I said that they ought to have it on their conscience.

The Ambassador reverted to the possibility of an Argentine loan. I said that that would probably work to the disadvantage of both parties in the end but that was their business and not mine, and if the Peruvians wanted to make such a loan "to go to it". I reiterated that as far as the unilateral offer was concerned, the Peruvians would be making a sad mistake.

The Ambassador also referred to the Sechura matter as being under way.

I expressed my appreciation to the Ambassador for his having called, and wished him a Happy New Year which he reciprocated.

SPRUILLE BRADEN

EFFORTS OF THE UNITED STATES TO RELIEVE THE PERUVIAN WHEAT CRISIS

823.5018/1-3046 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, January 30, 1946—10 p. m.

US URGENT

[Received January 31—12:12 a. m.]

118. Attention Assistant Secretary Braden.⁹⁵ In conferences yesterday with Foreign Minister⁹⁶ and today with Javier Correa, temporarily Acting Secretary General Foreign Office, both officials emphasized to me that Peru's present wheat supply will be completely exhausted by end of February, and that their new government desperately afraid this will cause political crisis. They therefore urgently requested US Government make available to Peruvian Government direct and not through commercial houses 40,000 tons wheat, arrivals to begin without failure soonest possible in February.

I earnestly hope it may be possible to assist Peru this matter. Peruvian Government and important citizens resent all the help US affording Chile, which did not cooperate with US during war, whereas Peru was staunch supporter from very beginning.

PAWLEY

⁹⁵ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

⁹⁶ Enrique García Sayán.

823.5018/2-946 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, February 9, 1946—noon.

[Received 1:36 p. m.]

150. ReDeptel 96, Feb 5, 2 p. m.⁹⁷ The wheat situation appeared normal in Dec as reported our telegram 118, Jan 30, 10 p. m. and Peru fully expected complete negotiations with Argentina for 150,000 tons, its normal import requirements. Because of Argentine short crop, transport difficulties, United Nations demand, and it is believed political reasons, Peru has been unable close transaction. Therefore no prospects for wheat after February, nor bread, noodles, macaroni after March. One of Peru's major mills already closed. Largest mill producing 60 percent of flour has nine days supply. Present flour stocks including wheat yet unmilled will carry country through March. Director General of Foods on Jan 22, issued order to all mills restricting sales to bakeries, perhaps to forestall advance buying. Panicky market would precipitate crisis at much earlier date and might occur as millhands are turned away from closed mills. Consumption required imports 37,500 tons each quarter to avoid acute hardship resulting in economic and political crisis. Peru should receive minimum 35,000 tons during next 3 months with deliveries beginning immediately. Would it be feasible to advance Peru 37,500 tons to be returned if and when Peru able obtain further shipments from Argentine?⁹⁸

PAWLEY

102.78/2-2346 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

RESTRICTED

LIMA, February 23, 1946—1 p. m.

[Received 5:11 p. m.]

211. For Wheeler and Hutson⁹⁹ Agriculture from Haggerty.¹ Have personally investigated wheat situation and food supply in Peru. Mills closed and closing lack of wheat. Stocks of flour including wheat on hand and afloat sufficient for requirements through March. Ship-

⁹⁷ Not printed.⁹⁸ Telegram 183, March 4, 1946, 6 p. m., indicated to the Ambassador that 67,000 cwt. of flour was allotted to Peru for the first 6 months of the year. For the same period in 1944, 137,609 cwt. was allotted. The Department of Agriculture was unable to promise 8,000 tons of wheat monthly, as requested, but that amount was authorized for March. (102.78/2-2146) A similar amount was allocated for May according to telegram 440, May 20, 1946, 1 p. m., to Lima (823.61311/5-2046).⁹⁹ Leslie A. Wheeler, Director, Foreign Agricultural Relations, and John B. Hutson, Commodity Credit Corporation. Both of these agencies were parts of the Department of Agriculture.¹ John J. Haggerty, Agricultural Attaché.

ment of 8000 tons from United States promised in telegram 147² will partly meet April requirements. Normal imports hand to mouth basis 12,500 tons wheat monthly. Personally believe starvation and food riots can be avoided with deliveries 8000 tons from all sources monthly be [by?] consuming existing rice stocks and current crop rice and beans as available. Urge all possible consideration deliveries 8000 tons monthly beginning with promised cargo March. Wheat preferable to flour since bran and shorts important to milk supply. Also closing of mills will exaggerate crisis in public mind with grave consequences in markets and to Govt. From political standpoint suggest advisability supplying United States wheat now and channelizing Argentine wheat as available into general channels.

PAWLEY

823.61311/4-1046 : Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

SECRET

LIMA, April 10, 1946—4 p. m.

US URGENT

[Received 8 : 02 p. m.]

426. ReDeptel 313, Apr. 8, 1 p. m.² Current stock position wheat and flour combined 7,700 tons. This includes arrivals Peruvian ship *Tumbes* from Argentina with 5000 tons wheat Apr 7 and arrivals 14,500 bags flour from United States late March and early April. With consumption curtailment noted below requirements can be met to May 10. Absolutely essential 8,000 tons wheat being embarked from west coast United States ports arrive before May 10 to avert desperate crisis and provide minimum requirements to June 1.

January 1 stocks were 10,000 tons wheat 4,150 tons flour. Arrivals from Jan 1 through April 8 were 20,614 tons wheat of which 3,000 tons from Canada 17,600 from Argentina. Flour arrivals include only 14,500 bags from United States. Total available supply Jan through April has been under 36,000 tons or three fourths normal supply.

Peruvian Govt has closed deal with Argentina for 7,000 tons wheat in exchange for 5,000 tons sugar. Peru lost \$2 per quintal on the sugar. Peruvian ships *Rimac* and *Tumbes* will be available carry this wheat to arrive Arequipa and Callao late May or early June. With no mishaps minimum essential requirements will be covered through mid June. Additional purchases wheat Argentina complicated by Argentine's insistence Peru furnish sugar, petroleum, coal and rubber at below market prices.

In response appeals for aid in food crisis I met this week with Minister Agriculture³ and other officials. Minister Agriculture reported

² Not printed.³ Luis Rose Ugarte.

Peru increasing extraction rate to 82½ percent and reduced consumption flour in provinces to 20 percent normal and in Lima to 70 percent normal. Embassy is strongly urging other conservation measures and special efforts increase production substitute commodities including corn, sweet potatoes in Lima area.

In view present uncertainty Argentine negotiations I urge prompt allocation second cargo 8,000 tons United States wheat for Peru to arrive Callao by June 1.

PAWLEY

623.3531/7-846

*Memorandum by the Acting Assistant Chief of the Division of North and West Coast Affairs (Hall)*⁵

SECRET

[WASHINGTON,] July 25, 1946.

The Embassy at Lima transmits a report from the Assistant Military Attaché⁶ to the effect that, immediately prior to the inauguration of Perón, Haya de la Torre⁷ secretly sent two emissaries to Perón. These men also bore credentials from President Bustamante and Minister of Finance Vásquez, to be presented personally to Perón. They were instructed to carry out the following mission:

1. To sound out the attitude of Perón towards APRA in Perú and to that movement throughout South America.

2. Admitting Perú's dependence on Argentina for food staples, to bargain for supplies, on the long-range premise that while APRA has evolved a program which will free Perú from dependence on Argentina for food, the latter will become increasingly dependent on Perú for coal, petroleum and minerals. The mission was told to inform Perón that APRA is ready to do business with Argentina.

As a result of the mission:

1. Argentina agreed to ship 150,000 tons of wheat to Perú during the present fiscal year, in return for unspecified quantities of Peruvian coal, petroleum, rubber, lead, antimony and other minerals, as far as permitted by Perú's present foreign commitments. This agreement is public, but Argentina is said to have promised shipments comprising 500,000 cases of milk, 25,000 tons of frozen beef and 25,000 tons of lard.

2. Perú was promised treatment more favorable than that accorded any country bordering on Argentina.

While for consistency's sake Haya in public utterances continues his anti-Perón line, his organ "La Tribuna" has refrained from comment on the Argentine situation subsequent to Perón's inauguration.

⁵ Addressed to NWC: Mr. Willis; ARA: Mr. Butler and Mr. Briggs; RPA: Mr. Mann.

⁶ Not printed.

⁷ Victor Raúl Haya de la Torre, leader of the Aprista Party.

An extra official channel of communication between Perón and Haya has been opened, which later may be used for political and military purposes.

The Embassy apparently accepts the Attaché's report at face value.⁸

823.61311/8-2346 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Cooper)

SECRET

WASHINGTON, August 28, 1946—7 p. m.

759. Peru's fluctuating position with respect wheat requirements has resulted in strong opposition Dept Agriculture against diversion for Peru shipments destined other countries. Information available does not indicate imminent crisis. Your 917⁹ reports flour stocks Lima, Arequipa adequate Sep and 7,000 tons wheat arriving Argentina late Sep. These figures indicate sufficient wheat through approximately Oct 20. If this analysis incorrect and Embassy has other information independently assembled indicating stocks sufficient only for shorter period, will be helpful in stating case to Agriculture. Present indications that shipments will not be available prior end Sep or middle Oct.¹⁰

In evaluating need for Peru, must be recognized that any shipments prior to dates indicated above will mean diversion from other destinations whose requirements considered essential by Dept.

ACHESON

⁸ Marginal comments read as follows: "I think Lima ought to be asked to confirm, if possible, and to keep us informed. If you agree pls return to me. T. M[ann]" "Agree C. B. S[paeth?]"

Another marginal comment reads: "Embassy should be able to check through other sources. G. H. B[utler]"

⁹ August 23, 1946, noon, not printed.

¹⁰ Telegram 837, October 3, 1946, 7 p. m., to Lima, indicated that 8,000 tons of wheat and 9,000 tons of flour were allocated to Peru for the October to December period (823.61311/10-346).

URUGUAY

THE URUGUAYAN LEND-LEASE ACCOUNT AND NEED FOR ARMAMENTS¹

833.248/1-1746 : Telegram

The Acting Secretary of State to the Chargé in Uruguay (Sparks)

[Extracts]

SECRET

WASHINGTON, January 17, 1946—7 p. m.

20. In conversation January 8, Assistant Secretary Braden² agreed with General Arnold³ to approve interim allocation of aircraft to armed forces of Uruguay as follows: 8 B-25's, 15 P-47's, 4 C-47's, 3 C-45's, 5 AT-11's. Because certain of these types of planes are now in short supply, it may be necessary to substitute other types for them.

Please telegraph Dept whether you approve allocations mentioned above. Subject has been discussed in Dept with Amb Dawson,⁵ who concurs in allocations, subject to Emb approval. Although you will no doubt wish to consult U.S. military air officers, your decision should, of course, take political and economic factors into account.

The foregoing information is not to be disclosed to Uruguayan officials. For your information questions of procedure on disposal of planes are still to be worked out. Dept will inform you as soon as ground and air force equipment can be made available.

ACHESON

833.248/1-2346 : Telegram

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

SECRET

MONTEVIDEO, January 23, 1946—7 p. m.

[Received January 23—6:46 p. m.]

42. Deptel 20, January 17. Embassy concurs in interim allocation of aircraft to Uruguay Armed Forces and recommends prompt advice of proposed action to Uruguayan authorities. Concurrence is

¹ For documentation on defense questions and lend-lease in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1375 ff.

² Spruille Braden, Assistant Secretary of State for American Republic Affairs.

³ Gen. Henry H. Arnold, Commanding General, Army Air Forces.

⁵ Ambassador Dawson departed for the United States on January 12 and resumed charge in Montevideo on March 25, 1946.

based on fact that allocation is only small portion of equipment envisaged in staff conversations, that payment can be made from available lend lease balance and not necessitate congressional discussion at this time, and that planes will probably be made available at low figure presumably surplus price equivalent to or lower than lend lease price to Uruguay. Thus "implied commitments" arising out of lend lease overpayments and staff conversations will be partially discharged and ample time will be allowed to review basic policies of military collaboration. Some adverse comment may be expected from opposition, particularly Herreristas.

SPARKS

833.248/1-2946

Memorandum of Conversation, by the Acting Chief of the Division of River Plate Affairs (Mann)

[Extract]

SECRET

[WASHINGTON,] January 29, 1946.

Participants: Ambassador Dawson
Mr. Brown—RPA
Mr. Gilmore—RPA
Mr. Mann—RPA

The following are specific Uruguayan problems which RPA has discussed with Ambassador Dawson and the conclusions reached in regard thereto:

1. *Armaments Problem*

Uruguay has been keenly interested in using the very substantial credit which it built up under the Lend-Lease Agreement to purchase armaments at a discount at least equal to the one which was specified in the Lend-Lease Agreement.

a) In respect of aircraft Uruguay has been allotted, under the Adjusted Interim Aircraft Program, eight B-25's, fifteen P-47's, four C-47's, three C-45's and five AT-11's; and the Uruguayan Embassy has been so informed. It now develops that General Walsh's^o office has revised this program by eliminating the bombers and fighters because Uruguay apparently did not request them in the staff conversations. Accordingly, the allocation now consists of four C-47's and eight C-45's plus AT-11's or AT-7's, depending upon which are in surplus and which the Uruguayans want.

The Uruguayans have recently indicated a desire to purchase, outside of the Interim Program, fifty PT-19's or PT-27's (primary

^o Gen. Robert L. Walsh, Army Air Force.

trainers), fifteen BT-13's (basic trainers) fifteen AT-6's (advanced fighter bomber trainers) and ten AT-11's (advanced bomber trainers).

In view of this situation it is recommended that Uruguay be permitted to obtain the desired number of primary and basic trainers under the Interim Program if the Army can make them available; and that the AT-6's and AT-11's be substituted for the bombers and fighters in the original program.

b) There has also been allotted to Uruguay, under the Interim Program, equipment for two battalions of infantry and two field artillery batteries; and the Uruguayan Embassy here has been so informed.

c) The delivery of the equipment above mentioned should be expedited as much as possible. It is understood that the implied commitment, if any, on the part of the US resulting from the staff conversations will be regarded by us as discharged by delivery of the materials above mentioned.

833.34/4-1246 : Telegram

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

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p. m.

151. Approval has been given by Dept to sale from surplus of following small Naval vessels to Uruguay. You may notify appropriate representatives that Navy Dept and FLC will negotiate in Washington details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversations.

3 PT—Motor torpedo boat
 1 PCS—Submarine chaser
 1 AVR—Aircraft rescue vessel

For your conf info Navy plans similar program of Naval aircraft and Naval equipment.

BYRNES

833.24/4-2346

The Uruguayan Embassy to the Department of State

AIDE-MÉMOIRE

With reference to the acquisition of war materials and munitions in the United States of America and the use on the part of the Government of Uruguay of the sums delivered to the Government of the

United States in excess of the materials received on the basis of lend-lease, the Uruguayan Government would wish:

1. That both parties fix the amount of the balance actually existing in the United States in favor of Uruguay;

2. To this balance there would be added the balance of the quotas to be paid by Uruguay up to the point of covering the \$7,800,000 that the Uruguayan Law 10091 of December 13, 1941 authorizes;

3. Once this total amount is fixed, Uruguay would prepare the lists of materials which it is interested in acquiring;

4. In so far as possible, once said lists have been studied, the Government of the United States would make offers as regards the technical specifications of the materials as well as the prices and other conditions of sale; and,

5. The bases already mentioned having been agreed upon, the Uruguayan Government would wish to sign an instrument with the Government of the United States summarizing the materials which would be transferred to Uruguay and the financial stipulations relative to such transfer.

WASHINGTON, April 23, 1946.

833.34/5-1346: Telegram

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

SECRET

MONTEVIDEO, May 13, 1946—noon.

[Received 12:05 p. m.]

287. Embtel 284, May 10.⁷ In informal conversation yesterday President ⁸ mentioned purchase of Canadian frigate saying he hoped our Government perceived no objection. He even intimated that if we objected, matter would be reconsidered. However, he made it clear he considers purchase very advantageous and would be keenly disappointed if deal fell through.

While President did not ask me to consult Department, I should appreciate its views in case he reverts to matter.

Naval Attaché ⁹ reports Uruguayan Navy strongly desires prompt purchase Canadian vessel in question and turned to Canada only after applying unsuccessfully to US.¹⁰

DAWSON

⁷ Not printed.

⁸ Juan José Amezaga.

⁹ Capt. Forrest Tucker.

¹⁰ In telegram 192, May 17, 1946, to Montevideo, the Department indicated acquiescence in this purchase (833.34/5-1346).

833.24/4-2346

The Department of State to the Uruguayan Embassy

WASHINGTON, August 9, 1946.

MEMORANDUM

Reference is made to the *Aide-Mémoire* from the Uruguayan Embassy, dated April 23, 1946, outlining the desires of the Uruguayan Government in the matter of acquisition of war materials and munitions in the United States and the use of the balance of payments made by Uruguay in excess of materials received under the terms of the Lend-Lease Agreement,¹¹ which balance was in the neighborhood of \$2,000,000 at the time of Lend-Lease termination.

Careful study has been given to the Uruguayan proposals under reference but it has been thought inexpedient to undertake negotiations at this time on any special agreement deriving from the original Lend-Lease proposals, both in the light of the interim arms program made known to the Uruguayan Chargé d'Affaires a.i.¹² at a meeting with officials of the Department of State on March 13, 1946, and of the more general armaments legislation¹³ presently before the United States Congress. It may be noted here that under the interim arms program referred to, the following equipment was indicated as available for Uruguay:

| | |
|-------------------------|--------------------------------|
| Military equipment for: | 2 Battalions of Infantry |
| | 2 Batteries of Field Artillery |
| Aircraft: | 4 C-47's |
| | 18 (C-45's) |
| | (AT-11's) depending on |
| | (AT-7's) availability |
| | 50 PT-19's |
| | 15 BT-13's |
| | 15 AT-6's |

It is understood, furthermore, that the Uruguayan Military Mission has been taking advantage of the Lend-Lease balance existing to make purchases out of surplus property, in accordance with the suggestion in the last paragraph of the Department of State's note of December 29, 1945,¹⁴ and that currently the balance in favor of Uruguay still available for such purchases is reported by officials of the Treasury Department as in the neighborhood of \$1,770,000 (as of June 26, 1946).

¹¹ Signed January 13, 1942; see bracketed note in *Foreign Relations, 1942*, vol. VI, p. 703.

¹² César Montero de Bustamante.

¹³ The Inter-American Military Cooperation bill; see House Document No. 548, 79th Cong., 2d sess.

¹⁴ Not printed.

833.24/8-2146

The Chief of the Division of Lend-Lease and Surplus Property Affairs (Havlik) to Mr. Robert W. Cavanaugh, Treasury Department

WASHINGTON, August 21, 1946.

MY DEAR MR. CAVANAUGH: It has been brought to my attention that the Treasury Department, Lend-Lease Fiscal Operations, recently received a payment of \$1,300,000 from the Embassy of Uruguay on lend-lease account.

Since this was an overpayment and since there appears to be no possibility that any further payment will become due under the terms of the Lend-Lease Agreement with Uruguay, it is the view of the State Department that any further payment or payments by Uruguay which may be offered should not be accepted by this Government. In the event that any further payment is offered the matter should be referred to my office.

Yours sincerely,

HUBERT F. HAVLIK

833.24/12-646

The Acting Secretary of State to the Uruguayan Ambassador (Blanco)

CONFIDENTIAL

WASHINGTON, December 6, 1946.

EXCELLENCY: I have the honor to transmit herewith two copies each of Statement LL-9 and supporting schedules¹⁵ reporting charges made against the Government of Uruguay during the period from March 1, 1946 through May 31, 1946, covering defense material transferred in accordance with the terms of the Lend-Lease Agreements signed on January 13, 1942 by representatives of the Republic of Uruguay and the United States of America.

It will be noted that the amount of charges for the period under reference is \$21,183.64, and that charges through May 31, 1946 for all defense material transferred to the Government of Uruguay aggregate the grand total of \$5,169,379.20.

It is requested that the enclosed statement and supporting schedules be treated by Your Government on a most confidential basis.

Accept, [etc.]

For the Acting Secretary of State:
SPRUILLE BRADEN

¹⁵ None printed.

**CONCERN OF THE UNITED STATES WITH RESPECT TO GERMAN
PENETRATION IN URUGUAY¹⁶**

862.20233/1-1846

*The Chargé in Uruguay (Sparks) to the Secretary of State*CONFIDENTIAL
No. 6835MONTEVIDEO. January 18, 1946.
[Received February 11.]

SIR: With reference to the Embassy's despatch no. 5270 of January 10, 1945, entitled "Sensational Arrest of Members of local Spy Ring" and despatch no. 5339 of January 23, 1945, entitled "Transmission of Legal Attaché's Report concerning Arrest of Members of local Nazi Spy Ring",¹⁷ I have the honor to report that, according to information received by the Legal Attaché, the Uruguayan Supreme Court on December 28 ordered the release under bond of the four remaining individuals of the group arrested in January 1945 as members of a local Nazi spy ring, which had operated under the direction of Juan Sigfrido Becker¹⁸ in Buenos Aires.

It may be recalled that on January 5 and 6, 1945, seventeen persons were detained for preliminary interrogation, all of whom were promptly released except for six who were to be held for trial. Fairly recently the release was unobtrusively ordered of Rodolfo Martínez Lanza, who had acted as a courier between Montevideo and Buenos Aires in his capacity of radioman for the C.A.U.S.A. airline, and later, on December 11, there was also released Antonio Domingo Frova Mazzoni, who had turned informer and whose declarations had brought about the confessions of the others. The remaining four individuals just released include: Juan Alberto Bove Trabal, Luis Alberto Sciutto Moncalvo (PL), Luis Dreher Haussmann and Teodoro Muhlbauer Landgraff. Dreher and Muhlbauer are both Germans.

As occurred in the case of Martínez Lanza and Frova no notice appeared in the local press regarding the release of the four persons referred to. Perhaps this can be explained by the fact that this decision was reached by the Supreme Court when it was holding its annual review of petitions for release at the end of the year, at which time it can, and does, grant pardons to those individuals who in its opinion merit such consideration. Further, it is to be noted that the release of these four individuals is technically-speaking only provisional and that theoretically they can be re-incarcerated to stand trial at some future date.

¹⁶ For documentation on the efforts of the United States in 1945 to secure the cooperation of Uruguay in controlling Axis interests, see *Foreign Relations*, 1945, vol. ix, pp. 1387 ff.

¹⁷ Neither printed.

¹⁸ For an account of Becker's activities, see Department of State, *Consultation Among the American Republics With Respect to the Argentine Situation* (Washington, 1946).

According to several reliable sources a favorable decision in the present case was reached by the Supreme Court only due to the initiative of its President, Chief Justice Juan José Aguiar, who it may be recalled, summarily informed the Committee Investigating Anti-National Activities two weeks before that it would have to terminate its functions as of December 31 (see Embassy's despatch no. 6819 of January 12, 1946, entitled "Suspension by Uruguayan Supreme Court of Functions of Committee Investigating Anti-National Activities; Doubt as to Interpretation of Laws pertaining to Committee; and Steps taken to prolong its Life"¹⁹). One source has suggested that pressure was probably exerted on the Supreme Court by interested persons first to secure the release of Bove Trabal, who as the Department is aware has important family connections, hoping that, once he was released, the Supreme Court would feel bound to release the other three as well so as not to appear to have made any exception.

Certain Uruguayan authorities sincerely interested in extirpating the vestiges of Nazi activities remaining here have been disappointed by the Court's recent action since it is generally believed that it is hardly likely that further action will be taken against any of these six self-confessed Nazi collaborators. In this connection a report has just been received from a generally reliable source that Sciutto²⁰ is in possession of considerable money and is engaged in spreading pro-Perón propaganda here.

Respectfully yours,

For the Chargé d'Affaires ad interim:

REGINALD BRAGONIER

Second Secretary

862.20233/2-1746 : Telegram

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

SECRET

WASHINGTON, February 22, 1946—5 p. m.

72. Reurtel 110, Feb 17.²¹ You may inform Pres Amezaga that our Ger investigations to date have necessarily been concentrated on sources pertaining directly to Ger-Arg affairs; hence, we do not yet know what documentary and other evidence pertaining directly to Uruguay is available. If you deem it useful you may inform him however that an informed official of the Ger Foreign Office has stated "The SD brought Brinckmann²² together with the agent Bove Trabal who functioned as a courier from Uruguay and brought information from there, which information the SD and Brinckmann shared, Brinck-

¹⁹ Not printed.

²⁰ Luis Alberto Sciutto, said to have been a courier for the Juan Sigfrido Becker espionage ring.

²¹ Not printed.

²² Go-between between Perón and the SD.

mann using it for the Arg Army and the SD for Ger." Blue Book ²³ identifies Brinckmann.

We will be glad to make available further data as it is uncovered.

BYRNES

740.00112A EW/3-1846 : Airgram

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

CONFIDENTIAL

MONTEVIDEO, March 18, 1946.

[Received March 25—4 : 18 p. m.]

A-85. Ref Dept's circular airgram March 4, 9 : 25 a. m. 1946.²⁴ Replacement situation remains substantially unchanged as reported in despatches 6034, July 9 and 6194, August 10, 1945.²⁵ Replacement bill (desp. 6151, August 1, 1945 ²⁴) is pending in Congress, which reconvenes today after summer recess. Bill has been formally approved by majority of House committee (7 in favor, 3 with reservations, and 2 Herreristas dissenting). FonMin ²⁶ stresses bill will be called for debate in House and Senate right away and expresses firm conviction it will be enacted; responsible congressional opinion is that bill will pass, though sharp debate is anticipated. If this legislation is to be enacted in Uruguay this session, it should be within the next 60 days. However, a further period may be required to implement the program.

Minister of Interior ²⁷ repeats assurances that, given legislative authority, he will proceed effectively to eliminate "Nazi firms". A few like Staudt and Quincke, will probably resort to courts, but the majority of these listed in desp 6034 above are likely to be eliminated within 4 to 6 months after bill is passed.

Although not so effective in all respects as it was formerly, the Proclaimed List has not lost its effectiveness in Uruguay. The termination of armed hostilities, the premature (as regards Uruguay) reduction of the List to a hardcore, especially the current listing policy, and the reduction of personnel available to the Embassy for Proclaimed List work have all had adverse effects to varying degrees, but the vigorous administration of the List in Uruguay in the past is contributing considerably in maintaining its present prestige. The Embassy continues to purchase space in local papers for publication of the complete List for Uruguay on an average of once a month, and the publication of inclusions such as those recently made in Supplement 2 with doubtlessly prove helpful.

²³ For documentation on the "Blue Book", see pp. 182 ff.

²⁴ Not printed.

²⁵ *Foreign Relations*, 1945, vol. ix, pp. 1394 and 1395, respectively.

²⁶ Eduardo Rodríguez Larreta.

²⁷ Carbajal Victorica.

It has been noted with satisfaction that the program for continuation of the List, as approved on February 11 by the Executive Committee on Economic foreign policy, provides that Mr. Braden's²⁸ Office should be consulted in the early part of April for its "recommendations concerning continuation of the List for Argentina beyond May 8, and possible similar action in other countries which have not satisfactorily carried out replacement program."

Much adverse public criticism of the progress of Argentina's replacement program has emanated from various sources in Washington whereas Uruguay has come in for such criticism mainly through implication. The Embassy appreciates that the extent of German holdings and other considerations put Argentina in the Number One position in this respect as regards the American Republics. Nevertheless the fact remains that Argentina appears much farther advanced with a replacement program than is Uruguay.

The Embassy strongly recommends, subject to modification on the basis of future developments in Uruguay, that the Department make arrangements to continue the List for Uruguay beyond May 8. The withdrawal of the List on the eve of possible action by the Uruguayan Congress would seriously prejudice the Administration's current chances of obtaining enabling legislation and, in the absence of such legislation, would legalize the consummation of certain commercial transactions which would thoroughly discredit the previous actions of this Embassy in administering the economic warfare program in Uruguay.

The foregoing recommendation will be supplemented by more detailed information.

SPARKS

740.33112 RP/4-2546: Airgram

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

CONFIDENTIAL

MONTEVIDEO, April 25, 1946.
[Received May 2—9: 37 a. m.]

A-139. Reference Embassy's despatches no 7070 of March 21 and no. 7093 of March 29, 1946,²⁹ concerning economic security controls and status of replacement bill (for liquidation of Axis spearheads) pending in Uruguayan Congress:

(1) In spite of vigorous appeal of Foreign Minister Rodríguez Larreta (despatch no. 7093 of March 29) no further progress has been made in consideration of bill in Congress.

²⁸ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

²⁹ Neither printed.

(2) In meantime, political situation has continued to deteriorate from Administration's standpoint, and Foreign Minister in particular is being bitterly attacked by opposition which demands his resignation, alleging he is responsible for Argentine refusal to supply needed wheat.

(3) Situation is now further aggravated by resignation of Blanco-Acevedista Ministers Castellanos and Schiaffino,³⁰ concensus being that President will experience great difficulty in filling vacancies and organizing Cabinet which can command majority in Congress.

(4) In circumstances, outlook for enactment of replacement legislation is far from bright and Auxiliary Officer Ezequiel D. Salinas, who has devoted so much time and effort to the matter, now expresses fear (in which I concur) that "bill may be lost in the political scramble." As Department knows, Embassy has pressed matter consistently and vigorously and bill has had strong support of such stout friends of democracy as Rodríguez Larreta, Minister of Interior Carbajal Victorica, and Senator Dardo Regules. Administration fully realizes deplorable position in which failure of bill will leave Uruguay but unfortunately it seems powerless to remedy matters.

DAWSON

862.20210/5-246 : Telegram

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

CONFIDENTIAL

MONTEVIDEO, May 2, 1946—12 a. m.

US URGENT

[Received 12:33 p. m.]

266. Depcirtel April 30.³¹ All organized German propaganda media completely liquidated.

See Embassy's despatches ending 7203 April 23³¹ for status of schools. Sociedad Escolar Alemana PL has given satisfactory buyer option at 247,500 pesos on Liceo Alemán building and equipment evaluated by buyer at 400,000 pesos. Sale is possible within 2 weeks Uruguyan Govt to block net proceeds in joint account.

Club Alemán PL is becoming inactive thru sale of premises to satisfactory buyer (Govt. will block residual 20,000 pesos).

Cámara de Comercio Alemana PL and Choral Society own no real property and are inactive.

Círculo Alpínista PL inactive but owns club building.

Liga Deportiva Alemán PL and Círculo Alemán PL own real property and remain active with small membership.

³⁰ Rafael Schiaffino, Minister of Industry and Labor, and Daniel Castellanos, Minister of Public Instruction.

³¹ Not printed.

Activities of Asociación Cultural Germano Uruguaya restricted principally to instruction German language. Recently made effort to increase current membership of about 65.

German church with predominantly PL membership and Nazi Party member pastor and Sociedad Alemana de Socorros Mutos are active. Embassy has made no direct effort to destroy them thru PL.

Glider Club liquidated.

Federation of German Societies Association of German engineers and veterans organization appear inactive but cannot be said to have ceased to exist.

Association for aid of needy Germans whose activities were highly political during war continues to operate but with less funds.

PL is principal repressive agent of above organizations and its withdrawal would permit resurgence in absence of adequate local controls outlook for which Embassy's despatch 7070 March 21³² and A-139 April 25 is not encouraging.

DAWSON

740.33112 RP/9-2746 : Telegram

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

SECRET

MONTEVIDEO, September 27, 1946—2 p. m.
[Received September 27—12:52 p. m.]

463. Embassy A 139, April 25. Foreign Minister tells me with chagrin there is no possibility of enacting replacement bill during present session, that members of his own party and Batllistas are not prepared to force issue on eve of elections, that he and Minister of Interior are apprehensive as to Govt's position if intervened firms institute court action, citing case of Quincke who is demanding intervention be lifted, that Minister of Interior opines unless bill is enacted shortly, interventions must be withdrawn since firms were intervened without congressional authority and that Foreign Minister is considering expediency in reviewing evidence on intervened firms and lifting intervention of those not deemed dangerous. I remonstrated on grounds of Quincke's record and Mexico City resolutions.³³ Foreign Minister finally asked me to study problem obviously hoping I might offer suggestions.

Information from other sources confirms impossibility of enacting bill before elections. However, contemplated review of firms may

³² Not printed.

³³ See Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February-March 1945* (Washington, 1945).

preclude further consideration of bill and involve gradual to total abandonment of interventions.

Dept's comments requested.

SPARKS

862.20233/11-1446 : Telegram

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

CONFIDENTIAL

MONTEVIDEO, November 14, 1946—6 p. m.

[Received 7:08 p. m.]

556. Embassy's despatch 7857 November 6.³⁴ I mentioned today to Foreign Minister release of Fuhrmann, *et als*, strong articles by Dr. Guani³⁵ and applicability of CPD³⁶ resolution 26, and inquired as to Govt's position. Foreign Minister said he received news in Chile and had been annoyed by leniency of Uruguayan courts. He has not had opportunity since return to consider matter but plans to consult with Judge De Gregorio to determine what Uruguayan Govt can do.

SPARKS

740.33112A/12-446

The Ambassador in Uruguay (McGurk) to the Secretary of State

RESTRICTED

MONTEVIDEO, December 4, 1946.

No. 22

SIR: I have the honor to refer to my telegram no 581, 1:00 p. m., of today's date³⁷ reporting a conversation with the Foreign Minister last evening concerning the proposal made by Senator Connally³⁸ on Monday at a United Nations session regarding an indication to Franco³⁹ that he should step down, and to report that during this conversation I had an opportunity to bring up with the Foreign Minister the question of the liquidation of Nazi firms in Uruguay. I approached the subject by referring to an editorial in *El País* on Monday last relating to the special session of the national Congress to be called this month and during which, among other things, the question of liquidation of Nazi firms is to come before that body. The Minister said that we were of course aware that he had done everything possible to bring about the liquidation of Nazi firms in Uruguay, particularly those qualified as spearhead, and that he proposed so to continue up to the

³⁴ Not printed.

³⁵ Alberto Guani, former Minister for Foreign Affairs.

³⁶ Committee for Political Defense; for documentation, see pp. 76 ff.

³⁷ Not printed.

³⁸ Senator Tom Connally, representative of the United States to the first and second sessions of the General Assembly of the United Nations, 1946.

³⁹ Gen. Francisco Franco, Prime Minister and Chief of State of Spain.

time of and during the special session. He however stated that he would find it very difficult to get any positive action for the reason that these firms had been in Uruguay for some time, that those in control were well acquainted in Uruguay, had intermarried within the country, had hosts of friends outside and inside the Government, and that they would of course exercise all of their influence to prevent any action being taken against them. He said that he could not give me any reasonable assurance that positive action would be taken but he said that he wished to assure me that he would continue his efforts to have something done along the lines desired.

I gather from this conversation that the Minister being a member of a minority party feels that he will not wield as much influence with the new Congress as heretofore and that he is not at all sanguine that his efforts to further the liquidation of the Nazi firms concerned will meet with much success.

Respectfully yours,

J. F. MCGURK

DISCUSSIONS BETWEEN URUGUAY AND THE UNITED STATES
CONCERNING AN AIR TRANSPORT AGREEMENT

711.3327/10-1846

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

[Extract]

RESTRICTED
No. 7776

MONTEVIDEO, October 18, 1946.
[Received October 23.]

SIR:

In the course of my conversation with Dr. Polleri⁴⁰ in which the general aspects of aviation problems in the River Plate area and their relation to the proposed agreement were discussed, I mentioned that I had seen the recent statement in the local press of Sr. José M. Peña, Director of Civil Aviation in Uruguay, in which he outlined Uruguayan civil aviation policy. The statement as it appeared in the press reads in translation as follows:

“Uruguay considers that the aviation problem is divided into three aspects: (1) That comprising lines of a domestic character susceptible of eventual extension abroad, which are reserved exclusively for national aviation. (2) International airlines, with long routes operated by companies of other nationalities, which fly over the national territory with respect to which the country (Uruguay) has aspirations that they will make regular stops on all their schedules in our territory at present—and in the future—utilizing for the purpose the magnif-

⁴⁰ Felix Polleri Carrió of the Uruguayan Foreign Office.

icent Carrasco Airport, for the moment one of the best in South America. (3) The service across the River Plate which Uruguay considers must be carried out under conditions of strict reciprocity and of mutual facilities and advantages which contemplate the respective interests, by lines genuinely Argentine and Uruguayan which respond to the well-understood aeronautical, economic, and political interests of the two interested countries.

“In setting forth the norms within which there must be assured, on the indicated base of reciprocity, the contemplation of those superior interests, such as can be contemplated within the criterion of the respective Governments, there will tend to formalize a bilateral accord between both sister nations which we have had, moreover, the great satisfaction of raising by virtue of an initiative of the Argentine authorities who are in agreement with the Uruguayan position in that respect. This circumstance is more expressive than any other fact in order to insure the success that the negotiations about to be opened with the delegations of both countries already designated undoubtedly will have.”

I observed that there appeared to me to be an obvious conflict in the policy as stated by Sr. Peña, should Uruguay require foreign airlines to land all flights in Montevideo, and at the same time should reserve exclusively to Argentine and Uruguayan airlines the “River Plate service” (presumably the traffic between Montevideo and Buenos Aires). I added that such policy would seem to be in direct conflict with more recent developments in international aviation policies and, particularly, with the terms contained in the proposed air transport agreement between the United States and Uruguay. (It might be added parenthetically that Sr. Peña has always held these ideas with respect to what he terms the peculiar situation of the River Plate.)

Dr. Polleri was inclined to agree that a conflict might exist between the second and third points outlined by Sr. Peña. He went on to express informally a personal opinion that in the event of conflict between Uruguayan domestic aviation, including the short hop to Buenos Aires, and foreign trunk lines, Uruguay should probably be prepared to sacrifice the national lines because of the greater advantages that would normally and naturally accrue to the country as a result of the efficient operation of foreign airlines calling at Montevideo. Dr. Polleri added that this problem is causing Uruguay considerable difficulty in negotiating agreements with other foreign countries, mentioning Argentina, Great Britain, France and Holland. I said that if the statements made by Sr. Peña indeed reflected the thinking of the special commission, I felt that it was imperative that I be afforded an early opportunity to discuss the matter with the commission. Dr. Polleri stated that he believed that these matters are now being examined by the commission with a view to determining just what Uruguayan aviation policy should be. I outlined what I

considered to be forceful arguments which would prevent our accepting such an exception to the Fifth Freedom,⁴¹ and I stressed particularly the new Section C which we desire to incorporate in the agreement. I pointed out that the terms of the Section would provide for fair and equal opportunity in the operation of the routes and that air transport capacities would bear a close relation to traffic requirements and take into account the reciprocal interests. I particularly emphasized paragraphs D and E of the section. I also referred to our efforts to assist PLUNA which Dr. Polleri recognized. In considering the problem of traffic between Montevideo and Buenos Aires, it is in a sense a special problem in that the distance between the two cities is about one-half that between New York and Washington, and that both countries would like to reserve to themselves this appreciable potential air traffic.

From my conversation with Dr. Polleri I obtained the impression that opposition to the terms of our proposed agreement may be expected from Sr. Peña, but that his convictions are not necessarily shared by the other members of the commission. I hope shortly to be able to ascertain just what is the consensus of the commission.

It is pertinent in connection with these agreements that under Section 7 of Article 75 of the Uruguayan Constitution the Uruguayan Government must submit such agreements to the General Assembly for approval. Section 7 stipulates that it is the power of the General Assembly "to approve or reject, by absolute majority of the total members of both chambers, treaties of peace, alliance, commerce and the conventions or contracts of *whatever nature* that the Executive Power may conclude with foreign powers."

Respectfully yours,

EDWARD J. SPARKS

711.3327/11-2746 : Telegram

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

CONFIDENTIAL

MONTEVIDEO, November 27, 1946—6 p. m.

[Received 7 p. m.]

570. For Merchant⁴² from Mitchell.⁴³ Called today on Foreign Minister⁴⁴ and Pratt de Maria FonOff representative on Commission with which I expect to meet tomorrow.

⁴¹ See Department of State, *Proceedings of the International Civil Aviation Conference, Chicago, 1944* (Washington, Government Printing Office, 1948) vol. I, p. 179.

⁴² Livingston T. Merchant, Chief of the Aviation Division.

⁴³ Presumably Lt. Col. William Mitchell, Office of the Assistant Secretary of War for Air.

⁴⁴ Eduardo Rodríguez Larreta.

Pratt de Maria stressed he was not speaking for Commission but indicated possible Uruguayan desire to insure minimum number stops Montevideo and suggested exchange of diplomatic notes or possibly direct understanding with Pan American. He said while Carrasco now has much better facilities than Buenos Aires, Argentina may well develop better airport in near future and Uruguay fears airlines may then overfly and stop only in Buenos Aires. We stated matter must be considered in relation to joint release with British of September 19⁴⁵ and also as precedent.

Embassy believes Uruguay is not so much concerned with Pan American's future failure to stop as with desire for precedent for agreements with other countries.

Local Pan American representative is unable give Pan American's position without consultation but states Uruguay facilitates maintenance and refueling and believes Pan American will always desire make reasonable number of stops here.

Doubtful questions are effected on Pan American's plans for operation, possible precedent whereby small countries could require US carriers to stop elsewhere, and meaning of "pre-determination of frequencies" in paragraph 4 B of joint release of September 19. If we agree to minimum number stops, believe proper method is by route description in annex with obligation to continue only so long as airport facilities at Montevideo are adequate for technical and operational requirements of US airlines. Will explore question further here but request instructions general US position. [Mitchell.]

SPARKS

711.3327/11-2746: Telegram

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

CONFIDENTIAL

WASHINGTON, December 3, 1946—6 p. m.

436. Embtel 570 Nov 27. Dept willing assure reasonable commercial service at Montevideo by designated US airlines but would like avoid any mention of specific or minimum number frequencies. Would Uruguayans be satisfied with exchange notes referring to last para Section A Annex re non-stop flights, qualifying same with our assurance that as long as Montevideo airport and facilities adequate our airlines will stop there on sufficient number of schedules to offer reasonable commercial service? No objection if PanAm implements this

⁴⁵ Department of State *Bulletin*, September 29, 1946, p. 577.

with like assurance and possible further estimate re number or percentage frequencies they contemplate stopping Montevideo.

Sent Montevideo; rptd London as Deptel 8004 referring to Deptel 7727 Nov 15 to London.

ACHESON

711.3327/12-546 : Telegram

The Ambassador in Uruguay (McGurk) to the Secretary of State

RESTRICTED

MONTEVIDEO, December 5, 1946—9 p. m.

[Received 9:16 p. m.]

584. Merchant from Mitchell. As result of second meeting held today with special commission it appears certain that agreement in standard form plus minor changes already approved by Department can be reached with Uruguay, provided annex contains new paragraph reading:

“That, so long as traffic requirements justify such service and the airport facilities provided at Montevideo are adequate for the technical and operational requirements of United States airlines, the number of landings scheduled by US airlines at the airport serving Montevideo shall be at least as great as that scheduled at such airport by US airlines at the time this agreement comes into effect.”⁴⁶

Uruguayan position is (1) they enjoy entirely satisfactory air service without agreement and are requesting no routes for Uruguayan carriers; (2) they are under pressure from their own airlines to curtail Fifth Freedom privileges by reserving Buenos Aires-Montevideo traffic; and (3) they must defend agreement against their own airlines and opposition forces in Congress which must ratify it. Despite these factors (reDeptel 436, December 3) Uruguay believes insertion above paragraph will make ratification possible and they are prepared to give immediate effect to agreement pending ratification. It is possible above paragraph could be contained in exchange of notes but since latter must be public we strongly recommend it be included in annex, where it will be useful in ratification process. Moreover it does not represent departure from established principle. British position (London's telegram 9929 to Department⁴⁷) strengthens this conviction. Urge approval conclusion on this basis. Expedite full powers. [Mitchell.]

McGURK

⁴⁶ In telegram 439, December 6, 1946, 7 p. m., the Department indicated acceptance of this paragraph (711.3327/12-546).

⁴⁷ Not printed.

711.3327/12-646 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(McGurk)*RESTRICTED
US URGENT

WASHINGTON, December 11, 1946—5 p. m.

444. Text of air transport agreement forwarded urdes 33 Dec 6⁴⁸ appears satisfactory except for following.

Re art 12 we would prefer language based on US bilateral agreements with Greece and Czecho⁴⁹ "The provisions of this agreement shall become operative from the day it is signed. The Uruguayan Govt shall notify the Govt of the USA of the approval of this agreement by the Uruguayan Congress, and the Govt of the USA shall consider the agreement as becoming definitive upon the date of such notification by the Uruguayan Govt."

If Uruguayans insist on using their art 12 form, Dept feels revision still necessary. Their art 12 has definite treaty connotations and first sentence implies we also will exchange instrument of acceptance, which is impracticable under our executive agreement procedure. Without changing substance of Uruguayan language Dept suggests following much more acceptable from our standpoint:

"This agreement will be approved by each contracting party in accordance with its own law, and the agreement shall enter into force definitively upon an exchange of diplomatic notes in Montevideo indicating such approval. Pending the approval of this agreement by the Uruguayan Congress and the exchange of notes mentioned in the first sentence of this paragraph, both contracting parties undertake, in accordance with their constitutional powers, to make effective the provisions of this agreement from the date on which it is signed". In any event you should make clear that a note from Uruguayan Govt informing of approval by its Congress will be adequate for our purpose, and even if they choose to transmit instrument of acceptance therewith, we intend merely to acknowledge their note and confirm understanding that agreement has come into force definitively from such date.

Believe Sections B and C of annex should read "shall" instead of "should".

Para B Section 2 Annex line 5 page 7 English draft: recommend words "to be" be inserted after "route or routes". Our interpretation this para that Uruguayans will be accorded traffic rights in US on route or routes to be agreed upon, whereas present language might

⁴⁸ Not printed.⁴⁹ Department of State, *Treaties and Other International Acts Series Nos. 1560 and 1626.*

mean Uruguayans could obtain same rights in US as US services on routes already agreed to in para A this section.

President signed Full Power for McGurk and Mitchell Dec 10 which is being forwarded air pouch. Impracticable for Dept to notify Uruguayan FonOff directly, but separate tel informs Emb re Full Power, and Emb may certify this tel to FonOff.

Telegraph final language art 12 and whether other above modifications can be made.⁵⁰

ACHESON

**EFFORTS OF THE UNITED STATES TO RELIEVE URUGUAY'S
WHEAT CRISIS**

833.61311/4-846 : Telegram

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

SECRET

WASHINGTON, April 8, 1946—7 p. m.

148. World deficit in wheat first half 1946 only covered to extent 60 percent by supplies available from exporting countries. Hence not contemplated import requirements of any claimant country can be met in full. Arg represented on CFB Cereals Committee. Since transportation difficulties so severely limit amounts exportable from Arg in this period as to call in question that country's ability to cover minimum requirements of such historic importers as Braz, Peru, Bolivia and Paraguay, it is unlikely Arg could supply to Uruguay except on basis of minimum consumption needs.

Emb therefore requested ascertain on what consumption basis 100,000 tons import requirement for Uruguay computed.

BYRNES

833.61311/4-1046 : Telegram

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

SECRET

MONTEVIDEO, April 10, 1946—5 p. m.

US URGENT

[Received 7:05 p. m.]

222. Average Uruguayan consumption wheat about 250,000 tons. Deptel 148, April 8 actual and estimated crop shortages total roughly 100,000 tons. Foreign Minister⁵¹ states while this amount required for normal needs, Govt is about to ration wheat probably on basis of

⁵⁰ In telegram 594, December 13, 1946, 7 p. m., Ambassador McGurk indicated that the Department's modification of the Uruguayan version of article 12 and other minor changes were acceptable to Uruguay. The air transport agreement was signed at Montevideo, December 14, 1946, and entered into force provisionally on that date. (711.3327/12-1346)

⁵¹ Eduardo Rodríguez Larreta.

reduction of one-third in wheat deliveries to mills. Foreign Minister expresses personal belief that country can get by with imports of 50,000 tons. Inquires urgently whether US can assure supply of 50,000 tons for July delivery. Embtel 220 ⁵² today Foreign Minister points out that such assurances would greatly strengthen Uruguayan position vis-à-vis Argentina.

DAWSON

833.61311/4-1246 : Telegram

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

SECRET

MONTEVIDEO, April 12, 1946—11 a. m.

[Received 11:17 a. m.]

231. Following is summary of views expressed to me by Uruguayan close to President ⁵³ who has spent week in Buenos Aires in effort to obtain wheat.

“Argentine could furnish Uruguay 50,000 tons requested. Refusal due solely to Perón ⁵⁴ who is using wheat as instrument in building up anti-US bloc having promised 50,000 tons each to Bolivia and Paraguay and 100,000 to Peru. Perón resents attitude Amezaga administration and is grateful to Herreristas. He aims to bring Uruguay under control and encourage establishment government subservient to him. For present his policy will be to humiliate, embarrass and discredit Amezaga administration and build up and aid Herreristas with view to victory in November elections. Attitude towards Uruguay already verges on aggression and constitutes serious danger for Uruguay and US. Reduction Uruguay to vassal state would be great victory for Perón and defeat for US. Informant convinced US must and will assist Uruguay insofar as practicable”⁵⁵

Full memo of conversation ⁵⁶ by courier. Repeated Buenos Aires.

DAWSON

833.61311/4-2446 : Telegram

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

MONTEVIDEO, April 24, 1946.

[Received April 24—11:05 a. m.]

255. By decree yesterday Government ordered expropriation of all stocks of wheat and wheat flour and intervention of all establishments dealing in OEE milling wheat. Intervention contemplates extensive

⁵² April 10, not printed.

⁵³ Juan José Amezaga.

⁵⁴ Juan Perón, President elect of Argentina.

⁵⁵ For the opinion of the Ambassador in Argentina on the danger of a southern bloc, see despatch 583, August 15, 1946, p. 297.

⁵⁶ Not printed.

measures for regulating milling use of flour and distribution of wheat and wheat products. For present holders of wheat and flour are prohibited from supplying customers more than 66% of 1945 average deliveries. Text by airmail.

DAWSON

833.61311/4-2446

*Memorandum by the Assistant Secretary of State for American Republic Affairs (Braden)*⁵⁷

TOP SECRET

[WASHINGTON,] April 24, 1946.

Before luncheon at Blair Lee House today I explained the Uruguayan wheat situation to Secretary Anderson,⁵⁸ emphasizing two points:

1. We have certain formal commitments which obligate us to supply Uruguay, as per attached copy of note and letter directed to Secretary Anderson and signed by Mr. Acheson.⁵⁹
2. As a matter of fact, the supplying of this wheat to Uruguay does not cut into the world supply situation at all because the wheat which should have gone to Uruguay from Argentina will eventually have to be exported from that country in any case.

Secretary Anderson was greatly concerned as to the position he would be in after the public announcement that a shipment of as much as 50,000 tons would be made. I told him all we were concerned about was to get the announcement out today of the first shipment.

Secretary Anderson doubted that he had the authority to authorize shipment of 50,000 tons, including three shipments of 8,000 tons each for May, June and July, and therefore endeavored to communicate with Mr. Craig⁶⁰ of the Department of Agriculture. He was not able to get him on the telephone before luncheon and after luncheon Don Kennedy got the call through. After speaking to Craig, the Secretary told me that he could only make me a firm commitment for the May shipment, that was all right, go ahead; but not to worry about the June and July shipments (*sic*) since they would be worked out later.

SPRUILLE BRADEN

⁵⁷ Addressed to ARA: Mr. Briggs; A-Br.: Mr. Wright; RPA: Mr. Mann.

⁵⁸ Clinton P. Anderson, Secretary of Agriculture.

⁵⁹ Not printed.

⁶⁰ Glenn H. Craig, Executive Officer, Combined Food Board.

833.61311/4-2546 : Telegram

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

RESTRICTED
US URGENT

WASHINGTON, April 25, 1946—6 p. m.

167. Pls inform FonMin that a definite allocation of one cargo amounting to approximately 8,000 tons of wheat for shipment from US in May has been approved by appropriate authorities and that allocations of additional cargoes for later shipment are under active consideration. It is expected that the Govt of Uruguay or its agents will make necessary commercial arrangements for purchase and shipment thru ordinary commercial channels of wheat in question. We are transmitting note to this effect to Uruguayan Emb here.

Pls explain confidentially to FonMin that Dept is confident subsequent allocations can be obtained for shipment from US in June, July, Aug and Sept of balance 50,000 tons requested if need continues. However in view of terrific demand on US supplies to alleviate immediate starvation in famine areas no official public announcement or commitment can be made at this time for more than the May shipment referred to.

We have no objection to immediate public announcement by FonMin of allocated cargo for shipment in May and believe he would be justified in assuming air of confidence that additional shipments will be forthcoming.

Uruguayan Emb here has been informed of foregoing.

ACHESON

733.35/6-846 : Telegram

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

MONTEVIDEO, June 8, 1946.

[Received June 8—9 : 30 a. m.]

325. Montevideo *Mañana* carries report its special correspondent quoting Perón as stating that Argentina has not slightest prejudice or resentment which could affect its relations with Uruguay and that its foreign policy can be summarized in following formula: first Argentina; second neighboring countries, third nations of Latin America; and fourth other countries, and that his Government has directed that wheat be furnished Uruguay at prices and conditions prevailing in Argentina, delivery to be made without intermediaries and between official organisms.⁶¹

Repeated Buenos Aires.

DAWSON

⁶¹ In telegram 331, June 12, 1946, the Ambassador reported an exchange of notes between Argentina and Uruguay providing for the sale by the former of 50,000 tons of wheat to the latter (833.61311/7-2946).

833.61311/6-1146 : Telegram

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

CONFIDENTIAL

WASHINGTON, June 11, 1946—7 p. m.

221. July wheat export program being finally determined. Pls cable whether FonMin considers report contained urtel 325 June 8 changes Urug need for US wheat to extent that July cargo can be foregone.⁶² Urgent demand from famine areas makes US export position extremely difficult.

BYRNES

833.61311/7-2946 : Telegram

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

SECRET

WASHINGTON, July 29, 1946—6 p. m.

US URGENT

294. Uruguayan Emb here states that it needs 20,000 tons of wheat for delivery next Oct and Nov. Uruguay offers to make immediate commitment for purchase or alternatively to agree to return same quantity wheat in Jan after harvesting.

Uruguayans stated that while Argentina apparently wishes to comply with its promises thus far Argentine wheat has arrived slowly and in small quantities. Mora⁶³ expressed fear that Perón might at critical moment in elections stop shipments entirely for purpose influencing outcome elections and further that Argentina's strong bargaining position threatens Uruguay's freedom of action.

We asked for detailed info re present supply situation in Uruguay and re Uruguay-Argentine contract and deliveries thereunder past and expected. This and other information necessary for appraisal of need would be helpful in negotiations with interested agencies. Mora stated he would cable request for info and suggested separate inquiry be made of FonOff through you.

Pls cable report and your recommendation including report on current status of Uruguayan measures to conserve supply.

ACHESON

⁶² In telegram 333, June 13, 1946, 11 a. m., the Ambassador reported that no July cargo from the United States was required (733.35/6-1346).

⁶³ José A. Mora, Uruguayan Chargé in Washington.

833.61311/7-3046 : Telegram

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

SECRET

MONTEVIDEO, July 30, 1946—7 p. m.

[Received 8 : 40 p. m.]

403. For basic information re Uruguayan wheat situation see despatches 6960, 7335, 7396 and report 169, June 24.⁶⁴ No official estimate production new harvest available but heavy rains in July and tendency to plant more linseed make present outlook uncertain. Prevailing price level for linseed is double that for wheat. Total wheat receipts June and July from US 17,487 tons and from Argentina 4386 tons.

Normal 25,000 tons monthly consumption has been reduced by 30 percent (17 in milling and 13 in lower sales of bread) so minimum 17,000 tons monthly needed from abroad August through November. Political situation makes further reductions in consumption impossible. Lower percent milling of grain was demanded in recent lockout of bakers and Government may be forced to permit some improvement in flour. Total needed for August–November is 68,000 tons and if 46 more are received from Argentina final theoretical deficit would be 22. Embassy therefore believes Uruguay will need minimum 20,000 tons from US for October and November delivery. Embassy recommends such wheat be purchased and not borrowed against future harvest.⁶⁵

DAWSON

833.61311/9-546

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

No. 7648

MONTEVIDEO, September 5, 1946.

[Received September 11.]

SIR: I have the honor to refer to the Department's telegram no. 322 of August 21, 1946⁶⁶ requesting the Embassy to keep the Department informed on details of developments in the Uruguayan wheat situation.

In an interview held on September 3, 1946, Sr. E. Storace Bordaberry, the President of the National Subsistence Board (Comisión Nacional de Subsistencias), stated that it had been the original intent of Uruguay to obtain 80,000 tons of wheat from Argentina for the six months period June to November, inclusive, but that 30,000 tons, al-

⁶⁴ None printed.⁶⁵ In telegram 322, August 21, 1946, 6 p. m., the Department conveyed the authorization of the Department of Agriculture for the export of 8,500 long tons of wheat to Uruguay during September (102.78/8-2146).⁶⁶ Not printed.

though promised officially by the Argentine authorities, had been cancelled. The request was then made for 50,000 tons from the United States since, even with reduced consumption, Uruguay would need a minimum of 17,000 tons of wheat monthly during the six months period.

During the three months period, June to August, inclusive, Uruguay has actually received only 36,649 tons of wheat, of which 19,162 tons have come from Argentina and 17,487 from the United States. This tonnage has been almost completely consumed, and, if new supplies of wheat are not received by the middle of this month the situation will become critical. Dr. A. Dominguez Cámpora, a director of the Bank of the Republic, is at present devoting his full time to trying to persuade the officials in Argentina to ship to Uruguay during September the quantity of wheat which had been promised from Argentina for the month of October.

Sr. Storace understands that two vessels will sail from Baltimore, Maryland, and Philadelphia, Pa. on September 10 and September 29, respectively, both carrying cargoes of 8,500 tons each.

It is the opinion of Sr. Storace that, if 8,000 more tons of wheat can be obtained from Argentina during September, and if there is no delay in the arrival of the 17,000 tons from the United States, the situation will not again become critical until the first part of November, at which time Uruguay hopes to obtain another shipment of 8,000 tons from Argentina. If successful, however, the total amount of imports for the period of wheat from both countries will amount to only 69,000 tons, as compared with necessities of 102,000, based on a monthly consumption of 17,000 tons, thereby leaving a deficit of 33,000 tons. He believes, therefore, that the situation between November and December 15 may be extremely critical and that additional quantities may have to be obtained at that time from both the United States and Argentina.

There is a possibility that the harvesting of the early wheat may begin in the first days of December, but there is no high degree of optimism at present that this will take place. The locust invasion is now causing serious concern in Uruguay and measures are being taken in an effort to bring it under control. Uruguay is officially reported to have planted approximately 400,000 hectares with wheat, and, if an average yield of 800 kilos per hectare should develop, there will be a harvest of 320,000 tons, from which 40,000 tons must be taken for seed. The majority of the well-informed experts, however, are not anticipating at this moment a harvest materially in excess of 250,000 tons, which, less the 40,000 tons for seed, is approximately the average annual consumption.

Sr. Storace emphasized that the situation regarding wheat in Uruguay continues not only extremely serious, but that at any time it may become critical. He also emphasized that forecasts of the next harvest are subject to change from day to day as weather and other conditions change in the interior.⁶⁷

Respectfully yours,

For the Chargé d'Affaires ad interim:

FRANKLIN W. WOLF

Commercial Attaché

833.61311/10-2146

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

No. 7787

MONTEVIDEO, October 21, 1946.

[Received October 30.]

SIR: I have the honor to refer to the Department's telegram No. 322 of August 21, 1946⁶⁸ requesting the Embassy to keep the Department informed in detail with regard to developments in the Uruguayan wheat situation, and also to this Embassy's Confidential Despatch No. 7648 of September 5, 1946 replying thereto.

During the month of September Uruguay received no wheat from the United States, but did receive a total of 9786 tons from Argentina. During the month of October to date Uruguay has received no wheat from the United States, but has received a total of 8649 tons from Argentina.

Although these receipts from Argentina during September and October were of the greatest value in easing the critical situation in Uruguay, particularly in view of the fact that the scheduled shipments from the United States were delayed due to the maritime strike, the situation remains extremely serious.

As explained in this Embassy's Despatch No. 7648 referred to above, the minimum requirements of Uruguay during the six-month period June to November inclusive were established by competent government experts to be 102,000 tons, or an average of 17,000 tons per month. During the period from June 1 to date Uruguay has actually received only 55,084 tons of wheat, of which 17,487 have come from the United States and 37,597 from Argentina. It is clear, therefore, that, even if the 17,000 tons allocated to Uruguay by the United States should be received prior to the end of the current month, there would still be a theoretical deficit in the minimum requirements of 13,000 tons. Under the agreement with Argentina there is precisely this quantity still due

⁶⁷ In telegram 360, October 4, 1946, 7 p. m., to Montevideo, the Department advised that for the fourth quarter of 1946, 17,000 tons of wheat were allocated to Uruguay (833.61311/10-446).

⁶⁸ Not printed.

as the balance undelivered of the scheduled 50,000 tons, but whether or not it can be made available in time is, at the moment, doubtful. The Uruguayan authorities have advised this Embassy that there are only two further shipments expected from Argentina in the near future, such shipments totalling only 680 tons, but every effort is being made to obtain additional quantities as soon as possible. Present indications are that the month of November, which coincides with the election period, will prove extremely serious, if not critical, inasmuch as no harvesting of the early wheat can begin until the first part of December. However, it is understood that the Uruguayan vessel *Tacoma* is now in the port of Baltimore loading a full cargo of wheat for Uruguay, and, if this operation is successful, the situation will be improved.⁶⁹

This Embassy will continue to keep the Department advised regarding developments in this situation.

Respectfully yours,

For the Chargé d'Affaires ad interim:

FRANKLIN W. WOLF

Commercial Attaché

⁶⁹ The departure of this vessel carrying 8,000 tons of wheat and the loading at Philadelphia of 8,500 tons of wheat for Uruguay in another vessel were indicated in telegram 409, November 8, 1946, to Montevideo (833.61311/10-2146).

VENEZUELA

INTEREST OF THE UNITED STATES IN THE VENEZUELAN POLITICAL SITUATION¹

831.00/7-1346

The Ambassador in Venezuela (Corrigan) to the Assistant Secretary of State for American Republic Affairs (Braden)

CONFIDENTIAL

CARACAS, July 13, 1946.

DEAR SPRUILLE: As you will have gathered from our recent telegrams and despatches, the political situation here is most uncertain and almost anything may happen. Obviously, with registration for the elections begun, it is to the interest of all concerned that the elections be held in a calm atmosphere of complete fairness although some hotheads may not see it that way.

The preoccupation of the Junta with the possibility of revolution is shown by the fact that its three leading members, Rómulo Betancourt, Lt. Col. Carlos Delgado Chalbaud and Major Mario Vargas, asked me to dine with them in private the night before last. They went into the whole question with apparent frankness and asked me, in the interests of Venezuela's well-being, to get word to General López Contreras,² now in Medellín, as to my judgment of the local situation in the hope that that would help him to form an unbiased opinion and thus exercise his influence toward moderation. Some of the revolutionary plotters here have been invoking the General's name and the Junta triumvirate fear that he has been completely misinformed by his local lieutenants, of which there is some evidence in his telegram of June 19 to Delgado Chalbaud and Vargas.

My own impression is that López Contreras would never countenance a revolution in his name unless he thought that something very akin to complete totalitarianism had settled down on Venezuela which is hardly the case. I do, however, agree with the triumvirate that it would be well for him to get impartial information and that this Embassy is in the best possible position to act as a friend of both parties in the matter. I asked the triumvirate what they would think

¹ For documentation on the recognition in 1945 by the United States of the Venezuelan Revolutionary Junta, see *Foreign Relations*, 1945, vol. ix, pp. 1401 ff.

² Former President Eleázar López Contreras.

of my having Allan Dawson³ go over and talk to López Contreras and they expressed complete satisfaction.

I am consequently having Dawson leave for Bogotá tomorrow, the earliest he could get plane reservations, as indicated in my telegram No. 355 of July 13, 1 p. m. . . .⁴

CORRIGAN

831.00/7-1346 : Telegram

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

SECRET

WASHINGTON, July 14, 1946—5 p. m.

US URGENT

287. Urtel 355, July 13.⁴ Without complete info re conditions and especially character message Dawson has been asked convey López Contreras it is of course impossible for Dept to reach any definitive conclusion. Dept relies fully upon your judgment and discretion in handling situation and is most anxious to lend all proper aid to preserve peace. Nevertheless Dept considers Dawson's mission a most delicate matter which, if misunderstood, might lay this Govt open to charge intervention. For this reason Dept believes it would be highly desirable obtain association at least one and preferably two other Am republics. To that end Amb Wiley⁵ should immediately discuss with Col FonMin.⁶ In this connection you may desire enlist cooperation your Col colleague if you have not already done so.

Unless Col Govt is willing to have a representative join Dawson in informal discussion with López Contreras Dept doubts wisdom Dawson proceeding with conversation.

Travel authorization follows. Repeated to Bogotá.

ACHESON

831.00/7-1546 : Telegram

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

SECRET

CARACAS, July 15, 1946—2 p. m.

U.S. URGENT NIACT

[Received July 16—4:15 a. m.]

357. Deptel 287, July 14. Complete information is contained in despatch reporting conversation with Junta leaders⁴ and including

³ Counselor of Embassy.

⁴ Not printed.

⁵ John C. Wiley, Ambassador in Colombia.

⁶ Francisco Umaña Bernal.

memorandum from me to Dawson outlining limits of his proposed conversation with López Contreras. Delicacy of this matter is fully appreciated and I am grateful for Dept's expression of confidence. My presence was at the request of Betancourt and when he broached the subject I carefully considered the intervention angle and made it very clear that we would not intervene in Venezuelan internal affairs although always willing to help on friendly basis. My specific disclaimer and Govt's clearly demonstrated initiative rule out idea of intervention. They expressed wish for a friendly interchange with López Contreras which would afford him accurate information regarding their views of present situation. They indicated their belief that since I enjoy confidence of López Contreras in addition to theirs I could handle this. Betancourt's friendship and confidence in Dawson makes him uniquely useful. I am positive that they would not want an official representative of Colombian or any other Govt brought in at this time. Their desire is for discussions in friendly and confidential atmosphere which would be disturbed by such action. Therefore I am concerned lest Dept's suggestion for association of one or preferably two other American Republics elevate whole matter to official or diplomatic level by giving official significance to what is now family matter in which we are playing the part of family friend. Dawson is now in Bogotá and expected to go to Medellín today. Please instruct him accordingly.

Repeated Bogotá.

CORRIGAN

831.00/7-1546 : Telegram

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

CONFIDENTIAL

WASHINGTON, July 16, 1946—6 p. m.

US URGENT NIACT

291. Urtel 357 July 15. Pending receipt full info in desp referred to, Dept reiterates opinion that association with Col most desirable particularly since latter as host to López Contreras has legitimate interest and responsibility in any political activities carried on by him from Col soil. Dept appreciates possible disinclination of Betancourt to have Col participate, but believes the over-riding consideration of protecting this Govt from any possible charge intervention counsels this step.

Since Dawson's trip to Medellín is not likely to escape Col attention, Dept considers it highly desirable that Col Govt be informed.

Repeated to Bogotá for Amb and Dawson.

BYRNES

831.00/7-1746 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, July 17, 1946—7 p. m.
[Received July 18—6:10 a. m.]

496. Mytel 488, July 16.⁹ Mr. Dawson returned this afternoon from Medellín after 2-hour interview with López Contreras. Dawson proceeding tomorrow by air to Caracas whence full report will be submitted to Dept. I took Dawson to President Lleras¹⁰ this evening to whom Dawson gave full account of conversation which, in very brief substance was that the General retains his rancor, is not involved in any revolutionary plots, has no political ambitions but has no intention of pulling any political chestnuts out of fire for triumvirate. He stated that if Junta took really positive steps promising truly national govt his collaboration might be counted upon. He further stated he intended proceed Miami in December. Dawson added that General was living in most modest circumstances in Medellín.

President Lleras will call in Santos¹¹ on his return and will I think attempt to follow up and support Dawson's mission since Colombian Govt is obviously much preoccupied over political conditions in both Venezuela and Ecuador for fear of repercussions in Colombia. On this subject President Lleras stated his information was that a military *coup d'état* in Ecuador was imminent. He spoke of impending military maneuvers in neighborhood of Quito with great misgivings.

Repeated Caracas; substance of last paragraph repeated to Quito.

WILEY

831.00/7-1946 : Telegram

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

SECRET

CARACAS, July 19, 1946—7 p. m.
[Received 11:23 p. m.]

US URGENT

364. Bogotá's telegram 496, July 17, 7 p. m. Dawson returned today. López Contreras made and repeated categorical statement to Dawson in Medellín July 16 that he was not and would not be involved in any revolutionary movement and had no further political ambitions and authorized Dawson to so inform Betancourt. López Contreras said it was clear Betancourt wanted him to make public statement which would help Junta but that this he would not do until and unless it formed a national unity rather than party govern-

⁹ Not printed.¹⁰ Alberto Lleras Camargo, President of Colombia.¹¹ Former President Eduardo Santos.

ment or turned over presidency to Chief Justice and took convincing steps to eliminate suspicions regarding fair conduct of elections. He said his only personal interest was in revindication from Junta's "calumnies and persecution" but that he would himself take no steps to clear his name before the courts feeling that legitimate government or posterity would take care of this.

In statement released to press before Dawson's talk with him and published in Bogotá and Medellín papers July 17 mostly unexceptionable and devoted to defense of his administration López Contreras said *inter alia* "the hour of rectification has arrived". While not published in Caracas Junta undoubtedly informed of it. Its wording might be construed as incitement.

Dawson and I have meeting scheduled with Betancourt and Vargas at 8 tonight at which we will inform them of conversation with López Contreras. Delgado Chalbaud broke hip July 16 and not available but hope to see him shortly.

CORRIGAN

831.00/7-1946 : Telegram

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

SECRET

CARACAS, July 19, 1946—10 p. m.

US URGENT

[Received July 20—1:05 a. m.]

366. Mytels 364 July 19, 7 p. m. and 365 July 19, 8 p. m.¹² Dawson and I this evening at Miraflores gave Betancourt and Vargas account of former's conversation with López Contreras.

Betancourt remarked that López's utterances did not jibe with events of yesterday when 7 persons were arrested locally and one in San Cristóbal suspected of involvement in revolutionary plot. Vargas then interposed that Junta had no evidence connecting López with plot.

Junta members said 2 Copei¹³ leaders, Fleury Cuello and Asa Sánchez, 3 others and Father Moncada, Catholic priest ex-army chaplain, had been involved in plotting locally with Picón Lares acting as intermediary for Rangel Lamus now in Cúcuta and other exiled Lopecista leaders; man arrested in San Cristóbal was young son of Rangel Lamus acting as courier.

Vargas volunteered that Caldera and Lorenza Fernández of Copei were opposed to violence and had consequently left country at this

¹² Latter not printed.

¹³ The newly organized Comité de Organización Política Electoral Independiente.

juncture to avoid possible appearance of responsibility but that some other Copei leaders wanted violence.

Betancourt and Vargas both asserted that revolution would have no chance of success and that they were sure of Army from which disloyal elements have been gradually eliminated. Both commented that city was quiet, which seems to be true.

Betancourt informed me that decree setting elections for either September 22 or October 5 would be issued tomorrow by Junta and that Constituent Assembly would meet October 18.

Betancourt said he would think over possibilities of a gesture toward López and talk to me on subject again after return from his trip. He stated that review of jury of civil and administrative responsibility cases was being considered to be undertaken whether by Junta itself or group of distinguished nonpartisan men.

He expressed interest in seeing Lleras Camargo in Barranquilla (Lleras intimated to Dawson that he would probably go there and press today confirms this). Betancourt also intimated Eduardo Santos might meet him in Barranquilla. This would be desirable because of Santos equanimity, close friendship with López and respect in which Betancourt holds him.

CORRIGAN

831.00/7-1946 : Telegram

The Secretary of State to the Ambassador in Colombia (Wiley)

CONFIDENTIAL

WASHINGTON, July 19, 1946—5 p. m.

409. We are gratified Colombian President was fully informed Dawson conversation and as stated previous telegrams believe any other course might have exposed us to serious difficulties. We believe that if any further steps are contemplated they likewise should be fully and frankly discussed with Colombia, either through your colleague in Caracas or through Ambassador Wiley Bogotá.

Repeated Caracas.

BYRNES

831.00/7-2646 : Telegram

The Ambassador in Colombia (Wiley) to the Secretary of State

CONFIDENTIAL

BOGOTÁ, July 26, 1946—7 p. m.
[Received July 27—9:10 a. m.]

540. FonMin informed me he and President Lleras will leave Monday to meet Venezuelan President Betancourt in Barranquilla. He

said they will return to capital Tuesday. When questioned re any possible attempts against the life of Betancourt he indicated he did not believe any such occurrence would take place as every precaution had been ordered by Colombian authorities. Concerning Venezuelan ex-President López Contreras, now in Medellín, FonMin said Venezuelan political refugees are welcome to live in Colombia but decision had been reached that those in border states must move to interior points. When asked re recent statements made by López Contreras against present Venezuelan regime, he replied Colombia did not wish to interfere in such matters and that certain elements now in Betancourt's regime when exiled in Colombia indulged in similar activities.

WILEY

831.00/7-1346

*The Assistant Secretary of State for American Republic Affairs
(Braden) to the Ambassador in Venezuela (Corrigan)*

SECRET

WASHINGTON, July 30, 1946.

DEAR FRANK: I am very glad to have your letter of July 13 giving me more of the background concerning Dawson's recent trip to Medellín. Taking into account the current status of the Venezuelan political scene, it was readily apparent to us in the Department that no harm and possibly much good would come of a frank exchange of views between López Contreras and the Junta. However, I know you appreciate our reasoning back of the Department's telegrams emphasizing the desirability of obtaining at least the association of Colombia in the role of go-between. It was my feeling, from the Department's position, that some such instructions were necessary for the record in view of your telegram no. 355 of July 13,¹⁴ although it appeared you had already handled the problem nicely by instructing Allan to consult with Wiley before proceeding. While I haven't seen a full report, I judge from your cables that the trip came off smoothly.

With respect to your telegram no. 369 of July 20,¹⁴ I must say that the Junta's communiqué blasting López Contreras indirectly struck me as being especially dumb, coming on the heels of the assurances brought by Dawson. Anyway, Betancourt must not have felt too con-

¹⁴ Not printed.

cerned since he did not permit the "counter-revolutionary activities" to interfere with the junket to Mexico.

With cordial personal regards,
Sincerely yours,

SPRUILLE BRADEN

831.00/7-1946

*Memorandum by Mr. Austin J. Rittenhouse of the Division of North and West Coast Affairs*¹⁵

CONFIDENTIAL

WASHINGTON, August 1, 1946.

Subject: Conversation with Junta "Triumvirate".

The principal reason to converse privately with Ambassador Corrigan was their concern over the attitude of López Contreras toward an armed movement under his leadership. The Junta expressed the desire to avoid civil war or to at least lessen the cleavage between various factions in the country despite the fact that the government could put down any revolt and would do so pitilessly. The purpose of the meeting was to call on Ambassador Corrigan as an old friend and confidant to supply López Contreras with correct information and avert the danger of an uprising and its tragic consequences.

Stating that the U.S. had no desire to mix in Venezuela's internal affairs, yet would lend whatever assistance we properly could as friendly neighbors, the Ambassador asked that the triumvirate make their ideas perfectly clear so as to lead to no misunderstanding. The points were:

- (1) Elections to be held on schedule, free and without duress.
- (2) To revolt would impede the electoral process.
- (3) The Junta has no rancor against López Contreras and hopes he will not stain his reputation by supporting a revolt.
- (4) Set out what the ex-president would be offered for the future:
 - (a) Right to appeal the judgment against him
 - (b) Should be able to return to Venezuela once Constitutional Convention has been elected and installed.

The Ambassador suggested sending Allan Dawson and the triumvirate expressed their full confidence in him. Dr. Corrigan points out that it is his opinion that López Contreras would not countenance a revolution in his name unless he honestly felt that things had progressed to the point of totalitarian rule and such is not the situation.

¹⁵ Addressed to NWC: Mr. Gerberich, Mr. Hall and Mr. Wells; to ARA: Mr. Briggs; and to A-Br: Mr. Wright.

PROBLEMS CONCERNING THE PROCUREMENT OF ARMAMENT BY
VENEZUELA FROM THE UNITED STATES ¹⁶

831.24/1-1446

*Memorandum of Conversation, by Mr. Bainbridge C. Davis of the
Division of North and West Coast Affairs*

[Extract]

SECRET

[WASHINGTON,] January 14, 1946.

| | |
|--------------------------|-------------------|
| Participants: Mr. Braden | Mr. Wright (A-Br) |
| Ambassador Corrigan | Mr. Duran (A-Br) |
| Mr. Briggs (ARA) | Mr. Flack (NWC) |
| Mr. Butler (ARA) | Mr. Davis (NWC) |
| | Mr. Dreier (RL) |

The meeting similar to that with other Chiefs of Mission was called by Mr. Braden ¹⁷ for the purpose of consultation with Ambassador Corrigan ¹⁸ regarding matters of interest with respect to our relations in Venezuela.

The following subjects of concern in our relations with all of the American republics, were discussed:

(1) *Military Cooperation and Proposed Interim Shipments of Arms*: Mr. Braden asked for Dr. Corrigan's comments with respect to the proposed interim shipments. Dr. Corrigan replied that in the first place, the staff conversations in Venezuela did *not* in his opinion constitute commitments; secondly, that shipment of arms and military aircraft to the other American republics is a major influence in strengthening the particular government which is in control in each country; and thirdly, that he was sure that the War Department would not wish to make these decisions where they might be tantamount to formulating the foreign policy of the United States with respect to certain countries. The Ambassador indicated that he felt that the State Department should take a firm stand in these matters. Mr. Braden explained to the Ambassador the developments which had taken place and the manner in which we had been forced into the present position against our wishes and judgment. It was then pointed out to Dr. Corrigan that tactical aircraft would be sent to Venezuela in accordance with General Arnold's ¹⁹ wishes unless (1) he, the Ambassador, disapproved or (2) the Venezuelans did not want the equipment offered them.

¹⁶ For documentation on discussions in 1945 on defense problems, see *Foreign Relations*, 1945, vol. ix, p. 1425.

¹⁷ Spruille Braden, Assistant Secretary of State for American Republic Affairs.

¹⁸ The Ambassador returned to the United States on December 30, 1945; he resumed his duties in Venezuela on March 11, 1946.

¹⁹ Gen. Henry H. Arnold, Commanding General, Army Air Forces.

Mr. Davis asked whether the Venezuelans, after wrecking some of their bombers and fighters (if they received them), would not be able to obtain replacements in the U.S. on the ground that we had indicated our approval of a Venezuelan airforce of that size (thereby vitiating General Arnold's argument that these planes would only last the other American republics six months). Mr. Braden replied that we would not entertain any such claim, and would not consider ourselves bound by implied commitments of any sort.

Dr. Corrigan urged that we make every effort to supply the quartermaster equipment requested by the Venezuelan army as many of these items are urgently needed to improve the living conditions of the soldiers. Likewise, he asked that conclusion of the contract for a military ground mission for Venezuela be expedited. Mr. Braden informed Mr. Davis that he and Mr. Briggs would be glad to lend their strong support to any efforts to expedite favorable action on these two matters.

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831.20 Missions/1-2146

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

No. 8318

CARACAS, January 21, 1946.

[Received January 28.]

SIR: I have the honor to report that the Junta President Betancourt and War Minister Major Carlos Delgado Chalbaud have both within the past ten days expressed to me great interest in completing negotiations for the assignment to Venezuela of a United States Army Ground Mission and their concern at the delay which they feel has taken place in this.

In the case of Sr. Betancourt, he coupled his complaints about the lack of progress in the negotiations with comments on the necessity of obtaining likewise modern arms, munitions and equipment from surplus United States Army stocks. I explained to Sr. Betancourt that a Mission contract satisfactory to both Governments must first be agreed upon and that it was my understanding that these negotiations were being carried on in Washington. To this, Sr. Betancourt replied that Venezuela's needs had been made very clear by Major Marcos Pérez Jiménez, Chief of Staff of the Venezuelan Army, on his recent trip to the United States and to Brigadier General Harold G. Waters of the Caribbean Defense Command during his similar visit to Venezuela and that some time had passed since then with no further appreciable advance.

I endeavored to acquaint Sr. Betancourt with some of the complexities of the situation and the inevitable time-taking involved in even drafting the necessary contract and obtaining its approval by both Governments. I added that, in the present status of redeployment of the United States Army, it was probable that there would be additional delays in selecting appropriate personnel, which might not be readily available or be entitled to full leave after overseas service. On the question of acquisition by the Venezuelan Army of surplus arms, etc., I pointed out that the Lend-Lease legislation had expired, that legislation for the sale abroad of combat equipment did not at present exist, so far as I was informed, and that even cataloguing of surplus war material had not been completed.

I was under the distinct impression that Sr. Betancourt was far more concerned with the obtaining of arms than with the actual fate of the proposals for a Ground Mission. While he undoubtedly wants the Mission, part of his interest in it appeared to be distinctly predicated on the idea that having the Mission established would increase Venezuela's chances of getting the desired arms more rapidly and surely.

On January 19, 1946, I had a long conversation with War Minister Delgado Chalbaud at a social gathering; Chief of Staff Pérez Jiménez and Captain Mario Vargas, Minister of Communications, were also present during part of the conversation. Majors Delgado Chalbaud and Pérez Jiménez and Captain Vargas immediately turned the conversation to the question of the Ground Mission. They seemed to have a far better understanding than Sr. Betancourt of the inevitability of delay and to be less concerned than he was with the question of arms, although the latter was also patently in their minds to some extent.

In a moment when I was apart with Major Pérez Jiménez and Captain Vargas, the former said frankly that the presence of a United States Army Ground Mission would be extremely helpful to the morale and discipline of the Venezuelan Army, which had, he admitted, suffered greatly since the October Revolution. It would, he said, be a stabilizing influence and give the Venezuelan Army greater prestige and authority in a situation in which, as he expressed it, there were a lot of enemies of the Revolution ready to do anything to embarrass the Government and the Army. Captain Vargas indicated general agreement with what Major Pérez Jiménez had to say.

Later, in conversation alone with Major Delgado Chalbaud (other features of this conversation are being covered in a separate despatch), he brought up the question of the Ground Mission once more and commented again on the need for having it arrive as soon as possible.

When I mentioned that Major Pérez Jiménez had suggested that it might be helpful to Venezuelan Army discipline, Major Delgado Chalbaud quickly said that this was not a factor, that the discipline of the Army had been fully reestablished, and that the reasons for his interest in the Ground Mission were that it would give his troops improved training, integrate them into the Pan American defense program and "keep them busy". This latter remark would seem to be directly connected with the question of discipline and morale despite Major Delgado Chalbaud's disclaimer.

It is the Embassy's considered opinion that the entire question of the sending of a Ground Mission should be carefully considered by the Department from a broadly political point of view. On the one hand, it is manifestly desirable that Venezuela remain on an even keel and probable that any further revolutionary movement would set the country back and affect our interests adversely. It seems likely that the addition of a Ground Mission to the present Naval and Army Air Missions would be taken in a country as sensitive to relations with the United States as is Venezuela as an indication of direct support for the Revolutionary Junta and would thus discourage possible revolutionaries within and without the Venezuelan Army as well as having the related disciplinary and morale-raising effect mentioned by Major Pérez Jiménez.

On the other hand, unless the personnel of the proposed Mission were chosen with the greatest of care with a view to the selection of officers not only professionally competent but equipped to deal with the subtleties of the Latin American mind, it is quite conceivable that its members might find themselves placed in the position of unwittingly being used by one faction or another in the Venezuelan Army which, as indicated in a number of communications to the Department, is riddled with dissension. Of equal importance is the fact that the Revolutionary Junta of Government has already taken several measures adversely affecting United States business interests (the most important of which is Decree No. 112 of December 31, 1945, enacting an extraordinary income surtax, accepted by Venezuelan public opinion as directed against the oil companies²⁰) and there is increasing evidence that further steps hitting American interests are in contemplation. While the Embassy believes that these do not necessarily reflect any definitely anti-American trend but may rather be the result of the Junta's demagogic efforts to obtain increased popular support by radical and nationalistic steps, the fact still remains that a cooperative measure on our part, such as the sending of a Ground Mission, at

²⁰ For documentation on the interest of the United States Government in this tax, see pp. 1330 ff.

a time when the tendency seems to be toward increased difficulties for American business by Venezuelan Government action, might well be taken by Venezuelan officials and public as a tacit acquiescence in the apparently changed policies of the Junta.

The entire situation is, of course, a most complex one with a number of intangibles involved in it. In the Embassy's opinion, it should not, under present uncertain circumstances, be decided as a routine matter with no deep implications but should instead be dealt with as one which is an integral part of our general policy toward Venezuela. Continued delay pending a clarification of the attitude of the Venezuelan Government toward American interests would seem to be a wise precaution. The Embassy feels that Ambassador Corrigan is best fitted to judge as to the importance of the various imponderables mentioned, in conjunction with the Department's responsible officers.

The Embassy believes that, whatever decision may be reached as to the Ground Mission, it is advisable to proceed with plans for replacing members of the Air and Naval Missions whose terms of service are expiring. Any such replacements should, of course, be selected with great care. Expansion of these latter Missions, as desired by the Venezuelan Government, should, in the Embassy's opinion, depend upon the decision reached in regard to the Ground Mission.

Respectfully yours,

ALLAN DAWSON

831.248/1-2846

Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Flack)

SECRET

[WASHINGTON,] January 28, 1946.

In agreement with Ambassador Corrigan's suggestion, I permitted Colonel Wagner ²¹ to read NWC's secret memorandum of January 21, 1946 ²² dealing with the question of interim allocation of aircraft to Venezuela as recommended by Colonel Whitfield, head of our Military Air Mission. Colonel Wagner said that he felt that the more support the United States gave to the present government in Venezuela, the more chance there is of keeping outside elements from trying to stage a counter-revolution. He felt that a counter-revolution would lead to much bloodshed and would be detrimental to Venezuela. He felt it desirable that stability be maintained in the country as far as possible and accordingly said he was in agreement with Colonel Whitfield's conclusions which contemplated the furnishing of six to

²¹ Lt. Col. Carl G. Wagner, Military Air Attaché in Venezuela.

²² Not printed.

eight P-47's and three C-47's. Colonel Wagner admitted that the P-47's carried machine guns and could transport a 500 pound bomb, but doubted that Venezuela could obtain bombs of this size. I asked his opinion about the B-25's and he said that while Venezuela could not use these at the present time, they might want some at an undetermined future date.

In discussing the foregoing with Ambassador Corrigan, he stated that according to his information the P-47's are among the most effective military aircraft since they mount eight machine guns and can transport a 500 pound bomb. He said that one such weapon could almost destroy the city of Caracas alone, in his opinion, and that for Venezuela to have six or eight of such aircraft would place control of the country in the hands of the pilots operating them. Therefore, he gave it as his considered opinion that no P-47's should be delivered to Venezuela until that country has a constitutional government elected by the people. The present provisional government in Venezuela has not yet held elections and arrangements for holding them have not developed as rapidly as many hoped.²³

831.248/2-846 : Telegram

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

SECRET

WASHINGTON, February 8, 1946—8 p. m.

71. In conversation Jan 8, Assistant Secretary Braden agreed with General Arnold to approve interim allocation of aircraft to Venezuela as follows: 4 B-25's, 15 P-47's, 1 C-45, 10 C-47's, 5 AT-11's.²⁴ Ambassador Corrigan and Dept have agreed after discussions here that this allocation should be reduced to following: no B-25's or P-47's; 3 C-47's, 5 AT-11's. Allocation of latter two is subject to approval of Embassy. If Embassy approves please telegraph Dept which will then discuss proposed allocation with Venezuelan Embassy here. For your information prices will be same to all countries.

It was further understood by Mr. Braden and General Arnold that any "implied commitment" on the delivery of planes to other American republics resulting from staff conversations will be discharged when planes in allocation are made available. No further allocation of military planes to other American republics will be made until State and War Depts review and agree on basic policies of program of military collaboration.

²³ A marginal note reads: "Discussion with Messrs. Briggs, Dreier, and Flack agreed no tactical aircraft until constitutional Gov't. February 2, 1946. J. F[lack]."

²⁴ The C-45, the C-47, and the AT-11 were transport planes.

No mention of B-25's or P-47's should be made to Venezuelan Govt at this time by anyone. Foregoing may be discussed with Military Attaché and chief of Air Mission.

BYRNES

831.248/2-1446: Airgram

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

SECRET

CARACAS, February 14, 1946.

[Received February 26.]

A-54. Reference Department's telegram No. 71 February 8, 8 p. m., and Embassy's telegram No. 110 February 14, 5 p. m.²⁶ Embassy has learned that Lt. Col. Jorge Marcano, Venezuelan Air attaché in Washington, has furnished Venezuelan War Ministry with list of aircraft to be allocated to Venezuela which is indetical with that which Assistant Secretary Braden agreed with General Arnold to approve on January 8, 1946. This leak is of course extremely unfortunate. Chief of Air Mission says that its position here would become untenable unless substantially full original allocation is made available since Venezuelan reasons for desiring Mission are largely because it was hoped presence would ensure receipt of desired material.

Crucial point in this situation seems to be relative treatment accorded to Venezuela and to other American Republics to which military aircraft are being made available, i.e. those other than Argentina, Bolivia, Dominican Republic, Haiti, Honduras, Nicaragua and Paraguay (Mr. Braden's letter of January 9, 1946²⁷ to Acting Secretary of War Royall). If all original allocations to such countries are being cut down or if they do not receive B-25's or P-47's, which Venezuela is now being denied, it should be possible to explain matters without too much rancor being aroused although disappointment will be intense.

However, if it is evident from the allocations that Venezuela is being placed in a category intermediate between countries named above, considered by Venezuelan Government to be dictatorships (with Haiti furthermore unrecognized), and other American Republics, situation will be difficult. Rather than just inform Venezuelan Embassy of allocation to Venezuela, feel strongly that in such case some explanation would be advisable. Only one that comes to mind would be that Venezuela is receiving separate treatment pending reestablishment of constitutional government after which consideration would be given to increased allocation.

This is, of course, matter for high policy determination of Depart-

²⁶ Letter not printed.

²⁷ Not printed.

ment but Embassy feels it would be remiss if it did not place these considerations before Department.

While present Venezuelan Government has taken steps adversely affecting American business interests its economic measures are result of nationalistic and soak-the-rich complex, not anti-Americanism *per se*. It feels these are popular demagogic steps of help to it in forthcoming elections at which illiterates will vote. Junta has been friendly to our international policies. There are lots of things wrong with the Junta including its slowness in reestablishing constitutional government but it is nonetheless a better and friendlier government than most in Latin America. For it to be singled out for treatment only little better than that of openly non-democratic governments would be unfortunate.

Embassy does feel that we should go slow in extending assistance to Venezuelan Government, as for example with new Ground Mission, until and unless it shows signs of treating American interests more fairly. Its actions in regard to cancellation of contracts of American engineering and construction firms and its general policy toward oil companies will furnish guide to this. Embassy in fact suggests that it might be instructed to point out to Betancourt and other Junta authorities discreetly in informal conversations that it is difficult for us to comply with requests for assistance when Junta is dealing summarily with American interests, that cooperation must be bilateral for it to be effective.

However, in case of aviation equipment, an already established line of cooperation through Air Mission is involved. Subject, of course, to major policy considerations of which it is not advised, Embassy feels that substantially equal treatment to that accorded to Colombia, for example, is advisable or at least assurance that this will be given when Venezuela has put its house in order. . . .

Sending of this has been delayed in view of expected arrival of Air Attaché from Washington which occurred February 20. Portion with which he is concerned has been discussed with him and he agrees.

DAWSON

831.24/3-1446: Telegram

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

SECRET

WASHINGTON, March 14, 1946—9 p. m.

131. Dept. has notified Venezuelan representatives of availability for their purchase from surplus of military ground equipment for 1 Battalion of Infantry, 1 Battery of Light Field Artillery, 2,000 .45 calibre pistols for police purposes, and the following aircraft: 3 C-47's, 5 (C-45's, AT-11's, or AT-7's).

Details concerning prices and terms to be arranged by Venezuelan representatives directly with Foreign Liquidation Commission.

Above equipment excludes some civilian items, particularly motor vehicles, not now available in surplus.

BYRNES

831.248/3-2846

*The Chief of the Division of North and West Coast Affairs (Flack)
to the Ambassador in Venezuela (Corrigan)*

SECRET

WASHINGTON, March 28, 1946.

DEAR MR. AMBASSADOR: I duly received your letter of March 20²⁸ yesterday and have forwarded the personal enclosure therewith, as you requested.

I was informed that Major Calderón²⁹ called yesterday to see the Economic Officer of this Division in company with Colonel Marcano, Venezuelan Air Attaché, and the Chargé, Falcon-Briceño. After discussing quartermaster equipment they said they wanted some additional military planes and Marcano remarked that the eight which had been allotted to them on March 12, of which you were informed by telegraph and of which you approved when you were here, were not enough to occupy their men and they felt that they were equipped to service and fly a considerably larger number. I believe sixty of all types was the number mentioned. While admitting that the Staff Conversations were preliminary and exploratory, they gave the distinct impression that if we could not supply the planes they felt they needed, they would purchase them elsewhere. We did not argue with them on that point, but I feel that such a large number would not be so desirable from any point of view.

Accordingly, may I suggest that you confer with the Military Air Attaché and the Chief of the Air Mission for the purpose of formulating your present views on the needs of Venezuela (which they can handle) within the limitation of the proposed interim allocation, since I do not believe we could go beyond that for any of the countries concerned without some difficulty, but if that question arose it would, of course, be studied. If we do not adopt some procedure which would free us from a charge of discrimination, I am inclined to think that the new Ambassador may, when he presents his credentials, put considerable pressure on the Department. Incidentally, Dr. Machado arrived early yesterday morning and will probably present his credentials in a week or ten days.

²⁸ Not printed.

²⁹ Maj. Luis Calderón, Chief of Aviation of the Venezuelan Army.

For your convenient reference I recapitulate here the figures of the interim allocation for Venezuela opposite the recommendations made by Whitfield in his talk to me.

| | |
|-----------|--------|
| 4 B-25's | (None) |
| 15 P-47's | (6-8) |
| 1 C-45 | (None) |
| 10 C-47's | (3) |
| 5 AT-11's | (Yes) |

Of the number Venezuela was informed that they would receive were 3 C-47's instead of 10 and 5 AT-11's.

I have noted that there has been some favorable news coming out of Venezuela which includes issuance of a so-called Bill of Rights amounting to the guarantee of certain civil liberties prior to the elections, plus the setting up of an electoral procedure envisaging the choosing of a constituent assembly. While I am in complete agreement with you that they have in some respects been very free with the exercise of Decree power in the absence of a direct public electoral mandate, the situation may have progressed sufficiently since you were here to justify consideration of approval of Venezuela's "interim" quota of planes, as recapitulated above. I bring this up now for I foresee that we shall have to ask you officially in a few days about your present opinion and I think it would be desirable for you to consider this in the light of Marcano's knowledge of what was contemplated, regardless of how that information may have been conveyed to him, and the general affect on our relations, both political and petroleum of a policy which, unless I am mistaken, they will soon discern to be unfavorably discriminatory in the supply of tactical planes. I hear that the P-47's are really difficult to learn to fly and there might be no real harm in giving them these as well as some B-25's which Colombia has if this would embellish their pride.

Max Thornburg³⁰ was in last evening and he feels that things look rather good there. I enclose for the Embassy's information and files a copy of my memorandum of the Thornburg conversation.³¹

In addition to that, I feel that I should stress that in the light of developments in the Russian situation it would be extremely unwise for us to risk irritating the Venezuelan Government to the point where they might take an unfriendly position with regard to our oil companies. I feel that this plays a decisively important role in the present consideration of interim allocation and I have other reasons to feel that you would approve. I would regret very much to see any action taken adverse to our companies arriving from an unfriendly view

³⁰ Formerly Petroleum Adviser to the Department of State and afterward adviser to a number of oil companies.

³¹ Not printed.

which may ensue in the younger military coterie in the Government. I feel that I should express these views to you personally at this time for your consideration in formulating your opinion.

I shall endeavor to take steps to secure a copy of Thornburg's memorandum on his views of the Eastern situation after he returns from there later in the spring.

Bill and Betty Wright had dinner with us last night and they will soon be on their way to Canton.

With kindest remembrances to you all.

Sincerely,

JOSEPH FLACK

831.24/4-146

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

[Extract]

CONFIDENTIAL

CARACAS, April 1, 1946.

No. 8575

[Received April 6.]

SIR: I have the honor to report that the Counselor of the Embassy³² called on Junta President Betancourt with my concurrence on March 22, 1946, at Sr. Betancourt's request. It was the first time Mr. Dawson had seen the Junta President in about four weeks although Sr. Betancourt had previously been in the habit of asking him to call every week or ten days to discuss matters of mutual interest.

The ostensible reason for the March 22 conversation was the question of the airplanes being made available to Venezuela by the United States Army in connection with the recommendations made in the joint staff conversations of April 1945. Sr. Betancourt referred to the fact that the Venezuelan Embassy in Washington had been advised by the Department that there would be available for Venezuelan purchase from surplus military air equipment only eight two-motored planes of transport or similar types and none of the pursuit ships or bombers originally recommended (the Department's telegram No. 131 of March 13 [14], 9 p. m.). He exhibited a letter received by him from Lt. Col. Jorge Marcano, Air Attaché to the Venezuelan Embassy in Washington, to the effect that the reduction had been decided upon by the Department of State, "which now has jurisdiction on these matters", and that, despite the good will of the War Department, its hands were tied.

Sr. Betancourt then said that he had noticed in the press that Colombia had had allocated to it a number of pursuit ships and bombers and complained of the "discrimination" as between Colombia and Venezuela. He remarked that he personally understood that the fact that the Venezuelan Government was still a *de facto* one while

³² Allan Dawson.

the Colombian Government was fully constitutional might be a reason for differing treatment but that it would be difficult to make the Venezuelan military men appreciate this point. All that they would understand was that Colombia, Venezuela's next-door neighbor, was being favored and Venezuela "treated like a stepchild". He (Betancourt), from long years of residence in Colombia, knew that it was perhaps the most pacific country in South America but the military men were always suspicious. In view of the present Venezuelan Government's complete support of the United States internationally and the stability of conditions in the country as compared with the turmoil in Colombia, Sr. Betancourt said, their reaction was bound to be bad unless there was some change in the allocation program. He hoped fervently that Major Luis Calderón, Chief of Aviation of the Venezuelan Army, now in Washington on a mission in an endeavor to get more planes, would not return with his hands empty and that the Embassy would do what it could to avoid such a "misfortune".

The Embassy's deduction from all of this is that Sr. Betancourt has been under considerable pressure from Army elements to keep strictly to his promises of nonpartisan government and fair elections and that he is anxious to play up to these elements by getting them the planes they wish and whatever else their hearts desire to lessen the chances of opposition from them to his regime. In the suspicion-laden atmosphere which is common to Venezuela, rumors are easily spread that failure to receive arms or other equipment requested is an indication of displeasure by the United States with the Junta as at present constituted. Aside from that, of course, Sr. Betancourt obviously wants at least pursuit ships for purposes of possible defense against domestic disturbance. The P-47 is an extremely lethal weapon and even slow trainers and light tanks in small quantities turned the tide in the October Revolution.

Respectfully yours,

FRANK P. CORRIGAN

831.20 Missions/3-846

*Memorandum of Conversation, by Mr. Bainbridge C. Davis of the
Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] April 6, 1946.

Participants: Alfredo Machado Hernández—Venezuelan Appointed
Ambassador
Dean Acheson—Acting Secretary
Bainbridge C. Davis—NWC

Dr. Machado stated that discussions had been initiated nearly a year ago between representatives of the Venezuelan Government and United States Government for the purpose of establishing a United States

Military Mission in Venezuela. On March 8, 1946 the Venezuelan Embassy had transmitted a note to the State Department ³⁴ suggesting certain changes in the contract as proposed by the United States Government. Dr. Machado understood that these changes had met with the approval of the War Department and that all that remained was for the State Department to express its approval and to conclude the agreement with the Venezuelan Government.

The Ambassador emphasized the importance to Venezuela of obtaining sufficient armaments to permit the successful functioning of the proposed military mission. He stated that discussion of armaments for Venezuela had also been undertaken nearly a year ago but that they had resulted in the offer of equipment for only one battalion, whereas Venezuela needed equipment for an entire division. The training function of the proposed mission was so closely connected with the acquisition of these armaments that the Ambassador felt they must receive parallel consideration. Dr. Machado handed the Acting Secretary a memorandum (undated) ³⁴ which set forth the qualifications of the officers who should compose the mission and the necessity for sufficient equipment for the success of the mission.

Mr. Acheson stated that we would discuss this matter with the War Department and he asked Mr. Davis whether there was any information which could be given to the Venezuelan Ambassador at this time. Mr. Davis replied that, when the Venezuelan request for a military mission was presented to the State Department some months ago, arrangements were made for the War Department to send a mission of three officers headed by a general to Venezuela to study the technical requirements for a military mission. These officers made their recommendations to the War Department and a draft contract was thereupon submitted by the State Department to the Venezuelan Embassy which replied on March 8 ³⁵ suggesting certain changes. Mr. Davis had not been informed that the War Department had expressed its approval of these changes, but this information would have been submitted to another division. It would appear that the agreement could now be promptly concluded.

With respect to the question of armaments, Mr. Davis stated that it was his understanding that the ground equipment which was recently offered to Venezuela constituted all that was available in surplus at this time. The Ambassador replied that according to information given to his Military Attaché by officers of the War Department that Department was able to supply all of the equipment which Venezuela

³⁴ Not printed.

³⁵ Neither printed.

desired. Therefore he hoped that the State Department would facilitate the shipment of this material to Venezuela and he emphasized again the close relationship between this request and the request for the military mission.

Mr. Acheson stated that we would be glad to give the Ambassador's statements careful consideration and asked Mr. Davis to look into the matter.

831.34/4-1246 : Telegram

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

CONFIDENTIAL

WASHINGTON, April 12, 1946—4 p.m.

173. Approval has been given by Dept to sale from surplus for following small Naval vessels to Venezuela. You may notify appropriate representatives that Navy Dept and FLC will negotiate in Washington details concerning sale of these vessels. These vessels are part of Navy's counterpart of War Dept "interim program" previously approved by Dept and comprises small armed vessels of general types and amounts requested during staff conversations.

- 4 SC—Submarine chaser
- 1 ATO—Ocean-going tug
- 2 LST—Landing ship, tank

For your conf info Navy plans similar program of Naval aircraft and naval equipment.

BYRNES

831.24/4-146 : Telegram

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

SECRET

WASHINGTON, April 18, 1946—7 p. m.

U.S. URGENT

179. For the Ambassador. Major Calderón accompanied by Falcon Briceño and Colonel Marcano left with Flack on April 11 copy of Calderón's memorandum addressed to General Walsh³⁶ requesting following planes: 6 AT-6's, 6 AT-11's, 6 PT-17's, 6 P-47's, 3 B-25's, 3 Kingfisher hydroplanes, 10 C-47's; also certain maintenance and other equipment and additional air mission personnel. Re Embdes 8575 April 1.

Final decision on release of these planes, which include bombers, fighters, and advanced trainers (all of which could be made avail-

³⁶ Maj. Gen. Robert L. Walsh, Army Air Forces.

able under interim program) is subject to your approval. Please telegraph your recommendation on foregoing.³⁷

BYRNES

831.248/9-2146

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

RESTRICTED
No. 9274

CARACAS, September 21, 1946.
[Received September 27.]

SIR: I have the honor to refer to a memorandum of conversation³⁸ between Dr. M. A. Falcon Briceno, Venezuelan Chargé d'Affaires ad interim in Washington, Lt. Colonel Jorge Marcano, Air Attaché of the Venezuelan Embassy, and Messrs. Milton K. Wells and Albert H. Gerberich of the Division of North and West Coast Affairs, dated September 12, 1946 under the subject, "Purchase of AT-6's by Venezuelan Purchasing Commission."

There are quoted below the comments of the Military Air Attaché of this Embassy, Lt. Colonel Carl G. Wagner, on the points raised in the memorandum:

"1. From the professional point of view, it is the opinion of the undersigned that it would be highly advantageous in the interest of increased efficiency in the U.S. Military Air Mission-Venezuela training program to obtain 12 or more AT-6 aircraft.³⁹

"2. Regarding the P-38, it is felt that the exportation of this type aircraft to Venezuela at the present time would be a liability rather than an asset. The maintenance of this type aircraft would present a constant difficulty, as a carrying of spare parts and special tools would be impracticable with only one such airplane in the country. The fewer different types of aircraft in a military organization the better for all concerned."

With respect to the second point in Lt. Colonel Wagner's memorandum quoted above, it should be recalled that six P-47 fighter-type airplanes, now in the Canal Zone, are due to arrive in Venezuela soon on assignment to the United States Army Air Mission as part of the interim program pending completion of arrangements for their sale to the Venezuelan Government. These will, of course, be available for

³⁷ In telegram 234, April 22, 1 p. m., the Ambassador indicated that the presence of tension between civilian and military elements in Venezuela made necessary a deferring of a decision on releasing planes (831.00/4-2246). Reassured by the President of the Junta, Ambassador Corrigan in telegram 254, May 1, 1946, 5 p. m., concurred in the proposal to release planes, maintenance items, and to add personnel to the air mission (831.24/5-146).

³⁸ Not printed.

³⁹ In airgram 62 of March 10, 1947, the Department indicated disapproval of additional AT-6's for Venezuela under the policy of restricting arms exports to amounts approved in the interim program (831.248/2-2647).

the instruction of and use by Venezuelan pilots under Air Mission supervision.

Lt. Colonel Wagner's recommendations are concurred in by Colonel Douglas E. Williams, Chief of the Air Mission, Colonel John A. Week, Military Attaché to the Embassy, and myself. In view of the fact that Ambassador Corrigan will be in Washington at about the time of the receipt of this despatch, it is suggested, however, that the Department may wish to consult him on the matter.

Respectfully yours,

ALLAN DAWSON

831.24/9-2346 : Telegram

The Acting Secretary of State to the Chargé in Venezuela (Dawson)

CONFIDENTIAL

WASHINGTON, September 23, 1946—2 p. m.

382. Under interim arms program for ground forces Venezuela has been offered full equipment (subject to availability under surplus property program) for one battalion infantry and other items mentioned Deptel 131, Mar 14. Navy Dept has now requested Dept's approval transfer Venezuela complete equipment including arms for about 1 battalion Venezuelan Marine Corps. Equipment includes large amount quartermaster supplies and pistols, rifles, machine guns, flame throwers, grenade launchers, and some ammunition therefor.

Navy states equipment necessary to fulfillment duty of Lt. Col. Hawkins, USMC, member of US Naval Mission, assigned to train Venezuelan Marine Corps. Dept has no record of any formal commitment for this project requiring transfer of arms or other equipment. No request for this equipment has been received by Dept from Venezuelan Govt.

Since approval this project would in effect substantially increase strength of Venezuelan forces equipped under interim program, and open door for additional requests from other countries at this time, Dept inclined not approve Navy proposal at this time, although problem of supporting naval mission recognized.

Please cable your views particularly re urgency of permitting transfer in immediate future as opposed to deferring for future consideration.⁴⁰ Would, in your opinion, work of Naval Mission in training Marine Corps be aided temporarily by transfer equipment other than armaments at this time?

For your info Navy has contemplated shipping all equipment on consignment to US Naval Mission, but Dept believes any transfer

⁴⁰ In telegram 463, September 25, 1946, 5 p. m., the Chargé expressed a preference for the Navy method of transfer and suggested delayed action (831.24/9-2546).

should be arranged by contract of sale through FLC here before shipment.

CLAYTON

THE POSITION OF THE UNITED STATES TOWARD THE CONTINUED PRESENCE OF GERMAN ECONOMIC INTERESTS IN VENEZUELA⁴¹

740.3112A/12-1945 : Telegram

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

RESTRICTED

WASHINGTON, January 4, 1946—7 p. m.

5. Reurtel 1102, Dec 19.⁴² PL Committee⁴³ prepared to consider proposals for reorganization of PL firms, but weighs relative advantage to allied cause from economic security viewpoint of approving reorganization and deleting firm on basis of reorganization or disapproving reorganization and continuing firm on PL for duration of its existence. Accordingly, if in future Emb recommends approval of proposed reorganizations Emb should report specifically what economic security advantage would be. Emb should continue its commendable practice of submitting proposed reorganizations for preliminary statement of Committee's opinion before reorganization has actually taken place or Emb has committed itself. Brit representative on Committee reports that firms have been told that reorganizations must assure that present owners will not have controlling interest in the future. Committee prefers complete elimination of present owners but where that is not feasible will give sympathetic consideration reorganization plans reducing present owners to minority interest and removing control from their hands.

Dept and PL Committee will handle all communications re these matters promptly. Pls give paraphrase of this message to Brit Colleague.

BYRNES

740.31112A/1-746 : Telegram

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

RESTRICTED

CARACAS, January 7, 1946—4 p. m.

[Received January 8—5 : 18 p. m.]

18. ReDeptel 5, Jan 4, 7 p. m. Embassy appreciates viewpoint of achieving "economic security" and in each plan of reorganization

⁴¹ For documentation on efforts of the United States to secure the elimination of Axis business interests in Venezuela in 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1430 ff.

⁴² Not printed.

⁴³ Interdepartmental Proclaimed List Committee.

presented believes this will be obtained insofar as is politically and operationally possible at this date. The Dept is undoubtedly aware that since the termination of hostilities, there has occurred here as elsewhere, a profound change in public psychology. The Venezuelan public considers that war is over. PL firms that have survived the effect of blacklisting to date are strong, and some of them have made ample profits during last 12 months. With relaxation of export licensing and corollary controls in US, it is becoming manifestly impossible to police trade through documentary controls and the whole economic warfare front is on point of deteriorating. PL firms whose reorganization is not forced now will eventually feel that they outwitted us and have won by default.

Embassy's positive view is that by taking action now and using firm tone (which is in part bluff inasmuch as we can see that the tide is turning) we can still salvage a decisive victory.

We can in most cases relegate PL principals to minority financial position. In the cases of Zingg and Gathman we must be practical and realize we cannot break those large family holdings nor can we force dissolution of firms; truth is they can survive indefinitely as Venezuelan citizens. We can however sanitize those firms by introduction friendly control element, humble them greatly by forcing their family names out of market and bring them under supervisory control through standard undertaking. This will give us in eyes of Venezuelan public a moral victory in addition to achieving far greater economic security than we have under present situation.

Past difficulty of forcing reorganizations was in part owing inability find a blanket formula. No two cases are similar here and each needs special handling. Through our concentrated efforts and good offices Foreign Minister and Venezuelan commission we have at long last reached practicable basis of agreement in each case. Embassy is prepared to clear up those situations and awaits only authorization to proceed.

DAWSON

740.31112A/1-1146 : Telegram

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

RESTRICTED

CARACAS, January 11, 1946—1 a. m.

[Received 11 : 36 p. m.]

34. Urtel 15, Jan 9, 4 p. m.⁴⁴ Re IDPLC action relative Haucks and Blohm. Embassy's thinking predicated in all those cases on (1) prestige list is suffering from our inability to police trade strictly and

⁴⁴ Not printed.

(2) that we actually gain much more prestige by forcing parties accept terms of control (which as Venezuelans they consider humiliating) than allowing present situation to continue deteriorate. If these cases ride out storm without any concrete disciplinary action on our part and become automatically restored in market when PL is withdrawn, general consensus will be they have put one over on us. . . .

Blohm and Haucks did not come to Embassy entirely their own volition but because Foreign Minister ⁴⁵ told them they must come to agreement with Commission and US. If we flatly reject these cases, Minister and Commission may well feel they have exhausted attempts to enlist our cooperation in solution problems affecting Venezuelan nationals (see despatch 8196, Dec 18 ⁴⁶). Embassy does not consider Blohm and Hauck hard core cases and in October received agreement from Dept to delete without imposing any controls; deletion was deferred owing local political situation now clarified.

Embassy is not in position pleading these cases but request serious reconsideration in view above points. British will not oppose.

DAWSON

462.00R/2-946 : Airgram

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

CARACAS, February 9, 1946.

[Received February 13.]

A-43. Decree promulgated February 6 confiscates funds, bank accounts, assets of German and Japanese Governments and nationals. Funds resulting from this measure are to be used to indemnify Venezuelan Government and citizens for losses resulting from war, compensate Government for extraordinary expenses which have been incurred because of Axis aggression and in fulfillment obligations of international solidarity, and facilitate immigration into Venezuela of victims of German and Japanese aggression. Among exceptions to confiscation are earnings of Venezuelan spouses, inheritances corresponding to Venezuelan spouses and children, and contributions of Venezuelan or United Nations partners in firms into which Germans or Japanese have entered. Natives of Germany and Japan whose nationality has legally or in fact been deprived them as act of political hostility are also excepted. The following are considered to be extenuating circumstances which German or Japanese may allege in effort to be exempted from confiscation: demonstrated non-approval

⁴⁵ Carlos Morales.

⁴⁶ Not printed.

of aggression by their countries, having rendered eminent services to Venezuela or United Nations or humanity, permanent residence in Venezuela since prior 1931, marriage with or parenthood of Venezuelans, having formed their patrimony in Venezuela, etc. Condition implicit in foregoing is having abstained from acts hostile to Venezuela or United Nations.

To carry out provisions of present decree an Administration of Nationalized Properties is created and also a tribunal for war reparations. Work of tribunal is to be finished within period of one year and work of administration within one year after tribunal work is completed. Former Commission of Control of Properties Subject to Intervention is terminated.

In view of broad discretionary powers conferred on tribunal, decree will have only such effectiveness as tribunal desires.

Embassy will prepare further report on present decree when opportunity has been had for careful study and discussion with Venezuelan officials concerned.

DAWSON

740.31112RP/3-1346: Airgram

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

CARACAS, March 13, 1946.

[Received March 19.]

A-95. Department's circular airgram of March 4, 1946, 9:25 a. m.⁴⁷ With publication on March 14 of Supplement No. 2 to Revision X replacement program in Venezuela will have been completed. All spearhead firms will have been eliminated through forced liquidation or reorganized so as to provide adequate guarantees of satisfactory future behavior. List will then consist of 38 names, classified as follows:

| | |
|---|---------------|
| Liquidated spearhead firms | 6 |
| German individuals | 14 |
| Japanese individuals | 9 (innocuous) |
| Persons of dual German-Venezuelan nationality | 3 |
| Firms still in business | 2 |
| Alternate listings of spearhead firms | 4 |

Of the German individuals, seven are on list for proposed repatriation to Germany. The Japanese may be disregarded as constituting no threat to our economic security. All German and Japanese nationals are now subject terms Decree No. 176, nationalizing enemy properties (ref. despatch No. 8442 of February 21, 1946⁴⁷). The three persons

⁴⁷ Not printed.

of dual nationality include one aged man, one young man of no present importance, and one middle-aged man (Von Jess) whose morale has been badly broken by the effects of listing. The firms still in business are Hacienda El Negrito, a coffee plantation now virtually abandoned, and Riase y Compañía (not considered a spearhead) which, owing to the death of its owner, Theo Valentiner, has ceased to be a problem.

Embassy's recent success in achieving reorganizations of several problem cases, including name of formerly most powerful concerns in country which we have forced to accept terms, has renewed public respect for list.

When list is withdrawn as scheduled, it is believed there will be general recognition that its function has been fulfilled and completed.

CORRIGAN

462.00R/3-2146: Telegram

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

WASHINGTON, March 30, 1946.

156. Desire info re Decree No. 176, Feb 6, 1946, nationalizing German and Jap property in Venez, creating National War Reparations Court to pass on claims for exemption fr operation of decree, and providing 90 days period for filing claims by persons outside Venez on Court approval. (1) Has Court announced assumption of functions as provided Chapter 6 Article 39 of Decree, (2) if so, when? If not, what is present info as to court and when is it expected to start functioning.⁴⁹

ACHESON

462.00R/7-2246

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

No. 9003

CARACAS, July 22, 1946.

[Received July 28.]

SIR: I have the honor to report that the Commercial Attaché⁵⁰ had on July 19, 1946, a conversation with Dr. J. M. Herrera Mendoza, President of the Administration of Nationalized Properties, concerning the extent to which the Government of Venezuela had implemented, or intended to implement, the two decrees (Decree No. 176 of February 13, 1946, as reported in despatch No. 8442 of February 21, 1946, and Decree No. 232 of April 3, 1946, as reported in despatch No. 8599 of

⁴⁹ In telegram 209, April 1, 1946, 5 p. m., Ambassador Corrigan advised that the Court had not been created, and that the administration of nationalized properties was at a standstill (462.00R/4-146).

⁵⁰ Charles F. Knox.

April 8, 1946⁵¹) concerning the nationalization of German and Japanese assets in Venezuela.

In accordance with Decree No. 176 of February 13, 1946, the Administration of Nationalized Properties has been organized for some months and is exercising a strict control over all German and Japanese assets which were frozen *ipso jure*. In addition, the Administration is also in control of all the funds blocked by decrees and resolutions issued during the war years as a result of economic warfare activities. No sale, transfer, or movement of tangible or intangible assets, including, of course, bank accounts, can be effected by German or Japanese nationals without obtaining the express permission of the Administration. To date, according to the President of the Administration, the only permissions granted have been to several needy Japanese and German nationals who were authorized to draw from their "frozen" bank accounts a small amount per month for subsistence in accordance with Decree No. 232 of April 3, 1946.

The National Court for War Reparations, also established by Decree No. 176 of February 13, 1946, has not yet begun to function. The President of this special Court is the Acting Chief Justice of the Supreme Court, Dr. Lorenzo Herrera Mendoza. Inquiry reveals that this Court will begin operations in the very near future. The function of the Court is to determine, in accordance with the terms of Decree No. 176 of February 13, 1946, whether national persons of German or Japanese nationality, resident in Venezuela, shall be required to forfeit their wealth and property as war reparations to the Venezuelan Government. In this connection the Ministry of Foreign Affairs and the Ministry of the Interior are reported to have accumulated during recent months a large amount of information and evidence concerning German and Japanese nationals in Venezuela and such evidence will be presented to the Court. Presumably, at the same time, the Court will hear the pleadings of the nationals affected so that judgment may be rendered after knowledge of both sides of the case.

Respectfully yours,

FRANK P. CORRIGAN

740.31112A/9-546

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

[Extract]

CONFIDENTIAL
No. 9195

CARACAS, September 5, 1946.
[Received September 11.]

SIR: I have the honor to refer to the Department's instruction No. 3471 of August 5, 1946,⁵² requesting a classification of former Pro-

⁵¹ Neither printed.

⁵² Not printed.

claimed List firms and individuals with respect to their suitability as trading connections for United States concerns.

The choice of names classified as merit deletions, enclosed with the Department's instruction, is concurred in by the Embassy. Regarding the names included in the group of non-merit deletions, further consideration has been given them in the light of the revised criteria set forth in the memorandum enclosed with the instruction under reference. It is agreed that borderline cases, cloaking cases and unimportant political cases should not continue to be the subject of discrimination in connection with United States trade. This appears especially true in view of the fact that the Department of Commerce is no longer in a position either to enforce or police recommendations against trading with individual firms. However, it is not believed that firms formerly actively hostile to the United States during the war should be considered desirable trading connections in the future.

There is given below, accordingly, a list of firms which the Embassy considers politically undesirable as agents or distributors of American merchandise. In this list are included (1) residual Proclaimed List names, (2) certain firms and individuals included in Classification I-E of the enclosure to the Embassy's despatch No. 6883 of January 3, 1945,⁵³ and (3) certain individuals who were recommended for repatriation to Germany but who were not in fact deported.

In category (1) above, it will be noted that the names of Japanese have been omitted. This has been done because name of the Japanese in Venezuela has been commercially or, to the Embassy's knowledge, politically important [*unimportant?*]. Their funds having been taken out of their control by the Venezuelan government, they are no longer in a position to engage in international trade. Moreover, those who have visited the Embassy since "VJ" day seem now to be more friends than enemies. In category (2) are given only persons who have been identified as Nazi Party members and who did not prior to the date of withdrawal of the Proclaimed List come to terms with the Embassy. Among those listed in category (3) are several persons who, because of commercial inactivity, were never included in the Proclaimed List.

It is evident that this disposition of former PL names creates an injustice in that no penalty is provided for Nazi Party members who were never included in the Proclaimed List. However, the problem is not a large one. Virtually none of such persons was in business for himself and many are no longer in Venezuela.

⁵³ *Foreign Relations*, 1945, vol. ix, p. 1430.

In accordance with the Department's instruction, the Embassy will consider its recommendations as being followed by the Department of Commerce unless notice to the contrary is received.

Respectfully yours,

ALLAN DAWSON

462.00R/10-2246

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

[Extract]

RESTRICTED

CARACAS, October 22, 1946.

No. 9378

[Received October 25.]

SIR: I have the honor to refer to the Department's circular airgram of October 3, 1946, 8:40 a. m.,⁵⁴ requesting the Embassy's comment on any local legislation regarding ultimate disposition of enemy assets which may present an obstacle to the carrying out of the principles adopted by the Special Committee on Enemy Property.

The Embassy has transmitted to the Department the following despatches which give in detail the existing Venezuelan legislation concerning the nationalization of German and Japanese properties and funds in Venezuela:

Despatch No. 8442, February 21, 1946,⁵⁴ "Nationalization of German and Japanese Properties and Funds in Venezuela". As an enclosure to this despatch there were transmitted five copies of *Gaceta Oficial* No. 21933 of February 13, 1946, containing the full text of the law.

Despatch No. 9003, July 22, 1946, "1. Nationalization of German and Japanese Assets in Venezuela; 2. Conversation with Dr. J. M. Herrera Mendoza, President, Administration of Nationalized Properties".

The Embassy has studied with interest the principles adopted by the SCEP in the airgram under reference, as well as the more comprehensive circular airgram of August 22, 1946, 11 a. m.⁵⁴ While those principles appear to be equitable, and the renunciation of the United States to any share in the excess assets is magnanimous, the Embassy is inclined to believe that the Venezuelan Government may not have the same broad view as the SCEP in this matter. The Venezuelan Government is still attempting to assess the extent of German and Japanese assets in Venezuela and pending the determination of many individual cases, all such assets are frozen. Neither the Embassy nor any source within the Venezuelan Government can esti-

⁵⁴ Not printed.

mate the value of enemy assets at this time. A very rough guess would place them in the neighborhood of Bs. 10,000,000, or approximately \$3,000,000. This estimate, however, includes the Bs. 7,000,000 paid in escrow by the Venezuelan Government for the German railway properties in Venezuela, the title to which properties may eventually be the subject of prolonged litigation with the alleged Spanish owners.

Respectfully yours,

ALLAN DAWSON

ATTITUDE OF THE UNITED STATES WITH RESPECT TO THE IMPACT OF VENEZUELAN LAWS ON AMERICAN PETROLEUM COMPANIES

831.512/1-246: Telegram

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

RESTRICTED

CARACAS, January 2, 1946—7 p. m.
[Received January 4—9: 54 a. m.]

3. Govt Decree No. 112 dated December 31, 1945 and made public today establishes extraordinary excess profits tax as follows:

Article 1. Taxpayers whose total net profits, calculated in accordance with the provisions of the income tax law, amount to more than Bs 800,000 shall in addition to the taxes provided for in that law pay on such profits of the present year the following extraordinary tax: 6% on that part of profits between Bs 800,000 and Bs 1 million; 10% between Bs 1 million and Bs 1,400,000; 15% between Bs 1,400,000 and Bs 2 million; 20% on all profits in excess of Bs 2 million.

Article 2. The aforementioned tax will be collected solely with respect to the present year and will affect the total net profit without reduction of the amounts taxpayers must pay by reason of the normal ordinary and complementary taxes established in said law. The liquidation and collection of this extraordinary tax will be effected together with that of the income tax and in accordance with the rules that govern that tax whenever they may be applicable.

Article 3. The Acting Minister of Finance is charged with the fulfillment of the present decree.

Preamble to decree affirms that purpose of this extraordinary levy is to better conditions of the people by establishing an Instituto de Fomento de la Producción to finance development in agricultural and industrial fields, the creation of a banco hipotecario to finance very large scale low cost public housing and the creation of a national merchant marine; that to finance these measures more than Bs billion will be necessary.

Tax will primarily affect petroleum companies and issuance of decree and its applicability to 1945 earnings came as a marked sur-

prise. Under new schedule payments from petroleum companies alone are very confidentially estimated approximately \$30,000,000 in addition to the regular income tax. Embassy will make further analysis and report more fully on (a) estimated receipts under these taxes and principal contributors; (b) effect that such extraordinary sales of dollar exchange may have on present monetary situation; and (c) organization and projected operations of the new Govt entities to be financed by these new revenues; these entities are not yet even in the paper stage.

DAWSON

831.512/1-346 : Telegram

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

CONFIDENTIAL

WASHINGTON, January 7, 1946—8 p. m.

10. Urtel 3 and 8 Jan 2 and 3.⁵⁶ You are instructed to approach Betancourt⁵⁷ in sense of suggestion in third paragraph urtel 3 Jan 2.

Ambassador Corrigan⁵⁸ suggests and we concur that in your discussion with Betancourt you might mention in all friendliness the shocked surprise with which the extraordinary excess profits tax was received in both Govt and financial circles here and what a blow it might entail for the Junta's standing abroad. While it appears that the tax is not technically a violation of the existing agreements between Venezuelan Govt and petroleum companies, Ambassador is disturbed by fact that neither Betancourt nor Morales⁵⁹ had given the slightest indication that such an important decree was imminent although other very intimate matters were freely discussed just before his departure from Caracas. He feels that such summary action will cause loss of confidence and will have very definite effect on influx of new development capital unless some assurance is given against similar future arbitrary action. The suddenness of the action gives rise to doubts whether adequate consideration was given to competitive position of Venezuelan oil in world markets and to the fact that differential in favor of Venezuela in American markets has almost vanished.

In addition to disappointment emanating from employment by Junta of methods which appear to be contrary to cooperative spirit that characterized the earlier statements, concern is felt for inflationary influence inherent in the recent tax measure.

BYRNES

⁵⁶ Telegram 8, January 3, not printed.

⁵⁷ Romulo Betancourt, President of the Junta.

⁵⁸ The Ambassador had returned to the United States on December 30, 1945, for consultation.

⁵⁹ Carlos Morales, Acting Minister of Foreign Relations.

831.512/1-1046

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

CONFIDENTIAL

CARACAS, January 10, 1946

No. 8279

[Received January 15.]

SIR: With reference to previous correspondence concerning the new extraordinary surtax imposed by Decree No. 112 of December 31, 1945 on 1945 incomes in excess of 800,000 bolívares, I have the honor to submit the Embassy's speculations as to the reasons for the enactment of this measure and the summary manner in which it was done. The following remarks are the result of careful thought by the various responsible officers of the Embassy and conversations with Junta officials, including two by First Secretary Maleady and myself with Junta President Betancourt.

The reasons given by members of the Revolutionary Junta and Cabinet are completely unconvincing. Their thesis is that extra revenues were needed to implement the program enunciated in Junta President Betancourt's New Year's address. This program consisted of three principal parts, the financing of a new Instituto de Fomento de la Producción, of a long-term housing program and of a merchant marine. While the first two of these are admirable and needed projects, all evidence that the Embassy has is to the effect that they could have been financed by the Venezuelan Government from its ordinary revenues. If Venezuela goes into an ocean shipping venture, as has been indicated is the intention, it will inevitably be a losing proposition in which great sums can be sunk, although there is no doubt that there is need for improved coastwise shipping services.

None of the three portions of the New Year program are even in the blueprint stage. Some plans have been laid for increasing production, both agricultural and industrial, through the as yet non-existent Instituto but they have not yet been integrated or detailed. Junta President Betancourt's New Year's Day speech estimated that 50,000,000 bolívares would be needed for the housing program which the Minister of Fomento⁶⁰ has indicated will provide for the building of 40,000 units, 4,000 in 1946. Obviously, the economic way to handle any such enterprise would be by a revolving fund which would require but a fraction of the amount indicated. The origin of the merchant marine idea seems to have been some Colombian suggestions for a joint Colombian-Venezuelan marine which received wide publicity in the local press.

Three explanations come to mind for the issuance of Decree No. 112. The first of these is that Finance Minister Carlos D'Ascoli, a nervous theoretician who has never dealt with large sums before, was honestly worried about the state of the Government's finances. He has indi-

⁶⁰ Juan Pablo Pérez Alfonso.

cated as much on a number of occasions but there is no justification therefor in his own Treasury figures, which have been forwarded to the Department in appropriate despatches. Junta President Betancourt has himself admitted to me on a number of occasions that the Government had no real financial worries, had an adequate mounting surplus to meet its economic and social objectives, provided oil revenues continued at their present high level, and could even easily reduce the inordinately high customs duties, with their deleterious effect on the cost of living, when it got around to it. The character of D'Ascoli's worrying mind is exemplified by a remark of the Vice President of the Banco Central, the Government bank of issue, "God, I wonder what Carlos would do if he were faced with a deficit!"

The second explanation is believed to have more weight. It is that some bright lad on the Junta or in the Cabinet, probably Fomento Minister Pérez Alfonso, on whom Betancourt relies increasingly, got the ideas that (*a*) the major producing oil companies, as is true, made huge profits in 1945 and (*b*), if the Near Eastern oil fields really entered into competition with the Venezuelan fields in 1946, Venezuelan production would inevitably go down because of Near Eastern advantages in production costs. From these sound premises, it would be easy for Pérez Alfonso, Betancourt and others to conclude that now was the time to get some of the fat off of the geese laying the golden eggs, before their weight went down.

The third explanation, likewise with undoubted validity, is a political one. The Junta has made a practice of periodically issuing decrees of popular appeal in order to cater to public support. Some time had gone by since any such had dazzled the public. The Electoral Statute to provide for the Constituent Assembly to draw up the new Constitution, originally intended to be announced in the Presidential New Year's Day address, was not ready (there are grounds for suspicion that the Junta would like to put off the elections). There has been increasing evidence of opposition to the Junta from a number of sources, the honeymoon being over. Decree No. 112 had a very marked demagogic appeal and would only arouse the active opposition of the forty or so companies and persons directly affected, largely foreign, and worry only the monied classes. The decree was a simple one and soaked the always unpopular "petrolero" without being openly discriminatory or violating the Petroleum Law.

In short, it is the Embassy's feeling that the extraordinary income surtax was enacted because the Revolutionary Junta of Government saw an opportunity to gather in some \$40,000,000 in extra revenues by a means which would be unquestionably popular with the Venezuelan masses.

Respectfully yours,

ALLAN DAWSON

831.512/1-1146: Telegram

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

CONFIDENTIAL

CARACAS, January 11, 1946—noon.

[Received 7:32 p. m.]

33. In conversation with Betancourt last night, made points suggested in Deptel 10, January 7, 8 p. m., he admitted tacitly that new income surtax was devised to draw excess profits from oil companies and that it was given general form to avoid charge of discrimination or violation of commitments. Idea originated with Fomento Minister Pérez Alfonso.

Betancourt assured me that Junta would try to avoid taking any new arbitrary action affecting oil companies insisting its norm was to do things openly after consultation and negotiation not summarily. He balked, however, at making any sort of formal declaration to this effect saying "we cannot tie our hands".

He explained failure to inform Ambassador Corrigan or affected parties in advance by stating that study which Fomento Ministry made on which decree was based was not ready until December 29 and that he had not yet read it when he last saw the Ambassador.

On subject of possible inflationary effects he said this would be guarded against and that it was intention to use large share of funds for purchase of equipment in US.

Entire explanation was utterly unconvincing. Very fact that measure originated with Fomento not Finance Ministry seems to indicate it was based on idea of a grab of what could be gotten away with rather than any real need for additional revenues. Analysis of reasons for imposition of surtax contained in dispatch 8279, January 10 written before last night's talk only confirmed.

Betancourt was obviously reluctant to go into matter and switched conversation to means by which we could help.

DAWSON

831.512/1-1646

*Memorandum by the Chief of the Division of North and West Coast Affairs (Flack)*⁶¹

CONFIDENTIAL

[WASHINGTON,] January 16, 1946.

The contents of telegram 33 of January 11, noon, from Caracas was discussed in conference with Mr. Braden⁶² and Ambassador Corrigan who is now here on consultation, and it was decided that no further

⁶¹ Addressed to ARA: Mr. Butler and Mr. Briggs.

⁶² Spruille Braden, Assistant Secretary of State for American Republic Affairs.

observations would be made to the Venezuelans, either informally or formally at this time. Dr. Corrigan will discuss this matter with Sr. Betancourt when he returns to Venezuela.

In talking this matter over with Mr. Loftus of PED,⁶³ we agreed that perhaps it would not be well at this time to state specifically that the petroleum companies per se would probably be disposed to make only the necessary capital investments in Venezuela since this might partake of a threat or appear to isolate the opinion of the petroleum industry from the general adverse affect of the decree on all foreign capital in Venezuela.

831.6363/1-1846

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

CONFIDENTIAL
No. 8305

CARACAS, January 18, 1946.
[Received January 23.]

SIR: I have the honor to transmit herewith two photostatic copies of a document ⁶⁴ addressed to the Minister of Hacienda by Dr. Miguel Octavio Romero Sánchez, charging the Mene Grande, Creole and Shell companies with improper possession of a group of Lake Maracaibo oil concessions. An adverse decision in the case would cost the companies involved many millions of dollars, and establish a precedent which might cost them and others many more millions.

No extensive exposition is made in the document of the cases against Creole and Shell. On Page 51, however, the denouncer calls attention to the fact that such exposition appears in a similar document submitted on November 16, 1942.

It has been reported to the Embassy, albeit not confirmed, that Minister of Fomento Pérez Alfonso assisted in the preparation of the document, and in fact encouraged the not at all unwilling signer thereof and his associates to push the matter. This, very naturally, has caused American companies grave concern and is accepted as indicating a menacing and dangerous attitude on the part of Junta officials openly in conflict with assurances made after the October Revolution that the terms and provisions of the 1943 Oil Law and contracts and concessions arising out of it would be respected.

The document is being forwarded at this time, without the extensive analysis the Embassy would prefer to send, in order that it may be in the Department's possession if and when, as is expected, oil company representatives consult the Department.

⁶³ John A. Loftus, Chief of the Petroleum Division.

⁶⁴ Not printed.

The Embassy deems the Oil Law in effect to be a solemn contract, entered into after extensive discussions between Venezuelan officials and oil company representatives, in which the Department and the Embassy intervened as "honest brokers". In return for the surrender of valuable free customs entry privileges, the payment of higher royalty, the conversion of low royalty concessions which had many years to run, and other valuable considerations it was agreed, in Article 102 of the Law, that "sins of the past would be wiped out" i.e. that no claims based on old contracts or concessions would be made in the future and that outstanding ones would be nullified.

This article is now being attacked as unconstitutional. If it were so held by the Venezuelan courts, the result would be that the companies would have to keep to their part of the contract inherent in the 1943 Oil Law while losing the *quid pro quo* which was part of the compromise effected by the law. The incongruity is obvious of any action as to the constitutionality of existing legislation under a Government which is itself completely unconstitutional and which has as one of its announced first objectives the enactment of a new constitution to replace the one which it has in effect discarded.

It is nevertheless believed that the Minister of Fomento will go to great length to have his own point of view prevail over the law, even though such view was discarded by the Congress which enacted the legislation. Further, the Junta is capable of sudden announcement of costly decision, as witness its unexpected announcement a few minutes before midnight on December 31, 1945 of the "non-discriminatory" retroactive tax levy which will cost oil companies 30 million dollars, 90 percent of total estimated receipts under the measure.

Inasmuch as the Organic Hacienda Law gives the Federal Executive various alternatives, including that of simply throwing the case out, and inasmuch as the document is addressed to the Minister of Hacienda, the Embassy consequently plans immediately to express its views to him in a friendly and informal manner, and to the Junta President if necessary.

Respectfully yours,

ALLAN DAWSON

831.6363/1-2546: Telegram

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

RESTRICTED

CARACAS, January 25, 1946—3 p. m.

[Received 9:52 p. m.]

67. Junta President in signed statement handed to United Press representative late evening January 23 said:

"With respect to the denouncement by a private individual that the 1943 oil law is unconstitutional, I hereby ratify the previously ex-

pressed criterion of the Venezuelan Govt: we will respect the law and will cause it to be complied with. We have no intention of accepting the thesis of its unconstitutionality. Our citizens may freely express their opinions in favor of or against this thesis, because freedom of expression exists in Venezuela. But the Govt has its own point of view which is not to deny the legality of this statute regulating the relations between the Venezuelan state and oil companies in the matter of oil contracts. Likewise it is the definite criterion of the Govt to refrain from placing new burdens on capital earnings after that contained in decree No. 112, of December 31, 1945."

Foregoing cabled today to New York by UP, which will also release it for publication locally tomorrow. Statement seems as reassuring to oil interests as can be expected although precision of language should be noted. Companies consider statement in itself satisfactory.

DAWSON

831.6363/4-1146

*Memorandum of Conversation, by the Chief of the Petroleum
Division (Loftus)*

[WASHINGTON,] April 11, 1946.

Participants: NWC—Mr. Flack
PED—Mr. Loftus
Mr. John J. McCloy

Mr. McCloy,⁶⁵ who has resumed the practice of law, was calling on the Department in behalf of his client, the Pantepec Oil Company. Pantepec, after careful consideration, had decided to make payment to the Venezuelan Government of the amount due by it under the terms of Decree Law No. 112 of December 31, 1945 (the so-called Excess Profits Tax) but to accompany the payment with a formal protest of the decree law in question. Mr. McCloy hoped that Pantepec would enjoy the support of the State Department in connection with the filing of this protest. He had talked briefly with the Secretary and Mr. Braden and was referred to NWC and PED.

Mr. McCloy asked us to examine and comment on two draft documents which he had prepared. One was a proposed formal protest to accompany the payment of the tax; the other was a draft letter from the Pantepec Oil Company to the Secretary of State elaborating in great detail the historical background and the basis for Pantepec's contention that the decree law worked an inequity in its case.

The draft protest consisted of two parts. In the first place there was a series of flat statements, unsupported by evidence, to the effect

⁶⁵ John J. McCloy, formerly Assistant Secretary of War.

that the decree law was unconstitutional, discriminatory, retroactive, and in other ways improper. The second part contained a recital of the particular inequities which the application of the law would work in the case of Pantepec, even if the law were constitutional and just. With respect to the first part of the protest, Mr. McCloy was informed that the Department would be unable to associate itself with such sweeping indictments of a law enacted by another Government, since the law on its face was not discriminatory or violative of any established rights of American oil companies in Venezuela. At the time that the law was enacted we had expressed our concern to the Venezuelan Government emphasizing that the abrupt and unannounced enactment of a law which, while general and nondiscriminatory on its face would in fact weigh heavily upon American oil companies, could not foster any confidence in the genuineness of the Junta Government's assurance that it did not propose to molest the oil companies or in any way to impose special burdens upon them beyond the provisions of the law of 1943. Furthermore, it was pointed out to the Venezuelan Government that such arbitrary and abrupt action might have the effect of discouraging further capital inputs which would be needed to maintain Venezuela's oil position in the face of the strong competition that might be anticipated from other lower cost oil producing areas. We did not feel that there was any basis upon which the United States Government could then or now go beyond the foregoing statements in commenting upon Decree Law No. 112.

There was extensive discussion of the text of Mr. McCloy's draft letter to the Secretary of State, the principal general point in the Department's views to Mr. McCloy being that the letter could and should be briefer and less controversial.

One particular argument which was elaborated lengthily in several passages in the draft letter ran as follows:

The Government of the United States participated in the negotiations leading up to the enactment of the petroleum law of 1943; the State Department had urged upon American oil companies that they conform their concession contracts to the terms of that law; the companies had done so in the belief that they would enjoy the strong support of the United States Government against any demands more excessive than those written into the text of the 1943 law; and therefore the State Department was obliged strongly to associate itself with any representations by private American oil interests against actions by the Venezuelan Government resulting in treatment less favorable than that contemplated by the 1943 law.

Mr. McCloy was advised that no purpose would be served by the presentation of this argument since the Department could not accept its conclusion under any circumstances.

It was agreed that Mr. McCloy would consider the comments and suggestions that had been made to him and would submit a revised copy of the two documents for further comment before finalizing them. After consideration of the revised documents the Department would try to indicate to Mr. McCloy on behalf of his client the character and extent of the support it might be prepared to give through the Embassy at Caracas to the Pantepec protest.

831.6363/4-1246

Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Flack)

CONFIDENTIAL

[WASHINGTON,] April 12, 1946.

Participants:

| | |
|----------------------------|--------------------------------|
| Assistant Secretary Braden | Mr. John J. McCloy, former As- |
| Mr. Wright, A-Br | sistant Secretary of War, now |
| Mr. Loftus, PED | Attorney for Pantepec |
| | Mr. Flack, NWC |

Mr. McCloy called to see Mr. Braden at the Secretary's suggestion, as he had first talked with Mr. Byrnes about the proposal of Pantepec to protest the Venezuelan Surplus Profits Decree of December 31, 1945. He stated that Secretary Byrnes had expressed some doubt about taking up a matter for one petroleum company to the exclusion of the others, but Mr. McCloy considers that Pantepec's position is unique in this matter, and it is my opinion that he has some ground for this view. The reasons are Pantepec was the last company to convert its concessions under the 1943 Petroleum Law and, unlike the three major companies in Venezuela, it had paid no dividends whatever over a period of twenty years until 1945. With the application of the December 31, 1945 Decree, Pantepec's dividend position was greatly affected.

Mr. Braden suggested that the draft of the protests which Pantepec is to present to the Venezuelan Government be gone over with me and the petroleum officers and said that it might be possible for the Department, through our Ambassador at Caracas, to reiterate orally some of the things we had said orally when the December 31 Decree had been issued, namely, the disadvantages inherent in the precipitate nature of such action in dealing with petroleum companies who had cooperated with the Government.

At Mr. Braden's suggestion, I accompanied Mr. McCloy to see Mr. Loftus and we there read over the draft of a protest to the Venezuelan Government and a letter to the State Department, with which a copy of the draft will be submitted at a later date. Various suggestions were made about shortening and pointing up these two communications and Mr. McCloy agreed to redraft the proposed protest and send it to the Department to be examined by Messrs. Rayner, Loftus, Townsend,⁶⁶ and Flack. Mr. McCloy said he would come to Washington again also if it seemed desirable. He will send the redrafts to me, after which I will immediately get in touch with the other interested officials for a meeting to examine the redrafts.

In his letter to the Department and in his conversation, Mr. McCloy stressed what he styled the influence exerted by the State Department to cause the companies to accept the 1943 Petroleum Law in Venezuela, and I told him that I had lived through that epoch in Venezuela and was unaware of any influence which had been directed by this Government as he intimated, but that on the contrary the Law had resulted from round table discussion between the companies' representatives and the Government and that all companies, big and small alike, had every opportunity to present their views and that once the Law was enacted the companies were not obliged, other than by apparent economic advantage, to accept the Law.⁶⁷ Mr. McCloy said that the situation in Washington had been somewhat different, where he understood that the war exerted a certain influence on the desirability of bringing about a tranquil situation in the disturbed relations between the oil companies and the Government in Venezuela. I said that I was not aware what had transpired here in Washington but that, irrespective of any of the facts which might be known to various people, the degree of protection and representations which this Government would make in aiding American firms abroad would not be augmented or diminished by any such circumstance.

Mr. Loftus and I were in agreement, in the case of the proposed protest by Pantepec, that about the maximum which this Government could do would be to refer to its comments made last January about the undesirability of many features of the Decree of December 31 and cite the Pantepec protest as an illustration of the effect in one instance upon an American oil company, but that all of this should be informal and oral.

⁶⁶ Charles B. Rayner, John A. Loftus, and Rex M. F. Townsend were members of the Petroleum Division.

⁶⁷ For previous documentation on this situation, see *Foreign Relations, 1942*, vol. VI, pp. 743 ff. and *ibid.*, 1943, vol. VI, pp. 807 ff.

831.6363/5-646

*Memorandum of Telephone Conversation, by Mr. Alexander Schnee
of the Division of North and West Coast Affairs*

[WASHINGTON,] May 6, 1946.

A call was put through at four o'clock on the afternoon of May 6, to Mr. John J. McCloy, of the firm of Milbank, Tweed, Hope, Hadley & McCloy, representing the Pantepec Oil Company of Venezuela on the subject of the proposed protest of that company to the Venezuelan Government against the excess profits tax Decree No. 112 of December 31, 1945.

Mr. Schnee opened the conversation, stating that he now had the opportunity to discuss this matter with Mr. Flack and Messrs. Loftus and Townsend of the Petroleum Division, and was able to state that the Department felt that the objections raised by the Department in previous conversations with Mr. McCloy on the subject were still valid. Mr. McCloy stated that he had endeavored to incorporate the Department's recommendations and to this end had amplified the sections of the draft of the proposed protest dealing with the five constitutional objections.

Mr. Schnee stated that it was the opinion of the men in the Department that the protest would reap the greatest reward for Pantepec if it were primarily, if not exclusively, limited to those sections of the protest dealing with the peculiarly burdensome nature of the tax on the Pantepec Company.

With respect to the five constitutional objections incorporated in the draft of the proposed protest, Mr. Schnee said that it was the opinion of the Department that these objections would not be favorably received by the Junta and that they would not create an atmosphere favorable to a compromise. Mr. Schnee specifically stated that Section No. 5 (referring to the legal powers of the Junta) would be likely to result in a feeling of animosity on the part of the Junta toward the Pantepec Company. Mr. McCloy replied that he had the same reaction to this point and that he had modified that section of the protest to read as follows:

"The powers of a Junta Government are traditionally limited as to taxation. Although the Revolutionary Junta's declarations in form purported to invest it with the full attributes of all public powers, the powers of such a government have heretofore been construed as limited to those functions which are indispensable to the conservation of institutional order and the rapid reestablishment of a new and permanent juridical order in accordance with the general principles proclaimed by the Revolution."

In reply to Mr. McCloy's inquiries as to whether this point was now expressed in a manner which the Department thought acceptable, Mr. Schnee said that it was the unanimous opinion of all the interested Department officers that the protest would be most helpful if the constitutionality of the decree were not questioned in a strictly legal sense but if such references were concerned more with the spirit of the decree.

Mr. McClay thanked Mr. Schnee for his comments and inquired whether he had any additional thoughts on the matter. Mr. Schnee then referred to the draft letter to the Secretary and to the memorandum attached thereto, on page 5 of which there was a reference which might be interpreted as implying some sort of pressure on the part of the Department in bringing about an acceptance by the petroleum companies of the Venezuelan Law of 1943. Mr. McCloy replied that he understood the Department's position in this matter very well and said that he would review the letter to the Secretary and the memorandum again.

Mr. Schnee said that if the Pantepec Company requested the Department's assistance in this matter we would wait until the protest had been presented by the Pantepec Company and would then instruct the Embassy to approach the Venezuelan Government informally and at an opportune time for the purpose of offering some comments on the Pantepec protest. These comments would, for the most part, be restricted to the peculiarly burdensome nature of this tax upon the Pantepec Company. Mr. McCloy said that he would furnish the Department with a copy of the final draft and would communicate with us at an appropriate time in order that the Embassy might be instructed along the lines outlined.

831.6363/5-2346

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

CONFIDENTIAL
No. 8776

CARACAS, May 23, 1946.
[Received May 27.]

SIR: I have the honor to inform the Department that a Russian Embassy officer, who is an assiduous visitor to the Petroleum Division of the Ministry of Fomento, is reliably reported to harp during such visits on the theme that American oil operating techniques are years behind those employed in the Soviet Union.

This information came through the former Chief of the Division, who resigned earlier this year to accept an executive position with an American oil company. It was given directly to him by officials who, like himself, took oil courses at American universities and thereafter

became part of the Petroleum Division's highly-esteemed team of "career men."

This line of criticism is the same one with which the Standard Oil of New Jersey board chairman recently took issue, and no doubt follows Soviet instructions to discredit things American and pave the way to increased Russian influence. However, the division officials have not been taken in, but apparently recounted the Russian's comments with amusement.

Respectfully yours,

For the Ambassador,
THOMAS J. MALEADY
First Secretary

831.6363/5-246 : Telegram

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

CONFIDENTIAL

WASHINGTON, May 24, 1946—7 p. m.

235. Urtel 291, May 20.⁶⁸ After Emb has been informed that Pantepec has filed protest and providing Emb is so requested, you are authorized to communicate at an opportune time with the appropriate officials of the Govt orally and informally on subject of excess profits tax decree of Dec 31. Your remarks might appropriately allude to statements made at time decree was issued and refer to Pantepec protest as an example of hardships brought about by decree. Dept does not feel that situation requires a position stronger than that indicated above.

BYRNES

831.6363/6-346 : Airgram

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

CARACAS, June 3, 1946.

[Received June 6—10:42 a. m.]

A-224. Department's 235, May 24, 7 p. m. Pantepec officials inform me they presented matter to Minister of Finance several days ago pointing out special burden of Decree No. 112 on their company which was materially watered down from previous drafts of letter of protest. Pantepec has not requested any support from Embassy which has consequently made no communication to Venezuelan officials.

CORRIGAN

⁶⁸ Not printed.

831.6363/6-346

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

CONFIDENTIAL

CARACAS, June 3, 1946.

No. 8824

[Received June 7.]

SIR: I have the honor to inform the Department that, although their tempers subsequently cooled off, when they left the Minister of Labor's office the evening of May 30th after settling their workers' demands, several of the oil company managers were exceedingly angry. Others felt that, instead of simply having been out-manuevered by the Government and the Petroleum Federation negotiators, they had been swayed too greatly by their profit-fat colleagues. The latter, nervous from the start, were reportedly pretty badly frightened when the Minister of Labor⁶⁹ at noon on the 20th threatened to impose a settlement by decree unless one were reached outwise before evening, at which time the Junta President was scheduled to deliver a report to the Nation on the accomplishments of the Junta to date.

The Junta President, knowing that the heads of Creole (with 1945 earnings of \$94,000,000) and of Shell (with proportionately large earnings) felt vulnerable and would be much more amenable to suggestions, called them in several times during the course of negotiations. The two reported back to the industry upon each occasion, but failed to convince the others that they had been as firm as the situation warranted. The others therefore wanted to call upon the President as a body, and also contemplated a visit to the Embassy to solicit its assistance, but permitted themselves to be talked out of both ideas.

Early management conferences revealed that all companies were resigned to making the Bs. 2.00 per day extra wages paid since November 10, 1944 an integral part of salary. They were prepared to grant Sunday or rest day pay, to give up to 15 days annual vacation with pay, and to meet other various demands. There was unanimous agreement to refuse to surrender any of the prerogatives of management, including the right to hire and fire. The point which caused trouble was that of a basic wage increase. Creole and Shell were willing from the start to give Bs. 2.00 per day, half of what had been demanded. The remaining companies felt that since they had already agreed to a 16 $\frac{2}{3}$ percent increase, in the form of Sunday pay, they should stand firm in refusing to increase the basic wage.

During the several days when negotiating committee sessions were suspended, first pending submission of the industry's written reply to the demands, and later while the workers' committee was studying this and preparing its counter-reply, union leaders constantly harped on

⁶⁹ Raul Leoni.

the possibility of a strike. This talk caused considerable tension in the industry, whose committee eventually was authorized to offer 1 bolivar per day basic wage increase. The workers' group pretended that this was not enough, but offered to postpone for two days the filing of the 5-day strike notice announced for May 30th, this in order to give the industry a "last opportunity" to better its offer.

At noon on May 30th the Minister of Labor called in the Creole and Shell heads and told them they would have to give Bs. 2.00. If they refused, settlement would be imposed by decree. The two company heads then went to see Betancourt, to be told that settlement was no longer an industrial matter but had become a political one, and he wanted them to persuade the industry to give the Bs. 2.00 so that he could announce the settlement during his speech that evening.

When report was made to the other managers the discussion is understood to have become pretty warm. However, rather than precipitate a strike, which might very well lead to the outbreak of civil strife, the industry negotiators were told to go back, try to settle for the 1 bolivar increase, but go to Bs. 2.00 if absolutely necessary. At this last meeting the workers' representatives won, and they and the Junta President announced the successful settlement with high glee.

The industry subsequently began a draft of the collective contract. This will be delivered to the workers' committee today, and probably will be ready for signature before the end of this week, after some jockeying about language. The workers' committee no doubt will want to keep the language ambiguous, with an eye to extracting additional advantage, while the industry committee will insist upon clarity in order to avoid pyramiding of the additional payments it is called upon to make.

Creole's policy in the past has been to go its own way, and avoid industrywide agreements. It wanted to act alone this time, but in the light of special circumstances agreed to go along with the rest of the industry. Some of the other companies would have welcomed a showdown at the start, when the exaggerated demands were presented. Later, after negotiations had begun and they found that Creole and Shell were prepared to "give" on practically everything, except management rights, a showdown was again suggested. Some felt that, precisely because the political situation is what it is, a less costly settlement could have been obtained. Nevertheless, while they still resent the fact that when the Creole and Shell heads went to see the President the two failed to suggest that a more representative group be invited, and while they feel that their "fat" colleagues could have done a much better job, the passage of even only a few days has been sufficient to cool tempers and give a different perspective.

There is general recognition on the part of the entire industry, even the profit-fat companies, that the additional burden of the present settlement is about as heavy as it can stand; and, realizing that they have been absurdly remiss in the matter, are now talking about instituting a discreet campaign to educate the public appropriately. Most matters are judged by the present *de facto* Government in the light of political expediency. By pounding away at economic and other pertinent facts the industry hopes the atmosphere may be improved when the time comes toward the end of 1947 for further industry-labor discussions. Whether this happens or not, the prospect of 19 months of industrial peace, when labor everywhere, particularly in the United States, is so restless, is some consolation.

Respectfully yours,

For the Ambassador,
 THOMAS J. MALEADY
First Secretary

831.6363/6-746

The Acting Secretary of State to the Secretary of War (Patterson)

SECRET

WASHINGTON, June 17, 1946.

MY DEAR MR. SECRETARY: With reference to your letter of June 7⁷⁰ addressed to the Secretary of State, I take pleasure in stating that the Department has been following the developments in the Venezuelan petroleum industry with keen and continued interest and on the basis of information at hand, I wish to comment on the points raised in the four paragraphs of your letter, as follows:

1. The Venezuelan oil industry labor agreement was reached on May 30, to run until December 31, 1947. The Department believes that there is nothing in this agreement to warrant the statement that it will ultimately force the oil companies out of business or effectively curtail their control of production. The terms of the agreement are not excessively out of line as compared with agreements reached in the domestic petroleum industry in recent years. Furthermore, it is probable that when the United States ceiling prices on petroleum are lifted, the price then received for Venezuelan oil will more than compensate for the increased labor costs.

2. This Department through the Embassy has been informed of the activities of the Soviet Embassy in Caracas. Both the Embassy and the Department are fully aware of the seriousness of certain implications of Soviet and Communist activities in Venezuela, and there is no reason to believe that the Embassy will not continue to report thereon.

3. This Department has over a long period of years maintained a very close working liaison with American petroleum companies operat-

⁷⁰ Not printed.

ing in Venezuela. It has no reason to believe that those companies feel that the United States Government is not adequately protecting their interests within the limits of proper Government activity. The Department does not believe that the interests of our Government or the American petroleum companies would be best served if the latter were encouraged to resist the reasonable demands of labor. None of the American oil companies operating in Venezuela has complained to the Department or to our Embassy that the terms of the recently negotiated settlement were either unreasonable or impossible.

4. This Department has long been well aware of the military and economic importance of the Venezuelan petroleum industry. Developments in that connection are a primary concern of the adviser on petroleum policy, the Petroleum Division, and the Office of American Republic Affairs, none of which offices is lacking in an appreciation either of the basic factors involved or the seriousness of any movement which might lead to curtailment of Venezuelan production.

Ambassador Corrigan has served in the American republics for twelve years and in Venezuela since 1939. He is assisted by a Petroleum Attaché who has had twenty years of Latin American service and has been in Venezuela since 1940. They in cooperation with the other members of the Embassy staff have provided this Department with full and adequate reports concerning petroleum developments in that country. No evidence has come to my attention which would indicate that the Embassy staff in Caracas is not thoroughly alive to the present situation.

It appears that the concern expressed in your letter may partly arise from the reports of the acting Military Attaché in Caracas, as exemplified by his telegram no. 39 of May 13 last.⁷¹ I should like to point out that the estimate of the situation set forth in that telegram, incorporating many of the thoughts expressed in your letter of June 7, was not even discussed with the Ambassador prior to transmittal. That is to say, the acting Military Attaché apparently did not see fit to ascertain whether his interpretation of the situation coincided with those of the American Ambassador to Venezuela or the special Petroleum Attaché whose sole function and responsibility during the past six years has been liaison with and reporting on the Venezuelan petroleum industry.

The Embassy in Caracas upon inquiry from the Department concerning telegram no. 39 from the acting Military Attaché informed the Department of State that the telegram in question was distinctly overdrawn and that the problem treated therein, while meriting study by policy officers, should more appropriately be considered on the basis of long range consideration of Communist tactics and petroleum unions.

Several officers of the Department of State have recently had the opportunity of discussing with the acting Military Attaché his views

⁷¹ Not printed.

with respect to problems inherent in the recent negotiations between Venezuelan petroleum labor unions and the operators. These conversations did not alter the unanimous opinion of all interested officers in the Department of State that the present situation is not alarming but rather is one which must be followed carefully and alertly in order that the long range interests of our Government and the American petroleum operators may be safeguarded.

Should the foregoing not adequately cover the points raised in your letter of June 7, I shall be most happy to receive your further comments.

Very sincerely yours,

DEAN ACHESON

831.6363/9-1646

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

CONFIDENTIAL
No. 9243

CARACAS, September 16, 1946.
[Received September 23.]

SIR: I have the honor to report that, as anticipated, oil company heads last week received a document indicating various clauses of the recently-signed collective labor contract, the interpretation of which representatives of the Federation of Petroleum Workers desired to discuss with them. Although the document, a copy of which is enclosed,⁷² was submitted in the name of the Federation, its Secretary and principal agitator, Communist Jesús Farias, is widely credited with being the instigator thereof.

While some of the points admittedly are ones with respect to which clarification might appropriately be requested, most in fact constitute new demands. That being the case, and the contract containing a stipulation that no new demands would be presented or considered during its life (to December 31, 1947), officers of one company felt it would be unwise to meet with Farias or other Federation representatives and recommended that the industry refuse to do so. That point of view received little support, and one session has already been held with Farias. A suggestion that a Ministry of Labor representative be invited to attend the Federation-industry meetings, this in order that conscienceless Farias, who when it suits his interest will barefacedly deny previous understandings, likewise was disapproved.

Several management meetings, some of them reportedly rather heated, have been held, with jittery Creole and follow-the-leader Shell alternating between flat determination to reject the new demands and a disposition to talk them over with Farias. At the moment it ap-

⁷² Not printed.

pears that unless Creole suffers a further change of opinion, and breaks the united industry front maintained since 1944, the demands will be turned down and Farias will run complaining to the Minister of Labor. The latter—albeit agreeing with the companies that the Federation is enjoined by the current contract from presenting new demands—is expected then to press the industry, for “political reasons”, to give in and accept the relatively minor additional burden; and the fat may be in the fire.

With elections for the Constituent Assembly scheduled for October 27th, foxy Farias has once more demonstrated his good sense of political timing. As indicated, at the moment it appears that the new demands will be turned down by the industry, which will then be ranted against in the Communist-controlled press as “reactionary” and an outstanding example of “monopolistic imperialistic capitalism”. If the Acción Democrática Minister of Labor fails to take up cudgels on behalf of the Federation, or fails to persuade the industry to give in, the Communists can likewise be expected to raise such a huge cry that AD may lose some votes. Regardless of which way the matter is decided, however, unless something unforeseen occurs to eliminate the Communists from the picture the Federation’s demands will be made to redound to the benefit of their party, which more than actual economic benefit for the industry’s workers is believed to be Farias’ principal aims.

Respectfully yours,

ALLAN DAWSON

831.5123/9-2746

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

CONFIDENTIAL
No. 9295

CARACAS, September 27, 1946.
[Received October 3.]

SIR: With reference to my despatch No. 9291 of September 26, 1946 ⁷³ concerning the statement made in New York on September 25, 1946 by Fomento Minister Juan Pablo Pérez Alfonso, now in the United States as head of the Venezuelan Economic Mission, to the effect that an excess profits tax would probably be levied in Venezuela, I have the honor to report that considerable perturbation has been caused in foreign and Venezuelan business circles in Caracas by the announcement.

When approached on the subject by the press yesterday, the Minister of Finance, Dr. Carlos D’Ascoli, made a vague statement to the effect that he “knew nothing in regard to what the Minister of Fo-

⁷³ Not printed.

mento had announced in the United States." This could be taken either as an implied denial that the question of an excess profits tax had been under study by his Ministry, the competent one to deal with the problem, or morely that he was uninformed concerning what Dr. Pérez Alfonso might have said on the matter. In view of the fact that the income surtax on large 1945 earnings imposed by Decree No. 112 of December 31, 1945, which caused such anguish to the oil companies and other enterprises earning large profits, was the brain-child of Dr. Pérez Alfonso and that he is the principal economic advisor of the Revolutionary Junta of Government, informed circles credit him with probably having a far clearer insight into the Government's probable tax policy than his colleague in the Ministry of Finance and are inclined to discount the latter's attempt at reassurance, if such it can be considered.

Actually, from a broad point of view, there would seem to be no sound economic reason to oppose the addition of an excess profits tax to the Venezuelan Government's tax structure in view of the relatively low income taxes now prevailing and the huge profits which are being made by monied interests in this boom period in Venezuela, based on Venezuela's constantly increasing oil production and the great prosperity of a few in the country's unbalanced economy. On the other hand, however, the Government hardly needs additional revenues with the huge sums which are rolling into its coffers.

From the ethical point of view, there is more doubt as to justification for an excess profits tax. After the imposition of the income surtax by Decree No. 112, the Venezuelan Government authorities, as the Department will recall, on several occasions proclaimed that this was a "one-time" measure resorted to for emergency purposes which would not again be invoked. While, of course, the 1945 income surtax, which simply provided graduated levies on 1945 incomes in excess of 800,000 bolívars without any reference to previous earnings as a yardstick, would presumably differ considerably from any scientifically worked out excess profits tax, both would hit primarily the established oil companies plus the top brackets of native Venezuelan capital. The Venezuelan Government assurances were taken at the time as meaning that nothing like the income surtax, which was, as a matter of fact, commonly referred to somewhat inaccurately as an excess profits tax, would be levied.

There is enclosed a translation of an editorial⁷⁴ from today's *El Universal*, largely the mouthpiece for Venezuela's wealthy classes, using Dr. Pérez Alfonso's statement as its text for the day. It indicates clearly between the lines that the class it represents is perturbed over the possibility that its own income will be affected by the

⁷⁴ Not reprinted.

enactment of any measure such as that mentioned by Dr. Pérez Alfonso. It would be unrealistic, however, to believe that the point of view expressed in the editorial is echoed by any large share of the Venezuelan population, which has good reasons for having acquired a "soak the rich" complex.

Respectfully yours,

ALLAN DAWSON

831.5123/10-146

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

RESTRICTED

CARACAS, October 1, 1946.

No. 9308

[Received October 10.]

SIR: I have the honor to refer to my despatches Nos. 9291⁷⁵ and 9295 of September 26 and 27, 1946, respectively, concerning remarks made by Minister of Fomento Juan Pablo Pérez Alfonso in New York on September 25, 1946, to the effect that an excess profits tax would probably be levied in Venezuela, and the local reaction thereto.

El Universal and *La Esfera*, the two conservative Caracas dailies, continued editorially to criticize Dr. Pérez Alfonso's statement and the Government policy which seemed to be reflected therein, along the lines taken in the enclosure to my despatch No. 9295. This got under the skin of Minister of Finance Carlos D'Ascoli and his Cabinet colleagues sufficiently so that an 1800-word press release clarifying the Government's position was given out yesterday and published in this morning's press. The gist of the apologia is contained in the last three paragraphs of the communiqué, which read as follows, in translation:

"1. The Government maintains its promise not to issue a new decree creating a second extraordinary tax; the Minister of Fomento was explicit in this sense in his statement which was published without any alarmist comment or polemics by the press of greatest circulation in the United States.

"2. In Venezuela, the highest tax rate on income is relatively very low if it be compared with that of other countries of America and there is no legislation on excess profits. Consequently, there cannot be discarded the possibility that a Constitutional Government, consulting the aspirations of the country, should look for a formula which would permit it to increase permanently the participation of the nation in the revenues of enterprises which obtain excess profits. The two possible means of attaining this object would be to increase the maximum rate of the income tax or to create a permanent and reasonable tax on excess profits.

"3. Venezuela does need to increase the revenues it obtains through direct taxation, assessed in such a manner as to conciliate the national need to attract foreign capital with the other one of prompting our own economic development. It does need it because many indirect

⁷⁵ Not printed.

taxes should be eliminated and because the present revenues of the Treasury are sufficient to meet routine costs of administration but not enough for the realization of ambitious plans in the fields of communications, production and industrialization of the country."

Fallacies obvious in the Government's argument are: (1) that no plans have yet been announced to do away with any of the many onerous and unwieldy indirect taxes which all who have studied its tax structure objectively agree should be eliminated (in fact, in eleven months in power, the present Venezuelan regime has advanced nothing which had any resemblance to a tax reform plan other than to grab some \$40,000,000 extra revenue by the decreeing of the income surtax imposed by Decree No. 112 a few hours before 1945 ended); (2) that, although it is true that Venezuela's income tax is relatively low, total taxation is already higher per capita than in any other Latin American country, and (3) that no thought has apparently been given to the possibility of floating loans, justified by Venezuela's excellent financial standing, to pay for extraordinary expenditures, the cost of which could thus be spread out over several years, instead of burdening the taxpayer immediately with the expense of long-range capital disbursements.

Respectfully yours,

ALLAN DAWSON

831.6363/10-246

*Memorandum of Conversation, by the Commercial Attaché in
Venezuela (Knox)*

[WASHINGTON,] October 2, 1946.

Participants: Minister Pérez Alfonso
Dr. M. A. Falcón-Briceño, Venezuelan Chargé
Mr. Rayner, AP
Mr. C. F. Knox
Mr. Smith, A-Br

After the usual pleasantries, in which Mr. Rayner welcomed the Minister warmly, Mr. Knox referred to the press article in the *Journal of Commerce* in which the Minister had mentioned a possible barter of Venezuelan petroleum for Argentine lard. Mr. Knox stated that he was pleased to inform the Minister that an allocation of 2000 tons of copra had been made to Venezuela, thus obviating the necessity for any such barter arrangement. Mr. Smith outlined the unfortunate effects that barter arrangements have against liberal international trade policies and expressed the hope that Venezuela would not engage in such practices. The Minister replied that he did not approve of barter practices and that he hoped they could be avoided; he realized their danger, particularly as regards future price situations.

Mr. Rayner took advantage of this opening to discuss the proposed sale of royalty oils on a public bid basis, expressing the thought that, while such a procedure might give the Government a transitory price advantage on certain spot shipments, the long-range benefit was extremely doubtful in that the volume of oil to be so disposed of (approximately two tankers per day) was so great that it would inevitably affect other aspects of the supply with relation to the sales contracts under which the operating companies in Venezuela were disposing of the non-royalty oil in foreign markets.

The Minister said he was aware of this possibility and that, in a very friendly vein, he had discussed the matter at length with the operating companies and had received from them a proposal which gave the Government the advantage of a higher price, which the Government would take into consideration in further studying whether or not it would be advantageous to sell the royalty oil on the basis of public bid. Mr. Knox stated that, in view of the operating companies' offer, it might very well be that the Government would see no long-term advantage in selling the royalty oil to independents by public bid.

Mr. Rayner assured the Minister that he had a great interest in Venezuela, not only from the standpoint of the petroleum industry, but with relation to the general economy and welfare of Venezuela. He pointed out that, if foreign capital had a friendly and congenial atmosphere in which to operate, minor differences of opinion that might arise from operations could always be settled in an amicable way. He said that the oil companies were becoming increasingly conscious of their responsibility to integrate their activities in a manner that would benefit the general welfare, as well as their own interests.

The Minister re-emphasized that the Government had very happy relations with the petroleum industry and he looked forward to a continuance of such relations.

Mr. Rayner offered to assist the Minister in meeting additional American officials, and in particular Mr. Davies.⁷⁶

831.6363/11-846

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

CONFIDENTIAL

No. 9457

CARACAS, November 8, 1946.

[Received November 21.]

SIR: Before departing on an extended trip to New York, London and The Hague two days ago, Shell Group head John Loudon visited Junta President Betancourt.

⁷⁶ Ralph K. Davies, Deputy Petroleum Administrator.

Loudon told the Junta President that he would discuss his 1947 budget with his Board of Directors, and asked whether the President had anything which might interest the latter. To this the answer was that the directors might be informed that they could expect a new tax.

The President then called in Minister of Fomento Pérez Alfonso, who he said was his principal adviser on economic and financial matters. Pérez Alfonso immediately reminded Loudon that producers are now getting 35 cents more per barrel for their oil while the Government is receiving only 6 cents. This condition, he contends, is eminently unfair, and the Government therefore had decided to obtain a greater share through taxes.

Loudon was then told that when the Constituent Assembly meets in December it will be "asked" to pass appropriate tax legislation. It was added that by advising Loudon of the impending additional burden at this time it could not be contended that when the tax came it would be any surprise, as had been the case with Decree 112, which, announced just before midnight on December 31, 1945, unexpectedly reduced profits by approximately \$30,000,000.

Although, due to the haste with which he recounted the substance of his interview with Betancourt and Pérez Alfonso, Loudon failed to explain how he arrived at the conclusion, he stated that apparently the two Government officials when they report to the Constituent Assembly will consider that they are then and there relieved from any promises made previously, as, for example, the one that the Decree 112 extraordinary tax levy was a one-time one.

Apprised by Loudon of the tenor of his interview with Betancourt and Pérez Alfonso, Creole President Proudfit⁷⁷ called upon Pérez Alfonso at once and expressed astonishment at the development. In the course of his remarks, Proudfit reportedly reminded the Minister of the promise made in connection with the Decree 112 tax and said that in any case his company's 1947 budget of \$140,000,000 would strain its resources, adding that if any heavier tax than those already anticipated had to be paid the company would have to go out and borrow. He remarked further that capital is fluid and often timid, that Decree 112 had seriously affected bankers' confidence in Venezuela, that an additional tax might damage confidence to the further extent that money to pay the tax would not be forthcoming; and he terminated by indicating that it might be necessary to reduce the company's budget, a fact which could have unfortunate repercussions in various circles.

Proudfit said that he left Pérez Alfonso stuttering. After com-

⁷⁷ Arthur T. Proudfit, President of Creole Petroleum Company of Venezuela, subsidiary of Standard Oil Company of New Jersey.

municating with his New York headquarters he then departed for Miami, for a conference with company directors who planned to fly down from New York to consider this latest development.

While the news is unwelcome to the industry, sight must not be lost of the fact that Creole's earnings for the year will be in the neighborhood of \$100,000,000, and those of the Shell group proportionately large. It must not be forgotten that an excess profits tax was talked about as far back as May, 1945, during the Medina administration. Nor should the possibility be overlooked that, had a constitutional legislature met earlier this year, some tax legislation might have been passed. So, despite industry displeasure over the prospects of this new burden, and despite the feeling in the same quarter that Betancourt is treating a promise lightly, it must be conceded that the Government's attitude in the face of the large 1945 earnings is not entirely unexplainable. As one old oil man said, "Put a saucer of cream in front of any cat, even a fat one, and just try to keep him away from it!"

The new tax, it is surmised, will be so designed that the burden thereof will fall practically wholly upon the big producers, perhaps through high rates on earnings above, say, Bs. 30,000,000.

Respectfully yours,

FRANK P. CORRIGAN

831.6363/12-2746 : Telegram

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

CONFIDENTIAL
US URGENT

CARACAS [undated].

[Received December 27, 1946—11:12 p. m.]

602. Oil producers were summoned Presidential Palace this a. m. and told Junta sending proposal to Constituent Assembly amend income tax law. Ordinarily tax last year case oil companies 2½ percent, surtax 9½ percent, decree 112 special levy 20 percent, total 32. Under amendment ordinary tax to remain same while surtax increased on sliding scale up to 26 percent, total 28½. However when earnings exceed 14 million bolívares small tax deduction allowable on part of earnings above that amount which are reinvested here. Due this provision Creole expects pay overall effective tax approximately 26 percent but because increased production and prices estimates total amount payable by it will be \$33,000,000, and amount payable by rest of industry approximately same.

Proposal expected go assembly this p. m. and be passed tonight or tomorrow. Tax increase then being law will be permanent one unless subsequently amended.

DAWSON

CONCERN OF THE UNITED STATES WITH RESPECT TO THE VENEZUELAN WHEAT CRISIS

631.119/2-846 : Telegram

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

RESTRICTED

CARACAS, February 8, 1946—4 p. m.

[Received 8:10 p. m.]

104. Current rumor in market is that in view grain situation our Govt will prohibit all exports wheat flour until May 1.

Embassy anticipates inquiry of Venezuelan Govt.

If for overall reasons temporary curtailment of United States wheat flour exports is necessary Venezuelan situation will need special consideration. Wheat flour stocks were dangerously low and were relieved only yesterday on arrival 3 ships with 27,000 sacks. Embassy considers it of vital political and economic importance to maintain adequate shipments to Venezuela of wheat flour. Venezuelan Govt has lowered bread price as measure of internal stability. Failure of flour supply would have far-reaching internal effects.

DAWSON

102.78/2-2146 : Telegram

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

CONFIDENTIAL

WASHINGTON, February 21, 1946—7 p. m.

U.S. URGENT

92. From Agriculture. ReEmb 104, Feb 8. Rumor regarding prohibition wheat flour export unfounded.

In accordance with President's directive⁷⁸ to maximize shipments wheat and flour to areas in most dire need, new regulations require export license for every flour shipment. All wheat exports will be programmed directly by Agriculture. Your comments urgently needed on tentatively proposed program for Venezuela of 2 thousand bushels wheat and 566 thousand cwt. flour for first 6 months. The wheat allotment is subject to monthly review but present plan is to place flour under regular allocation. The contemplated flour allocation compares with shipments of 613,229 cwt. during first 6 months 1944 and with 797,105 cwt. during same period 1945.

That hardships will result from flour allocation under contemplation is fully realized here. But world situation such that ruthlessly drastic curtailments imperative if widespread starvation to be avoided in many areas sorely hit by war and famine. The contemplated al-

⁷⁸ Of January 25, 1946; for text, see Department of State *Bulletin*, February 3, 1946, p. 151.

location is strictly confidential and on no account should be revealed to local authorities. If you are convinced that increase in flour program absolutely essential, notwithstanding basic policy consideration mentioned above, wire urgently detailed justification and suggest target allocation.⁷⁹ Suggestions for savings will be most welcome. [Agriculture.]

BYRNES

831.5018/4-1746

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

No. 8647

CARACAS, April 17, 1946.

[Received April 26.]

SIR: I have the honor to refer to the Embassy's despatch No. 8622 of April 12, 1946, entitled "The Revolutionary Junta Attempts to Lay the Blame for Food Shortages Upon the United States"⁸⁰ and to comment further concerning the Government sponsored article and editorial which appeared in *El Pais* of April 12, 1946.

In addition to the views expressed in the despatch under reference, I wish to point out that the statements of the Acting Minister of Agriculture⁸¹ and the supporting editorial entitled "Hunger in Venezuela and the Good Neighbor Policy", were issued despite the fact that on a number of occasions previous to April 12 the Counselor of Embassy and the Commercial Attaché⁸² had discussed the supply situation with high officials of the Government. Two days previous to the date of publication of *El Pais*, the Counselor of Embassy had personally gone over the situation with Señor Rómulo Betancourt⁸³ and had explained that by exceptional efforts undertaken through the good offices of the Embassy, the authorities in Washington had relieved the wheat flour shortage in Venezuela with ample shipments; that export relief in the matter of tires was evident with the arrival in La Guaira of some 8,000 tires from the United States; that Venezuela had been successful in securing purchase contracts for ample quantities of corn in Argentina and sugar in Cuba; that, in accordance with the statement issued by the Venezuelan Consul General in New York, exports to Venezuela during February reached the all time record high value of \$13,000,000; and that a calculation of tonnage arrivals for April indicated that approximately 80,000 tons of cargo

⁷⁹ Mr. Dawson replied in telegram 139, February 27, 1946, 7 p. m., that the program would suffice as a minimum for the current semester, but that the chief problem was the irregularity of shipments (831.24/2-2546).

⁸⁰ Not printed.

⁸¹ Eduardo Mendoza Goiticoa.

⁸² Allan Dawson and Charles F. Knox, respectively.

⁸³ President of the Revolutionary Junta.

would reach Venezuelan ports. On April 9 at a dinner in the Embassy residence, the Commercial Attaché personally and at length pointed out to the Acting Minister of Fomento all of the above facts and observed that Venezuelan economy was being sustained in a relatively satisfactory manner by imports from the United States with the exception of two items, tinplate and vegetable oils, and that the Embassy and the authorities in Washington were doing everything possible to afford temporary relief as regards these items.

Notwithstanding the above given explanations to high and responsible officials of the Government on the dates indicated, the provocative press statement and editorial were issued later, undoubtedly with the full approval of Mr. Betancourt, a tactic which indicates a lack of cooperation on the part of the Venezuelan Government rather than on the part of the United States.

Following the issuance of the editorial on April 12th, the Commercial Attaché took occasion to expound in positive terms to the President of the National Supply Commission that the Venezuelan economic situation was not primarily suffering from lack of supplies from the United States and that the authorities in the United States were offering a high degree of cooperation which was apparent in the statistics of arrivals of merchandise at Venezuelan ports. Although the Commercial Attaché made no specific reference to the newspaper article and editorial, the President of the National Supply Commission in reply was so profuse in his expression of appreciation of the assistance given that it was apparent he realized that the Commercial Attaché's remarks were stimulated by the unfair newspaper article.

Venezuela lacks at this time, in company with practically every other nation in Latin America, agricultural machinery, tools and implements. The situation is difficult but no worse than during the past three years. As mentioned in the despatch under reference, the current shortage of nationally produced foodstuffs in Venezuela is owing to the chronic and serious disequilibrium in the Venezuelan economic picture, aggravated by the bungling policies that the present régime has followed during the last six months. Any attempt to rectify this situation must be the result of a long term program and could not possibly be solved overnight even if the United States could ship all of the agricultural machinery that Venezuela desires.

I wish to mention in passing a development which will be the subject of a separate despatch now being prepared by the Commercial Attaché. This concerns the arrival in Caracas on April 11 of two officials of the office of the Foreign Liquidation Commissioner of Panama, bringing knowledge of the existence in Trinidad of very ample stocks of surplus materials which are available to Venezuela if the present régime

bestirs itself to purchase them. The Embassy extended an invitation to the Venezuelan Government to send four officials to Trinidad on the special plane provided by the Commissioner's office in order that the officials might examine the surplus stocks. The officials arrived back in Caracas on April 16 and verbally informed the Embassy that the Venezuelan Government was enormously interested in a large amount of material which they saw there, including agricultural hand tools, electric light plants for rural use, vehicles, construction machinery, etc. Thus, if the Venezuelan Government is really interested in relieving some sore spots in their economy occasioned by material shortages, they have the opportunity of offering purchase bids on surplus materials and equipment located in Trinidad.

Respectfully yours,

FRANK P. CORRIGAN

800.48/6-1846

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

[Extracts]

No. 8881

CARACAS, June 18, 1946.

[Received June 21.]

SIR: With reference to the Department's circular telegram of May 22, 6 p. m.,⁸⁴ concerning the tour of Latin America being made by ex-President Hoover at President Truman's request to discuss the various problems of mutual concern in the world-wide famine, I have the honor to report that Mr. Hoover and his party arrived yesterday in Caracas and departed this morning as scheduled.

Both during the afternoon conference and in a speech made by him after dinner in reply to one of Sr. Betancourt, Mr. Hoover explained the world situation in regard to food as he found it from his 90-day, 50,000-mile trip through forty countries. He explained that he understood fully that Venezuela was a net food importer which could do little to supply needed foodstuffs. The salient sentences in this connection from his extemporaneous remarks after dinner, released to and published in this morning's Caracas press, were as follows:

"We know that Venezuela can contribute little to help in this crisis. All that we ask of her is that she reduce so far as possible her imports of foodstuffs during the next 90 days, which will be the crucial ones, until the next harvest in the northern hemisphere is under way."

Sr. Betancourt's remarks at the afternoon conference and after dinner, as well as those of Sr. Mario Garcia Arocha, Director of the Na-

⁸⁴ Extracts from this circular telegram are printed on p. 136.

tional Office of Supplies, and Sr. Eduardo Mendoza Goiticoa, Minister of Agriculture, at the conference, were mainly in the nature of an exposition of Venezuela's position as an importer of cereals and edible fats and oils. All three stressed the fact that Venezuela had been unable so far to have its desires for agricultural and other machinery met in the United States and asserted that furnishing of such implements would help it to become self-sufficient in food production and so enable imports it now makes to be diverted to other markets.

Sr. Betancourt's great interest in acquiring large amounts of agricultural and road machinery for his country and his arguments in support thereof are already familiar to the Department from previous correspondence on the subject and from the representations of the Venezuelan Embassy in Washington. His appeals and those of his subordinates on the subject constituted in effect the use of another channel to attempt to press his point.

On the departure of the Hoover mission from Maiquetía this morning, military honors were once more rendered by a naval guard. Mr. Hoover was seen off by the Chief of Protocol, the Venezuelan military aide assigned to him during his stay (Major Castro Gómez, Director of the Military School), the Counselor of the Embassy and myself.

Confidential

Mr. Hoover's 19-hour stay in Venezuela, while naturally not productive of any results toward solving the world food situation, was unquestionably helpful in the general sphere of Venezuelan-United States relations. There was a total absence during his stay of any of the Communist manifestations or press attacks which took place in other Latin American countries on his tour although the Communist press in Caracas had earlier attacked him as being an "emissary of imperialism." In a conversation last evening, Junta President Betancourt intimated that this absence of Communist propaganda while Mr. Hoover was in Venezuela was due to the fact that he had caused it to be made known to Communist leaders that no demonstrations against Mr. Hoover would be tolerated.

Respectfully yours,

FRANK P. CORRIGAN

102.78/6-1946 : Telegram

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

RESTRICTED

CARACAS, June 19, 1946—5 p. m.

[Received June 20—12: 26 a. m.]

327. For Agriculture. Re Department's A-189, June 12.⁸⁵ Flour situation tight and black market increasing. Your estimated average

⁸⁵ Not printed.

of 74,000 cwts per month licensed for first semester 1946 is 20,000 and 333 [20333] cwts less per month than Embassy's estimated minimum requirements of 566,000 cwts for first semester (Embtel 139 February 25, 7 p. m.⁸⁶). Minimum requirements second semester 1946 are 566,000 cwts which figure does not allow for under shipment during first semester. Result of Hoover mission was publicity that July, August, September are crucial months and Government and public here beginning appreciate situation. Embassy suggests every effort be made licensing between 80,000 and 90,000 cwts each month July, August, September, after which, if situation permits, increase licensing so as to provide total of above suggested minimum requirements for second semester.

CORRIGAN

102.78/7-3046 : Telegram

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

CONFIDENTIAL

CARACAS, July 30, 1946—5 p. m.

[Received 7:16 p. m.]

382. Reports from interior indicate Maracaibo is practically out of wheat flour while bakeries and macaroni factories in Puerto Cabello and Valencia have closed down. Insofar as Embassy can learn from incomplete ships manifests total wheat flour imports at La Guaira for July are less than 20,000 bags. This is far cry from 76,000 bags July quota offered by Washington and accepted as minimum by Embassy.

I request Department to investigate whether quota of 152,000 cwt for July–August is being fully implemented by licensing and shipment. If authorities have failed to heed Embassy's request (Embtel 337, July 2, 6 p. m.⁸⁶), and have held back on licensing this country will be out of bread flour entirely in a few weeks with unpredictable economic and political consequences. Please advise.

CORRIGAN

102.78/7-3046 : Telegram

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

CONFIDENTIAL

WASHINGTON, August 2, 1946—6 p. m.

320. Urtel 382 July 30. July–Aug flour quota 152,000 cwt fully licensed. Venez importers and American exporters responsible for purchase and shipment. Exports against July–Aug quota may continue leave US through Sept as licenses valid 60 days after issuance.

⁸⁶ Not printed.

Improbable large proportion of July-Aug quota will arrive before mid Aug.⁸⁷

Price ceiling on flour without price ceiling on wheat has created anomalous situation where mills reluctant sell flour. For your confidential info this expected be cleared up shortly.

ACHESON

⁸⁷ In airgram 254, August 22, 1946, to Caracas, the Department indicated that the Department of Agriculture had authorized export of 178,000 cwts of flour to Venezuela for September and October (102.78/8-2246).

INDEX

INDEX

- Abreu, Ovidio de, 491*n*, 510-511, 513
 Accame, Gen. Nicolas C., 144*n*
 Acheson, Dean, 90-91, 190, 260, 280-282, 307, 371, 444-445, 773, 798*n*, 885-886, 1022, 1317-1319; correspondence addressed to: Julian R. Cáceres, 963-964; De Alba, 37; James Forrestal, 97-100; Jorge García Granados, 888; Carlos Martins, 508-509; George S. Messersmith, 309-310, 974; Robert P. Patterson, 715-716, 1346-1348; Kenneth C. Royall, 86-87; President Truman, 83-84; Octavio A. Vallarino, 1146
 Acosta, César R., 1203
 Acosta García, Julio, 12*n*, 693, 697-698
 Act of Chapultepec (1945), 1*n*, 7, 38, 213, 275, 543, 668, 849
 Adam, Hector C., Jr., 15, 340-356 *passim*, 380-381, 389-390, 404-419 *passim*
 Adams, Lt. Col. James Y., 966-968
 Adams, Milton J., 178-181
 Adrogue, Carlos A., 182
 Agreements. *See* Treaties, conventions, etc.
 Aguado, Enoc, 1069-1070, 1073, 1075
 Aguiar, Juan José, 1277
 Aguilar Cortés, Gerónimo, 1074
 Aguilera, Gen. Andrés, 1181
 Ailshie, William K., 42-43, 48-49, 53
 Airport Development Program, 101-106, 431, 454, 456-457, 715*n*, 1077*n*
 Albarino, Gen. Ramón A., 191
 Alcoba, Aurelio, 362, 372
 Alemán, Miguel, 970*n*, 972, 977*n*, 978, 1006
 Alexander, Raymond Pace, 949-954
 Alfaro, Ricardo J., 12*n*, 203*n*, 1096*n*, 1103-1107, 1109-1111, 1118, 1133, 1135, 1137, 1158
 Aliaga Cobo, Claudio, 575-577, 580-581, 588
 Allen, Joseph F., 1058
 Altimirano Browne, Adolfo, 1069-1070
 Alvarado, Julio, 422*n*
 Alvarado, Luis, 48
 Alvarez, Alberto Inocente, 15, 735, 757*n*
 Alvarez de la Cruz, José Manuel, 777
 Alvesteguí, David, 424*n*
 Alzamora, Rear Adm. José R., 1209*n*
 American Airlines, 992
 American Federation of Labor, 1163-1164
 Amezaga, Juan José, 1273
 Anderson, Clinton P., 139, 774, 793*n*, 796-800, 1022, 1051, 1291
 Anderson, Paul J., 526-527, 535, 548
 Andrade, Victor, 352, 374-376, 392
 Angel Soler, Miguel, 1188*n*, 1198
 Anglo-American Caribbean Commission, 1149
 Aramayo, Carlos Victor, 342
 Aranda G., Col. Bernardo, 1178, 1180
 Aranha, Oswaldo, 6, 432, 556
 Aranibar, Ernesto, 342-343, 346-347, 350, 356
 Arce, Roberto, 391
 Arévalo, Juan José, 890*n*
 Arévalo, Juan, 732
 Argentina, 182-339
 Air transport agreement, negotiations between Argentina and United States concerning, 339
 Armament sale to Argentina, and question of military cooperation (*see also* Inter-American obligations, *infra*):
 Belgian TNT, purchase of, 248
 British-U.S. cooperation regarding, 206-208, 255, 278-279, 280-282, 290-291, 307-309, 322, 332
 Canada, Argentine efforts to purchase arms from, 284-285
 Naval supplies, 234, 238, 246, 284-285, 324, 332-333, 338-339
 Swedish position refusing export of arms to Argentina, 186-187, 255, 294-295, 310-311
 U.S. policy, 87, 96, 98, 186-187, 231-232, 238, 254-255, 270-278, 282, 294-295
 Visit of Gen. von der Becke to the United States, 248-249, 250-252, 253-254, 259-261, 262-263, 268, 286-287
 Axis influence, U.S. interest in elimination of:
 Axis agents, 185-186, 192-193, 200-201, 241-244, 247, 257, 293-294, 306, 314-316, 327-329, 335-338
 Blue Book, U.S. publication of: Advisability of, 190, 192-193, 201-202, 203-204, 206; reaction of Argentine Government, press, and public, 209-210, 212, 213-215, 216, 217-219, 225, 240-241; release to other American Republics and the press, 201, 204-205; U.S. position following release, 209, 216; views of other Republics, 205-206, 208-209, 216, 219-221, 222, 224, 226-228

Argentina—Continued

Axis influence—Continued

- Business interests, elimination or control of, 182-184, 187-188, 189-190, 211, 249-250, 253, 259, 280, 282-284, 289-290, 293, 306, 312-314, 329-332
- Freude case, 193, 201, 241, 247, 305, 327-328, 333, 337
- German Foreign Office telegrams (*see also* Blue Book, *supra*), 183-184, 187-188, 189-190
- Proclaimed List firms: Questions regarding, 249-250, 253; U.S. policy on trading with firms formerly listed, 303-304, 319-321
- Schools, German and Japanese, 242, 257, 282-284, 316
- U.S. Embassy summary of Argentine efforts to control Axis influences, 241-244, 247
- Blue Book. *See under* Axis influence, *supra*.
- Bolivia: Recognition of the Junta Government in, 368-369; wheat-rubber negotiations, 417-425 *passim*
- Brazil, relations with (*see also* Wheat-rubber problem *under* Brazil), 212-213, 223-224, 261-262
- Canada, trade relations with, 195, 284-285
- Caribbean Regional Air Navigation Meeting, 65
- Elections:
 - Conduct of, press and Embassy reports, 221-222, 233-234
 - Estimates of political situation prior to, 190-191, 194-195, 196, 197-198, 201-202
 - Perón's charges of U.S. Embassy intervention, and U.S. representations regarding, 194-195, 196, 197, 198-200, 302-303
 - Returns, and discussions of U.S. policy after Perón victory, 210, 212-213, 228-234, 234-239, 245
- Inter-American and international obligations, question of fulfillment of:
 - Argentine position, 188-189; ratification of U.N. Charter and Act of Chapultepec, 323
 - Discussions between Ambassador Messersmith and Argentine officials, 263-267, 285-290, 292-294, 323-324
 - U.S. positions and views: Ambassador Messersmith, 257, 297-302, 321-322, 323-324, 325-327; President Truman, 282; State Department, 191-192, 194, 268-269, 270-278, 281, 297, 305-306, 309-310, 311-319, 323

Argentina—Continued

Inter-American and international obligations—Continued

- Views of other American Republics, 194, 196-197, 202-203, 212-213; Argentine requests for "mediation", 191-192, 194
- Labor problems of, considered at International Labor Conference, 40-42, 45-46
- Military cooperation. *See* Armament, *etc.*, *supra*.
- Pan American Congress of Mining Engineering and Geology, 71, 74
- Perón. *See* Perón, Col. Juan.
- Peru, economic relations with, 1268-1269
- Proclaimed List. *See under* Axis influence, *supra*.
- Rubber (*see also* Wheat-rubber problem *under* Brazil):
 - Negotiations with Bolivia regarding, 417-425 *passim*
 - Shortage of, and U.S. allocations of, 118-119, 129-131, 141, 143-144, 146, 149
- Soviet Union, trade relations with, 279-280, 281-282, 321-322
- U.S. relations with and policy regarding (*see also* Armament sale, Axis influence, Elections, and Inter-American and international obligations, *supra*):
 - Attacks by Perón on former Ambassador Braden, 209, 210-211, 213-214, 216
 - Mediation by other American Republics, question of, 191-192, 194, 203
 - U.S. policy regarding relations with Argentina, 9-20, 246-247, 270-278, 282, 305-306, 309-310, 323; Ambassador Messersmith's interpretation of and views on, 255-259, 263-267, 297-303, 321-322, 333-335
 - Views of other American Republics, 9-20, 196-197, 202-203, 212-213, 261-263
- Uruguay: Argentine reactions to proposal on human rights, 188-189, 245; sale of wheat to Uruguay, 1290-1297 *passim*
- Wheat, sale of. *See under* Bolivia, Brazil, and Uruguay.
- Argüello, Felipe, 1069
- Argüello, Leonardo, 1075-1077
- Argüello Vargas, Mariano, 1081
- Arias, Arnulfo, 60, 1110
- Arias, Harmodio, 1111-1112
- Arizaga Toral, Enrique, 856, 879*n*
- Armaments and military assistance, U.S. policy with respect to provision of (*see also under individual countries*), 86-110

- Armaments and military assistance—
Continued
- Aircraft, allocations of, 86-89, 92, 98-99; Airport Development Program, 101-106; Arms program, 90-91, 93-96; Export-Import Bank, use of funds of for purchase of surplus property, 93; Inter-American Military Cooperation Bill, 108-110; Military missions, 108; Naval vessels and aircraft, allocations of, 97-98, 99-101, 106-107
- Armour, Norman, 846
- Arnold, Gen. Henry H., 87-88, 99, 560, 648, 653-655, 657, 837, 1206, 1207, 1306
- Atlantic Charter (1942), 540
- Atlantic Oil Company, 523, 550n
- Atterberry, Phil R., 615-616, 1094
- Avila, Agustín, 1178, 1198n
- Avila Camacho, Manuel, 972, 995, 1001n, 1009n, 1019n, 1025-1028, 1054n
- Axis influence (see also under individual countries), resolution of the Emergency Advisory Committee for Political Defense concerning, 81-82, 85, 1282
- Ayala, Gen. Juan B., 1178
- Ayala, Rafael, 777
- Baker, Geoffrey, 516
- Baldwin, Charles F., 579
- Ballentine, D., 405
- Ballivian, Felix, 342
- Ballivian, René, 395-396
- Barber, Willard F., 946
- Barbosa da Silva, Edmundo Penna, 469
- Barger, Herman H., 405-408, 414-415
- Barnes, Stuart K., 773
- Barnet, John W., 377-379, 387-388
- Barón, José T., 93n, 95-96
- Barreto, João Carlos, 555-556
- Bases, strategic. See under Brazil, Cuba, Ecuador, Nicaragua, Panama, and Peru.
- Bastianello, Raymond, 1059
- Batt, William L., 139
- Beard, Ray, 381
- Beardall, Rear Adm. John R., 1154
- Beaulac, Willard L., 17-18, 1175-1205
- Becke, Gen. Carlos von der, 248-252, 259-261, 287
- Becker, Juan Sigfrido, 193, 1276
- Behn, Col. Sosthenes, 1000
- Belmonte Pabón, Maj. Elías, 341, 346
- Belt, Guillermo, 32n, 736-737, 767-768, 772, 793n
- Beltrán, Pedro, 1207n, 1252-1255
- Benítez Vera, Col. Victoriano, 1178-1180, 1182
- Bergemann, Pablo E., 1194
- Berle, Adolf A., Jr., 212-213, 223-224, 428-434, 486, 523-529, 532-539, 575, 577, 949-954
- Bernal Cadena, Dr., 662
- Bertollo, Col. Arturo, 248
- Bertrand, Col. Francisco, 966-968
- Betancourt, Rómulo, 1298, 1302-1303, 1307, 1316-1317, 1331, 1334, 1336-1337, 1353-1354, 1359
- Beteta, Ramón, 987n, 1003n, 1006
- Bethlehem Steel Corporation 338-339
- Bevin, Ernest K., 322, 563
- Bielich, Ismael, 1217n, 1234
- Bilbao Vieja, Roberto, 397n
- Blocker, William P., 1109-1114, 1161
- Boal, Pierre de Lagarde, 81-82, 138
- Bohan, Merwin L., 1046, 1048
- Bolivia, 340-425
- American citizens, protection of. See Mining industry, *infra*.
- Argentina: Efforts to purchase wheat from, 417-425 *passim*; views on U.S. policy statement on Argentina, 15
- Armaments and military assistance, U.S. policy with respect to provision of, 87, 89
- Axis business influences, U.S. interest in elimination of, 404-417
- Cochabamba-Santa Cruz highway, additional financing and completion of, discussions regarding, 390-391, 393-394, 400-401
- Elections. See Revolution, *infra*.
- Food crisis, 417-425
- Mining industry: American citizens in, U.S. representations regarding threats against, and Bolivian replies, 379-381, 397, 398; Bolivian expropriation decree, proposed, and U.S. views on, 401-402
- Pan American Congress of Mining Engineering and Geology, 71
- Petroleum industry, Bolivian efforts to obtain Export-Import Bank financing for development of, and U.S. views on, 395-396, 398, 399-400
- Political situation. See Revolution, *infra*.
- Proclaimed List. See Axis business influences, *supra*.
- Recognition. See Revolution: Junta government.
- Revolution overthrowing Villarroel Government, 340-373
- Accounts of revolt, and events preceding:
Elections and subsequent repressions, 340-342, 345-346, 348, 351
- U.S. accounts and assessment of revolution, 355-356, 356-357, 359-360, 361
- Diplomatic Corps:
Collective protests regarding Bolivian Government repressions, proposals for and discussions of, 342-343, 345, 348, 349, 350, 351, 353-354, 357-358; Bolivian views and protests regarding U.S. position in 352, 352-353

- Bolivia—Continued
 Revolution—Continued
 Diplomatic Corps—Continued
 Protection of former Villarroel Government officials, and question of asylum, discussions regarding, 360, 367-368, 369-370; Bolivian views on asylum question, 370-371, 373
 U.S. Embassy: Efforts on behalf of arrested individuals, and Bolivian views on, 343, 344, 346-347, 350-351, 354-355, 356; violation of, U.S. representations regarding, and Bolivian Government replies to, 343-344, 347-348, 354, 355
 Junta government:
 Policy statements and election decree of, 361-363, 373
 Recognition: U.S. discussions and extension of, 364-365, 369, 371-372; views of other American Republics on, 363-369
 Rubber, U.S. purchase of, discussions regarding, 374-375, 396-397, 402-404
 Tin contract negotiations, 377-395 *passim*
 Wheat crisis, U.S. aid provided in, and attempts to secure Argentine wheat, 417-425
 Bosch Pearson, Col. Rodolfo, 824
 Bouças, Valentim, 504
 Bove Trabal, Juan Alberto, 1276
 Bowers, Claude G., 14-15, 219-220, 365-366, 559-635 *passim*
 Bowles, Chester, 155-159, 505
 Boyd, Jorge E., 49
 Bradbury, Robert W., 994*n*
 Braddock, Daniel M., 2, 113-114, 120-122, 124-127, 142-143, 150, 456*n*, 460, 485, 489-490, 492-494, 496, 501-503, 512-513, 515-517
 Braden, Sprulle:
 Actions and views regarding:
 Inter-American Conference, 7, 20-21
 Inter-American Military Cooperation bill, 108-110
 Ninth Conference of American States, 28, 30, 38-39
 Proclaimed List, 80
 U.S. relations with Argentina, 2-3, 22-23, 227-228, 253-254, 258-259, 260, 270-278, 337; Bolivia, 345-346, 352-353, 377-379, 381-383, 392, 399, 400, 435; Brazil, 451, 454, 512, 541-542; Chile, 598-599, 606-609, 612*n*, 613*n*, 614-615, 618-619, 625-627, 638-639; Colombia, 657, 671; Costa Rica, 689; Cuba, 703, 766, 770, 771, 774-775; Dominican Republic, 827; Ecuador, 843-848, 876-877;
- Braden—Continued
 Actions and views regarding—Con.
 U.S. relations with—Con.
 Guatemala, 886, 890-891; Haiti, 918-919, 924, 939, 940-941; Honduras, 964; Mexico, 977, 986, 987, 993, 1029, 1033; Nicaragua, 1075; Panama, 1135-1137, 1149-1151, 1153-1156, 1169-1171; Paraguay, 1193, 1203; Peru, 1206, 1219, 1248*n*, 1260; Uruguay, 1275, 1291; Venezuela, 1306-1308, 1311
 Wheat-rubber problem, 150
 Correspondence addressed to: Claude G. Bowers, 633-634; George H. Butler, 815; William L. Clayton, 638-639; Frank Corrigan, 1304-1305; Mr. DeAlba, 35; Adolfo Diaz and Gen. Emiliano Chamorro, 1072-1073; Ambassador Espinosa de los Monteros, 985; Hallett Johnson, 696-697; George S. Messersmith, 232-233, 297; Robert P. Patterson, 1101-1102; Kenneth C. Royall, 88; Mr. Simpson, 891-892; Walter Thurston, 1005-1008
 Perón's attack on, 210-211, 213-214, 225
 Braden Copper Company, 605-616 *passim*
 Bradshaw, Brig. Gen. Aaron, Jr., 458-459
 Bragonier, Reginald, 1277
 Bramuglia, Juan Atilio, 289*n*, 368*n*, 423*n*
 Braniff, Thomas E., 994
 Braniff Airlines, 470, 672, 743, 994*n*
 Brazil, 426-558
 Agreement with the United States (*see also* Strategic Air Base Agreement *under* Bases, *infra*), 444*n*
 Argentina, views on, and relations with, 223-224, 461; views regarding U.S. policy toward Argentina, 8-9, 16-17, 212-213
 Armaments and military assistance, U.S. policy with respect to provision of, and Brazilian requests for (*see also* Lend-Lease, *infra*), 87, 89, 92, 101, 434-435, 442-443, 460
 Aviation, 465-485
 Air transportation, U.S. technical assistance to, and discussions of draft agreement on, 466, 467-469, 472-473, 476-477, 484-485
 Bilateral aviation agreement, U.S.-Brazilian negotiations for, 465, 469-472, 473-476, 477-482
 Brazilian-Dutch negotiations for bilateral aviation agreement, U.S. interest in, 483

- Brazil—Continued
 Axis properties, disposal of and withdrawal of Proclaimed List, 462-465
 Bases, return of, and arrangements for post-war use of, 426-461
 Air bases, question of use by civilian aircraft, 453, 456-457
 Brazilian attitude toward U.S. armed forces, 428-429; Communist party on, 441-442
 Recife radio station, U.S. proposals regarding use of, 446-447, 449-450, 452-453, 455-456
 Return of installations to Brazil, U.S. discussions and arrangements for, 426-428, 433-434, 435-437, 443-444, 450-451, 453-454, 457-459
 Strategic Air Base Agreement of 1944: Activation and publication of, 437-441, 442; Brazilian desire to amend, 459-460
 Caribbean Regional Air Navigation Meeting, 65
 Bolivia, recognition of Junta Government in, 367, 372*n*
 Coffee: Inter-American Coffee Board agreement, extension of, 165-166, 504-523
 Debts and loans, 485-504
 Brazilian requests for loans, and U.S. position on, 487, 489-490, 492-494, 496, 498-499, 503-504
 Brazilian nonfulfillment of previous U.S. loan commitments, 490, 495, 497-498, 499-503
 Coffee realization bonds of 1930, U.S. efforts to obtain settlement of, 485-486, 487-489, 490-492
 Lend-Lease: Status of account, 452; termination of program, disposal of supplies, 444-445, 447-449
 Loans. *See* Debts and loans, *supra*.
 Pan American Congress of Mining Engineering and Geology, 71, 74
 Paraguay, relations with, 1204
 Petroleum industry, 523-558
 Brazilian oil refinery project:
 American petroleum companies, concern of, 523-525, 541-542
 Refinery concessions, 547-548, 552-554
 U.S. views and discussions: Ambassador Berle, 525-529, 532-533, 535-536, 537-539, 540; State Department, 529-532, 533-535, 536-537, 540-541
 Constitutional amendments affecting petroleum industry, 545-547, 548-552, 555-558
 Proclaimed List, withdrawal of, 462-465
 Rubber. *See* Wheat-rubber problem, *infra*.
- Brazil—Continued
 Surplus equipment: Arrangements and procedures for disposal of, 445-446, 451-452; question of jurisdiction, 429-433
 Wheat-rubber problem of Argentina, Brazil and United States (*see also* Rubber under Argentina), 111-153
 Argentine-Brazilian bilateral negotiations regarding, 129, 137, 138-141, 142-143, 144-145, 146
 Brazilian efforts to trade rubber for Argentine wheat, 120-124, 125-126, 128, 132
 Tripartite Agreement, discussions regarding cancellation of, 135, 147-149, 149-150
 Tripartite discussions on wheat-rubber allocations, 134-135
 Wheat shortage in Brazil, and allocation of Argentine wheat to alleviate: Brazilian views and requirements, 113-118, 135-136, 150-152, 442; Hoover mission, 136-137; U.S. views and position on, 111-113, 124-125, 126-127, 132-134, 137-138, 151-152, 153
 Brett, Lt. Gen. George H., 224*n*
 Briggs, Ellis O., 3-4, 92, 95*n*, 195, 571-572, 610-612, 666, 709, 715, 767-768, 875-878, 966-967, 1089, 1169-1171, 1233, 1249
 Brito, Octavio do Nascimento, 372
 Brooks, C. C., 548-550
 Browder, Earl, 721
 Brown, Lt. Col. Nathan A., 965*n*
 Brown, Walter, 295*n*
 Brownell, Gen. George A., 481
 Brundage, B. C., 579, 603-604, 625-627, 629-630
 Brush, Graham M., 755
 Buenrostro, Efrain, 1002
 Buie, Col. Wilson R., 1020, 1023-1025
 Buitrago Carrillo, Mariano, 424*n*
 Buitrago Diaz, Salvador, 1074
 Bullitt, William, 650
 Burns, Norman, 629
 Bustamante y Rivero, José Luis, 1210-1211, 1237-1238, 1245-1246, 1251, 1256*n*, 1264
 Butler, George H., 209-210, 805-815, 830-834
 Byrnes, James F., 10, 886, 979, 1051*n*, 1105, 1135*n*; correspondence addressed to: Victor Andrade, 418; Col. Sosthenes Behn, 1000; Guillermo Belt, 704-705; Chester Bowles, 161-164; James Forrestal, 97, 435-436, 563, 703-704; Alberto Guani, 85; Gen. Kenner F. Hertford, 92; Carlos Martins, 132-134; Robert P. Patterson, 706-707, 840-843
 Cabot, John M., 119, 123, 129, 182-191, 196-203, 209-245 *passim*

- Cabrera, Luis, 1001*n*
 Cabrera García, Cleto, 362
 Cáceres, Julián R., 228, 959-967 *passim*
 Cady, John C., 947, 949-954
 Caffery, Jefferson, 432
 Calderón, Maj. Luis, 1314
 Calderón Guardia, Rafael Angel, 693, 696
 Caldwell, Brig. Gen. C. H., 249
 Cale, Edward G., 155-159, 164-167, 486, 516
 Calejas Reyes, Roberto, 1080
 Calero, Maj. Jorge, 352
 Campen, Thomas S., 1231
 Campos, Roberto, 113, 492-494
 Campos Ortiz, Pablo, 1058
 Canada, 3-4, 65, 71, 195, 284-285
 Cantero, Lt. Col. Dario, 1179
 Carbajal Victorica, Juan José, 1278*n*, 1280
 Carbo Puig, José, 873, 881*n*
 Cárdenas, Raúl de, 735
 Carías Andino, Gen. Tiburcio, 955-957, 965, 967-968
 Caribbean Regional Air Navigation Meeting, 65
 Carrasco, Brig. Gen. Arnaldo, 561*n*
 Carrasco, Mario, 351
 Carrigan, John Willard, 48, 975-977, 1006
 Casanova, José M., 791-792, 800
 Castillo, Maj. Fernando M., 819
 Castillo Nájera, Francisco, 978-980, 989-990, 1009*n*, 1019*n*, 1039*n*, 1051*n*
 Castro, Héctor David, 32*n*
 Castro, Roberto, 777
 Chalband Cardona, Esteban, 340*n*
 Chalmers, Philip O., 2*n*, 428-429, 532-533
 Chamorro, Gen. Emiliano, 1073, 1075
 Chapultepec Conference. *See* Inter-American Conference on Problems of War and Peace.
 Chardón, Raul S., 828
 Charles, Joseph D., 940-941, 944-949
 Chase, E. E., 873-875, 880
 Chaves, Dennis, 40, 43-46, 48, 50
 Chaves, Federico, 1183, 1185-1187
 Chayet, Maurice, 923*n*
 Chegodaeva, Nora P., 723
 Chibas, Eduardo R., 225
 Chicago Aviation Conference (1944), 469*n*, 670, 992, 1285*n*
 Chile, 559-647
 Argentina, views on U.S. policy toward, 14-15, 219-220
 Armaments, U.S. policy of supplying, 559-575
 Aircraft: Allocation of, interim, 89, 92, 101, 560, 562, 564-565, 567-568, 571-572; British interest in sale of, and U.S. concern regarding, 562-564, 565-566, 569; Ground equipment allocation, 573
 Military missions to, 559, 561-562, 570
 Chile—Continued
 Armaments—Continued
 Naval vessels allocation, 569-570, 573-575
 Surplus construction equipment, Chilean interest in, 568-569
 Axis business interest, U.S. efforts to secure cooperation in elimination of, 575-591
 Bolivia, recognition of Junta Government in, 365-366
 Caribbean Regional Air Navigation Meeting, 65
 Chemical surplus plants, exchange of U.S.-Chilean views on disposal of, 621-623, 627-629, 635-638, 639-645, 647
 Copper industry strike, discussions regarding settlement of, and its effect on credit negotiations, 604-615, 616-617
 Credits for development, U.S. policy toward advancing of (*see also* Copper industry, *supra*; and Petroleum industry, *infra*), 595-599, 600-604, 615-616, 618-620
 Debt, external, U.S. interest in settlement of, 591-595, 600-602
 Inter-American Conference for the Maintenance of Peace and Security in the Hemisphere, vote on postponement of, 7
 Lend-Lease, status of account, 572-573
 Nitrates, Chilean views on price ceiling for, 629-630
 Pan American Congress of Mining Engineering and Geology, 71
 Petroleum industry, financing and development of, 620-647; Chilean views on, 620-621; efforts to obtain Export-Import Bank loan for, 625-627, 632, 638-639, 645-646; Standard Oil of New Jersey, 623-624, 630-631, 633-635
 Proclaimed List, 575-591 *passim*
 Chiriani, Juan Horacio, 1175
 Civil Aeronautics Act of 1938, 992
 Civil Aeronautics Administration, 466, 476, 666-667, 667*n*
 Civil Aeronautics Board (CAB), 470-471, 478-479, 668, 670-672, 737*n*, 742, 992-993, 996
 Clark, DuWayne G., 528
 Clark, Tom C., 1028*n*
 Clattenburg, Albert E., Jr., 1147-1148
 Clayton, William L., 35-37, 66-71, 134, 147-149, 386-387, 418, 456-457, 466, 482, 485*n*, 498, 636, 687, 876-877, 1001-1002, 1058, 1067
 Cleland, Brig. Gen. Joseph P., 561*n*, 572*n*
 Clinton, Comdr. Daniel J., 848*n*
 Cobian Parra, Maj. Salvador, 823
 Cochran, William P., 43-45, 93-96, 168-172, 175-177, 886, 898, 960-963, 1089
 Coelho, Comdr. Heitor Baptista, 449

- Coffee. *See* Inter-American Coffee Board; *and under* Brazil.
- Colina, Brig. Gen. Bartolomé de la, 186n
- Collet, John C., 505
- Collins, V. Lansing, Jr., 1095, 1113, 1130-1132, 1160, 1163-1165
- Colombia, 648-681
- Air transport agreement and operating problems, discussions between Colombia and United States concerning, 105, 666-672
- Argentina, relations with, 202-203; views on U.S. policy toward, 13, 221
- Armaments and military supplies, U.S. policy with respect to provision of, 89, 92, 648-661
- Axis influence, U.S. interest in elimination of, 661-665
- Caribbean Regional Air Navigation Meeting, 65
- Coffee price ceiling, Colombian attitude on, 154-159
- Communications problems, U.S. interest in, 672-674
- Credits and loans to, discussions regarding, 674-675
- Petroleum and other natural resources, U.S. interest in development of, 675-681
- Combined Food Board, 111-113, 133-134, 1053
- Congress of Industrial Organizations (CIO), 1159, 1165
- Connally, Tom, 1282
- Connell, R. M., 661, 675
- Connolly, Gen. Donald H., 106n
- Cooke, Juan, 187, 200, 214-215, 218
- Cooke, Morris L., 1009
- Cooper, Prentice, 1219-1269 *passim*
- Corliss, James C., 486, 615
- Correa, Javier, 1265
- Correa e Castro, Pedro, 503n
- Corrigan, Frank P., 19-20, 1298-1362 *passim*
- Corson, H. G., 396
- Costa Rica, 682-701
- Airport facilities in, 688
- Argentina, views on U.S. policy toward, 12-13
- Armaments and military assistance, U.S. policy with respect to, 93-96, 683-685, 689-690
- Caribbean Regional Air Navigation Meeting, 65
- Cooperation with United States, 690-701
- Defense, hemispheric. *See* Armaments, *supra*; *and* Financial assistance, *infra*.
- Elections in, 690-691, 696-697
- Financial assistance to, 682-683, 686-687
- Inter-American Highway in, 169-170
- International relations, Costa Rican policy regarding, 692-694, 697-698
- Costa Rica—Continued
- Legislation affecting jurisdiction of Costa Rican courts over U.S. agencies, 694-696, 698-701
- Lend-Lease account, status of, 689
- Costellanos, Daniel, 1280
- Cottrell, Benjamin, 391
- Court, Julio, 828
- Craig, Glenn H., 1291
- Creole Petroleum Company of Venezuela, 1335, 1344-1345, 1348-1349, 1354-1355
- Crittenberger, Lt. Gen. Willis D., 840, 1096n, 1137, 1150, 1219n
- Cross, Cecil Erne Putnam, 135
- Cruz Coke, Eduardo, 635
- Cuba, 702-804
- Agreements with the United States, 706n, 742n, 762n, 763n, 775n
- Argentina, relations with, 196-197; views on U.S. policy toward, 15-16
- Armaments, Cuban requests for and U.S. policy regarding, 89, 92-98, 711-712
- Aviation, civil. *See under* Transportation, *infra*.
- Bases, discussions regarding return to Cuba, and postwar use by United States, 702-707, 708-711, 715-716
- Caribbean Regional Air Navigation Meeting, 65
- Communications policies. *See* North American Regional Broadcasting Conference, *infra*.
- Communist Party in, and its relations with the Soviet Union, 719-736
- Financial aid to, and financial obligations of, U.S. policies concerning, 762-772
- Guantánamo Naval Base, water supply negotiations, 707-708, 712-715, 717-718
- Hemisphere defense, relation of Cuban problems to, 702-719
- Lend-Lease account, status of, 765-766
- Nicaro nickel plant, termination of operations of, 718-719
- North American Regional Broadcasting Conference, 737-739
- Postwar-reconversion policies, 736-762
- Soviet Union, relations with, 719-736
- Sugar crops, 1946 and 1947, discussions and negotiations leading to agreement regarding U.S. purchase of, 772-804
- Trade and commercial relations: Commercial convention of 1902, U.S. desire to terminate, 743-745; Preliminary Trade Conference, Cuban participation in, 756-757; Survey of, 746-749; Trade agreement of 1934, discussions of Cuban violations of, 739-740,

Cuba—Continued

- Trade and commercial relations—Con. 757-762; Treaty of Friendship, Commerce and Navigation, U.S. efforts to negotiate, 741
- Transportation: Cuban attitude on civil aviation and U.S. views, 736-737, 742-743, 749-753, 755-756; Seatrain Lines, 754-755
- Cunha Machado, Brig., 470, 473-476, 483
- Cunningham, Frederick J., 1195*n*
- Currie, Brainerd, 155-159
- Cyr, Leo G., 666
- Daniels, Paul C., 8-9, 16-17, 66*n*, 71-75, 123-137 *passim*, 152, 426-554 *passim*
- D'Arbelles, Capt. Salvatore, 1080
- D'Ascoli, Carlos, 1332-1333, 1349, 1351
- Davies, Ralph K., 1353
- Davis, Bainbridge C., 648-652, 656, 1306-1308, 1317-1319
- Dawson, Allan, 220, 1299, 1307-1310, 1312-1313, 1320-1325, 1327-1337, 1348-1352, 1355-1356, 1357*n*
- Dawson, William, 1270*n*, 1271-1294 *passim*
- Dearborn, Henry, 836-840, 843-848, 852-853, 858-859, 873-878
- DeCamp, Robert J., 1036, 1039
- Declaration of Havana (1940), 271, 275
- Defense sites. *See* Bases, *under* Brazil, Cuba, Ecuador, Nicaragua, Panama, and Peru.
- Delfino Malvicini, Anselmo, 41, 331-332
- Dehlsen, J., 405
- Delgado Chalbaud, Lt. Col. Carlos, 1298, 1307-1309
- Denby, Alfred E., 895*n*, 898, 900
- Desmaras, Carlos R., 41
- Dillingham, S. D., 1203
- Dominican Republic, 805-835
- Airfields in, 105
- Argentina, views regarding U.S. policy on, 216
- Armaments, Dominican efforts to purchase from various sources, and U.S. position on (*see also* Military aid, *infra*), 820-825
- Caribbean Regional Air Navigation Meeting, 65
- Claims, discussions regarding U.S.-Dominican treaty obligations with respect to, 834-835
- Communist Party in, and U.S. attitude regarding, 813-814, 827-834
- Lend-Lease account, status of, 826-827
- Military aid, Dominican requests for, and U.S. policy on, 87, 89, 96-98, 816-827
- Pan American Congress of Mining Engineering and Geology, 71

Dominican Republic—Continued

- Trade relations, discussions regarding U.S.-Dominican treaty obligations with respect to, 835
- U.S. policy toward, delineation of for guidance in conduct of general relations with, 805-815
- Donnelly, Walter J., 1149, 1151, 1215-1219, 1228
- Donovan, Andrew E., II, 178, 892-895, 899
- Dreher Haussmann, Luis, 1276
- Dreier, John C., 90-91, 106-107, 568-569, 656*n*, 659-661, 855, 965
- Duarte Bordón, Máximo, 1194
- DuBois, Jules, 1111-1112
- Dufour, Maurice, 718-719
- Duggan, Laurence, 1006, 1008
- Duncan, Brig. Gen. Early E. W., 568
- Duncan, Rear Adm. Jack H., 1208*n*, 1232*n*
- Dunn, James Clement, 836
- Dunn, William E., 580*n*, 582-584, 620
- Durán, Gustavo, 225
- Durana Camacho, Gabriel, 674-675
- Dutra, Gen. Eurico Gaspar, 26-27, 367, 451-453, 465, 544-545, 821*n*
- Ecuador, 836-883
- Argentina, views on U.S. policy toward, 13-14, 226-227
- Armaments and military assistance, U.S. policy with respect to. *See* Military equipment, *infra*.
- Axis business interests, U.S. efforts to secure cooperation in elimination of, 865-873
- Bases, negotiations concerning, 836-864
- Galápagos Base, 836-863
- Salinas Base, 839-840, 842-843
- Defense problems. *See* Bases, *supra*; and Military equipment, *infra*.
- Economic development, U.S. participation in, 873-881
- Galápagos Base, 836-863
- Inter-American Conference for the Maintenance of Peace and Security in the Hemisphere, vote on postponement of, 7
- Lend-Lease account, status of, 861
- Manta-Quevedo Road, 873-881 *passim*
- Military equipment: Aircraft allocation and delivery, 837-838, 844, 848-849, 863-864; Armaments and equipment, U.S. policy regarding, and Ecuadoran inability to pay, 89, 92, 855, 858-859, 864; Naval vessels, sale of authorized, 851
- Proclaimed List, 865-873 *passim*
- Salinas Base, 839-840, 842-843
- Wheat shortage, U.S. position regarding, 881-883
- Egger, Rowland, 393
- Eiland, Staff Sgt. Oscar J., 1234, 1238, 1242, 1248
- Eiseman, Lt. Col. Douglas, 852-853

- Eisenhower, Gen. Dwight D., 249, 250-252, 253-254
- Elfo, Guillermo, 342, 346-347
- Elfo, Tomás, 342
- Elliott, John C., 296
- El Salvador
 Agreements with the United States, 884
- Argentina, views on U.S. policy toward, 194, 205-206
- Armaments and military assistance, U.S. policy with respect to provision of, 89, 92, 93-96
- Caribbean Regional Air Navigation Meeting, 65
- Pan American Congress of Mining Engineering and Geology, 71
- Emergency Advisory Committee for Political Defense, resolution concerning Axis influence, 81-82, 85, 1282
- Errera, Alfonso, 368*n*
- Erwin, John D., 955-956, 968
- Espinosa de los Monteros, Antonio, 975-976
- Espy, James, 374-376, 381-386, 390-392, 394-396, 398, 400
- Estimé, Dumarsais, 912-915, 937-938
- Estrada, Victor Emilio, 846*n*
- Estrada Doctrine, 363
- Export-Import Bank, 93, 393-394, 398, 490, 495-498, 501, 595-596, 602, 618-620, 625-627, 638-639, 645-646, 674-675, 682-683, 763-769, 838-839, 873-881, 997-1005, 1085-1086, 1092-1094, 1172, 1200-1205
- Falck, L. James, 755
- Falcón-Briceño, M. A., 366, 1352
- Faria Lima, Lt. Col. José Vicente de, 449
- Farias, Jesús, 1348
- Farrell, Gen. Edelmiro, 192
- Faust, John B., 956-958
- Ferguson, Homer, 168*n*
- Ferguson, Col. Thomas D., 426-428
- Fernández, Alfonso, 591-593
- Fernández Bazán, Victor N., 350*n*
- Fernández Fernández, Joaquín, 365, 570*n*, 575*n*, 580
- Ferrari, Libertario, 41
- Ferreira, Manuel, 1178
- Ferrer Vieyra, Enrique, 259
- Fetter, Frank W., 492-494, 496
- Fiore, Luís, 182
- FitzGerald, D. A., 136
- Fiuzo de Castro, Gen. Alvaro, 451-452
- Flack, Joseph, 356-365, 367-371, 373, 396-398, 400-403, 415-416, 420-425, 625-627, 839-840, 1310-1311, 1314-1316, 1334-1335, 1339-1340
- Fleming, Horace K., 262-263
- Fleming, Maj. Gen. Philip, 1167
- Food crisis. *See* Wheat under individual countries.
- Foreign Bondholders Protective Council, 592, 600-602, 1255-1256, 1260, 1262
- Foreign Liquidation Commission, 426, 429-431, 434, 436-437, 446, 451, 1079
- Foreign Ministers' Conferences, 271*n*, 383, 412
- Forrestal, James, 108*n*, 649, 704*n*, 849-850
- Foster, William Z., 722
- France, 65
- Franco, Col. Rafael, 1178, 1184
- Franklin, William M., 1148
- Freire Esteves, Gómez, 1178
- Freude, Ludwig, 193, 201, 241, 247, 305, 327-328, 331, 333, 337
- Freude, Rudolf, 327-328
- Frixione, Francisco, 1074
- Frova Mazzoni, Antonio Domingo, 1276
- Fuente, Horacio de la, 561*n*, 566*n*
- Galbraith, Willard, 422
- Galino, Nestor, 341
- Galvez, Juan Manuel, 964
- García, Celso Raul, 120-122, 489, 499
- García Arocha, Mario, 1359
- García Granados, Jorge, 895*n*, 897*n*
- García Sayán, Enrique, 1210-1213, 1225-1226, 1237-1240, 1265
- Garland Roel, Eduardo, 344, 357*n*, 422*n*
- Gaston, Herbert E., 490, 602, 646, 674-675, 763-765, 873-875
- Gates, Gen. Byron E., 426-428, 437
- Geist, Raymond H., 349*n*, 363, 1036
- Gerberich, Albert H., 675
- Germany. *See* Axis.
- Gibson, Hugh, 136
- Gibson, Raleigh A., 683-684
- Gilardi, Gen. Carlos A., 1207*n*
- Gimenez, Col. Enrique, 1179
- Glenn, Col. Edgar E., 710
- Góes Monteiro, Gen. Pedro Aurelio de, 23, 440-441
- Goldsmith, Leonard, 1159-1160, 1165
- Golino, Ernst, 1060
- Golino, Felice, 1060
- Gómez, Joaquín, 1069, 1073
- Góngora, Gen. Enríque, 1220*n*, 1226-1227
- González, J. Natalicio, 1189*n*
- González Chávez, Col. Camilo, 710-711
- González Videla, Gabriel, 605*n*, 606, 607, 612-614, 616
- Grace (W.R.) and Company, 342, 344, 346, 355
- Gracie, Samuel de Souza-Leão, 17, 23, 128, 134-135, 367, 433*n*, 469, 499, 501-503, 543-544, 822*n*
- Grau San Martín, Ramón, 196-197, 724, 735, 748, 771-772, 793
- Green, David S., 487
- Greer, Rear Adm. Marshall R., 435-436, 649
- Griffiths, John F., 214
- Grillo, César S., 469
- Grimes, Howard A., 1232
- Gromyko, Andrei, 723

- Guani, Alberto, 1282
- Guatemala, 885-901
- Agreement to provide for procurement of crude rubber, 1942, termination of, 885
 - Airfields in, 104-105
 - Airline, expropriation of, protection of American interests, 895-901
 - Argentina, views on U.S. policy toward, 227
 - Armaments and military assistance, U.S. policy with respect to provision of, 89, 92, 93-94
 - International Highway of the Pacific (Emergency Military Route), construction of, 177-178
 - Lend-Lease account, status of, 885-889
 - Railway lines, U.S. concern over possible nationalization of, 890-895
- Güell, Gonzalo, 717
- Guerra, José Antonio, 756-757
- Guevara Moreno, Carlos, 848*n*
- Guggiari, José P., 1186*n*, 1188
- Guillén, Néstor, 362
- Guinle, Guilherme, 535
- Gulf Oil Company, 525-527, 541-542, 550*n*
- Gundlach, Cornelius F., 404
- Guthrie, William D., 1062
- Gutiérrez, Francisco de P., 93*n*, 688
- Gutiérrez Granier, Luis, 360
- Gutiérrez Vea Murguía, Guillermo, 400-401
- Hadow, Robert Henry, 280-282
- Haggerty, John J., 1266-1267
- Haiti, 902-954
- Agreements with the United States, 913*n*, 914, 931*n*
 - Airfields in, 105
 - Armaments and military assistance, U.S. policy with respect to provision of, 87, 89, 96-98
 - Caribbean Regional Air Navigation Meeting, 65
 - Constitution, proposed, U.S. representations regarding provisions which would discriminate against U.S. interests, 915-931
 - Debt, external, U.S. efforts to ease while protecting interests of American bondholders, 931-954
 - Haitian proposals and views on, 935, 937-938
 - U.S.-Haitian negotiations, 940-941, 944-954; Ambassador Tittmann's recommendations regarding, 942-944
 - U.S. views and proposals, 931-935, 936, 939
 - Lend-Lease, status of account, 938-939
 - Recognition of government established after resignation of President Lescot, 902-912; U.S.-Haitian relations, 912-915
- Hall, Carlos C., 1248, 1268-1269
- Halle, Louis J., Jr., 34, 38-39, 813*n*
- Hamilton, Kingsley W., 1051-1052
- Hanford, Maj. George, 1234
- Harden, Orville, 523, 541-542
- Harnisch, Hans Rudolf Leo, 193
- Harrington, Theonis, 1058
- Harrison, John L., 170-172
- Hauch, Charles C., 832, 904*n*, 908*n*, 918-919, 930-931, 932*n*, 940-941, 944-954
- Havemeyer, John K., 516, 521-523
- Havlik, Hubert F., 610-612, 1275
- Haya de la Torre, Victor Raul, 1251, 1259, 1268-1269
- Heins, Fred G., 178*n*
- Hellmuth, Osmar Alberto, 240
- Hernández, Capt. Efrain, 710-711
- Hernández, Pablo M., 1036, 1039
- Hernández Martínez, Maximiliano, 961*n*
- Herrera Mendoza, J. M., 1326
- Hertford, Brig. Gen. Kenner F., 862
- Hertzog, Enrique, 341
- Heyler, E. F., 178-181
- Hilldring, Gen. John H., 296
- Hines, Frank T., 203, 1095-1174 *passim*
- Hiss, Alger, 21, 33-34
- Hochschild, Mauricio, 375-377, 386-388
- Hodgson, Joseph, 755
- Holger, Rear Adm., 573
- Homer, Maj. Gen. John L., 840
- Honduras, 955-968
- Argentina, views on U.S. policy toward, 228
 - Armaments and military assistance, U.S. policy with respect to provision of, 87, 89, 96, 98, 955-968
 - Carías Government, accomplishments and political situation of, 955-958, 961
 - Caribbean Regional Air Navigation Meeting, 65
- Hoover, Herbert, 136, 138-139, 1359-1360
- Hore-Belisha, Leslie, 197
- Horowitz, Daniel L., 610-612
- Howard, George C., 750-753, 769
- Huezo, Rafael, 1092
- Humbard, John L., 1169
- Hushing, W. C., 1155
- Hutson, John B., 1266*n*
- Ibarra García, Oscar, 193
- Ibarra Mayorga, Francisco, 1074
- Illanes, Mario, 584-585, 629
- Illescas Barreiro, Francisco, 861
- Institute of Inter-American Transportation, 1036-1039
- Inter-American Coffee Board, U.S. interest in problems of, 154-167
- Inter-American Conference for the Maintenance of Peace and Security in the Hemisphere, postponement of, 1-27
- Canadian interest in, 3-4
 - Postponement of, 1-9, 20-27

- Inter-American Conference—Continued
 U.S. policy on Argentina, *April 8*
 statement of, and consultations
 with other American Republics
 regarding, 6-7, 8-20
- Inter-American Conference on Problems
 of War and Peace (Chapultepec
 Conference) 1945, 1*n*, 7, 30*n*, 692,
 832; Economic charter, 50-51, 68,
 73, 402, 524, 534, 535, 540, 626,
 915, 1011; Final act, 82, 185, 243,
 271, 350, 383, 412, 494*n*, 540*n*, 624,
 668, 1144, 1281*n*
- Inter-American Conference on Systems
 of Economic and Financial Control,
 1942, 271, 589, 1193
- Inter-American Highway, U.S. co-
 operation with other governments
 in construction of, 168-181, 1085,
 1086, 1087, 1132, 1172
- Inter-American Military Cooperation
 Bill, 1946, (U.S.), 26, 27, 99*n*, 108-
 110, 278-279, 290-291, 294-296,
 307-309, 460, 659, 855, 1274*n*
- Inter-American Radio Conference, 3*d*,
 1945, 738*n*
- International Civil Aviation Confer-
 ence, 1944, 469*n*, 670, 992, 1285*n*
- International Civil Aviation Organiza-
 tion, provisional, 65
- International Conference of American
 States, Eighth, Lima, 1933, 30
- International Conference of American
 States, Ninth, to meet in Bogota,
 preliminary discussions concerning,
 28-39
- International Conference on Trade and
 Employment, 744*n*, 916, 923
- International Labor Conferences at
 Mexico City and Montreal, 1946,
 40-64
 Problems considered regarding Argen-
 tina, 40-42, 45-46; Panama, 42-45,
 47-64
- International Railways of Central
 America (IRCA), 890-891, 894*n*
- International Trade Organization of the
 United Nations, proposed, 68, 541,
 923
- Isle of Pines Steamship Company, 747,
 768
- Italy. *See* Axis.
- James, Edwin W., 175-177, 390-391,
 1087-1088, 1167
- Japan. *See* Axis.
- Jara, Gen. Heriberto, 1058*n*, 1061
- Jarrell, Capt. Albert E., 1058*n*
- Jett, E. K., 737-739
- Jewett, George, 381-383, 387-388, 394
- Jiménez, Enrique A., 1097, 1118, 1124,
 1133, 1164
- Jiménez, Roberto, 1096*n*
- Johnson, Hallett, 12-13, 682-698
- Joint Chiefs of Staff (U.S.), 668
- Keating, Joseph T., 741*n*
- Kemper, Claude, 387-388
- Kennecott Copper Corporation, 604-610
- Kennedy, Donald D., 375, 377-379,
 381-383, 392*n*
- Kidd, Philip C., 426-428
- Kilgore, Harley M., 106
- King, Spencer M., 414-415
- Kirk, Alan G., 248
- Klaus, Samuel, 247
- Klein, Julius, 136
- Kluckhohn, Frank L., 194
- Knox, Charles F., 1326*n*, 1352-1353,
 1357*n*
- Koegler, George, 541-542
- Kyle, Edwin J., 177-178, 227, 896-899
- Lacayo Fiallos, Constantino, 178-181
- Lacerda Lago, Renato de, 357*n*
- La Follette, Robert M., Jr., 1020
- Lafnez, Silverio, 964
- Lamm, Donald W., 428*n*
- Landis, James M., 477-482
- Lane, Chester T., 106, 449
- Lang, Brig. Gen. John W., 213, 225
- Lara, Juan C., 679
- Laughlin, Comdr. William M., 456*n*
- Lavaud, Col. Frank, 903-905
- Leche, John H., 562-563, 588*n*
- Lechín, Juan, 371, 379-381
- Leeper, Sir Reginald, 322
- Leoni, Raul, 1344*n*
- Lescot, Elie, 902-903, 932*n*
- Letona, Col. Tomás M., 899
- Levelt, Maj. Antoine, 903*n*, 906, 908
- Lewis, Samuel, 1113
- Lherisson, Camille, 905
- Lipkowitz, Samuel, 381-383
- Lira Citrón, Luis Felipe, 344*n*
- Lister, Ernest A., 453
- Litvinov, Maxim, 722
- Livesey, Frederick, 486, 603, 944-954
- Lleras Camargo, Alberto, 29*n*, 203,
 658, 667*n*, 1301, 1303
- Lobo, Fernando, 32*n*, 114-117
- Loftus, John A., 532-533, 541-542,
 1335, 1337-1339, 1340*n*
- Lombardo Toledano, Vicente, 42, 47,
 50-52, 196, 969, 971-972, 977*n*
- Londoño y Londoño, Fernando, 13*n*,
 29*n*, 669*n*
- López Contreras, Gen. Eleázar, 1298,
 1301-1302
- López-Fresquet, Rufo, 757-760
- López-Herrarte, Enrique, 93*n*, 155-159,
 166, 886, 899-901
- Loudon, John, 1353-1355
- Luna Ferreccio, Col. Antonio, 1222*n*
- Lusardo, João Baptista, 137*n*
- Luthringer, George F., 877-878
- Luz, Carlos, 23
- Lyon, Cecil B., 338-339
- Lyons, Thomas E., 1141
- MacDonald, Thomas H., 179*n*, 1167,
 1169-1171
- Macedo Soares e Silva, Col. Edmundo,
 452, 489-490, 492-494, 499
- Machado Hernández, Alfredo, 1317-
 1319

- Macheno, Col. Carlos, 840*n*
 Macherey, Col. Earl, 859
 Machuca, Gen. Vicente, 1179
 MacLean, W. G., 1052*n*
 Magloire, Maj. Paul, 903*n*
 Maldonado, Manuel Victor, 363
 Maleady, Thomas J., 1343, 1346
 Mañas, Arturo, 776, 783-784, 791, 796-799
 Mandl, Fritz, 1227
 Mann, Thomas C., 284-285, 317-319, 363-364, 1271-1272
 Marcano, Lt. Col. Jorge, 1312, 1314
 Margrón, Gastón, 938-942, 944-954
 Marinello, Juan, 722
 Marrero Aristy, Ramón, 829
 Marroquin Rojas, Clemente, 892
 Marshall, James H., 785-788, 800
 Marshall, P. E. P., 178-181
 Martin, T. R., 78-79
 Martin, William McChesney, 646, 873-875
 Martínez Lanza, Rodolfo, 1276
 Martínez Tornel, Pedro, 996*n*
 Martínez Vargas, Ricardo, 394-396
 Martins Pereira e Sousa, Carlos, 1*n*, 21, 150, 447, 499-500, 505-507, 512, 513-514
 Mason, Frank, 136
 Maxwell, James A., 90*n*, 1083
 Mayfield, Adm. Irving H., 569
 McArdle, Robert J., 831
 McCabe, Thomas, 839
 McCaskill, Joseph C., 400
 McCloy, John J., 1337-1342
 McCollum, Leonard F., 630, 680, 1008
 McCormack, Alfred, 28
 McCoy, Col. George, 1223-1224
 McFarland, Col. D. Charles, 1222*n*
 McGurk, Joseph F., 1282-1283
 McIntyre, Comdr., Donald, 559
 McSherry, Gen. Frank, 1166-1167
 Mead, James M., 168*n*
 Meany, George, 40, 46-48, 52
 Medina, Col. Ernesto, 572*n*
 Mehaffey, Brig. Gen. J. C., 54-60, 1097, 1153-1156, 1158, 1160-1163
 Meier, Hugo, 136
 Mein, John G., 521-522
 Mello, Edgard de, 499
 Mello, Rubens Ferreira de, 545, 554
 Mendoza Aveles, Rafael, 879*n*
 Mendoza Goiticoa, Eduardo, 1357*n*, 1360
 Mene Grande Oil Company, 1335
 Merchant, Livingston T., 1285*n*
 Messersmith, George S.: As Ambassador to Argentina, 80, 141, 149, 245-339 *passim*; as ambassador to Mexico, 18-19, 23*n*, 25, 41-42, 45-53, 191, 969-1052 *passim*
 Mexico, 969-1067
 Agreements with the United States (*see also* Military service; and Trade agreement, *infra*), 988*n*, 1033, 1049*n*, 1067
 Mexico—Continued
 Agricultural and other workers, arrangements regarding temporary migration into the United States, 1017-1036
 Clandestine entry, discussions of problems regarding, 1017-1019, 1028-1029, 1030-1033, 1033-1036
 Recruitment under 1943 agreement, 1019-1028, 1029-1030, 1033
 Air transport agreement, breakdown of U.S.-Mexican negotiations for, 992-997
 Airfields in, 105
 Argentina, views on U.S. policy toward, 18-19
 Armaments and military assistance, U.S. policy regarding provision of, 87, 89, 92, 101
 Bolivia, recognition of Junta Government in, 349, 363
 Caribbean Regional Air Navigation Meeting, 65
 Continental shelf, policy regarding, 1054-1067
 Elections in, 969-978
 Export-Import Bank loans for public works and industrialization projects, 997-1005
 Fisheries relations, U.S.-Mexican, as affected by Mexican continental shelf policy, 1054-1067; extension of agreement respecting U.S. fisheries mission, 1067
 Guadeloupe Island weather stations, agreement regarding, 1067
 Haiti, recognition of new government in, 911*n*
 Hoof-and-mouth disease in Mexico, joint U.S.-Mexican campaign against, 1048-1051
 Import restrictions, discussions regarding, 1039-1048
 Lend-Lease obligations, discussions of problem of, 978-987
 Loans and credits, 997-1005
 Military service agreement of 1943, U.S.-Mexican disagreement on termination of, and its effect on Mexican residents in the United States, 988-991
 Petroleum industry, U.S. policy regarding participation of foreign oil companies in, 1005-1016
 Presidential campaign, U.S. policy of nonintervention in, 969-978
 Railway lines, joint memorandum relative to termination of cooperative U.S.-Mexican rehabilitation program for, 1036-1039
 Trade agreement of 1942, discussions regarding revision of, 1039-1048
 Weather stations on Guadeloupe Island, 1067
 Wheat shipments to, 1051-1054

- Meynen, Erich Otto von, 240
 Migone, Gen. José A., 1185
 Military assistance. *See* Armaments and military assistance.
 Miller, Cpl. Andrew, 1234, 1249, 1251
 Miller, Carlos, 1079
 Ministers of Foreign Affairs of the American Republics, Second Meeting, (1940), 271*n*
 Ministers of Foreign Affairs of the American Republics, Third Meeting, (1942), 271*n*, 383, 412
 Minneman, Paul G., 778-779, 796-800
 Mitchell, Lt. Col. William, 1285-1287
 Mojaisky, Gastón, 357*n*
 Mokma, Gerald A., 13*n*, 672-673
 Mollinedo Imaña, Anibal, 407
 Moncayo, Hugo, 357*n*
 Monje Gutiérrez, Tomás, 352, 424*n*
 Monroe, F. Adair, 761-762
 Monroy Block, Germán, 380*n*
 Monsra, George N., 85, 464-465, 584-585
 Montero Bernales, Carlos, 1252, 1255-1256
 Montero de Bustamante, César, 1274*n*
 Montesinos, Maj. Miguel J., 831*n*
 Mooers, Horatio T., 916-918, 920-921
 Moorehead, Lt. Col. J. V., 1081
 Mora, José A., 363, 1293
 Mora, Manuel, 693
 Mora, Marcial, 32*n*, 576*n*, 577, 621-623, 635-637
 Morales, Carlos, 1331
 Morales López, Col. Oscar, 888-889, 897-898
 Morante Jara, Capt. Samuel, 1227
 Morinigo, Higinio, 1175*n*, 1178-1184
 Morse, David A., 61-64
 Moscoso, Rodrigo Jacome, 854*n*, 868*n*
 Muhlbauer Landgraff, Teodoro, 1276
 Mulliken, Otis E., 42-44
 Munro, H. H. H., 396
 Myrddin-Evans, Guildhaume, 46
- Nalapanca, Rodolfo, 351
 National Advisory Council on International Monetary and Financial Problems, 93, 498, 596, 603-604, 638
 National Airlines, 743, 752
 Navarro Aceves, Salvador, 349
 Neathery, Jack B., 343, 390
 Ness, Norman L., 639, 674-675, 1172, 1200-1201
 Netherlands, 65
 Neves da Fontoura, João, 26, 212-213, 441, 823
 Newbegin, Robert, 227-228, 887-891, 895-901, 958-960, 964-967, 1087-1088, 1094
 Nicaragua, 1068-1094
 Agreements with the United States, 1090*n*
 Airfields in, 105
 Argentina, views on U.S. policy toward, 224, 227-228
 Nicaragua—Continued
 Armaments and military assistance, U.S. policy with respect to provision of, 87, 89, 96, 97, 98
 Bases, strategic, transfer to Nicaragua 1077-1083
 Caribbean Regional Air Navigation Meeting, 65
 Financial obligations, U.S. efforts to obtain settlement of, 1083-1094
 Inter-American Highway, 170-176
 Lend-Lease account, 1083-1094 *passim*
 Rama Road, U.S. cooperation in construction of, 170-176, 178-181, 1087
 Somoza's bid for reelection, 1068-1077
 U.S. policy of nonintervention in internal affairs, reaffirmation of, 1068-1077
 Nicaro Nickel Company, 718-719
 Niéto del Río, Félix, 38
 Noble, Adm. 106-107
 Nolan, Charles P., 755
 Norden, Carl F., 756-757
 Norregaard, Nelson, 790-792
 Norstad, Gen. Lauris, 480
 North American Regional Broadcasting Conference, Second, 1946, 737-739
 Norton, Garrison, 479-482
 Norweb, R. Henry, 196-197, 717-736, 743-750, 757-761, 766-767, 771-772, 775-779
 Nufer, Albert F., 745, 762, 771-772, 777, 789-790, 794
 Obino, Lt. Gen. Salvador César, 26, 460
 Oddone, Rafael, 1182
 O'Donoghue, Sidney E., 1018-1019, 1025, 1030
 Office of Economic Stabilization (U.S.), 517-518
 Office of Price Administration (U.S.), 154-155, 159-160, 167, 515-517
 Ohly, John H., 1166-1167
 Olano, Col. Manuel José, 240
 Olds, Gen. Robert, 431
 Ordway, Col. G., 660
 Orloski, John H., 415
 Ospina Pérez, Mariano, 663-664, 675
 Otál, Capt. Rigoberto, 1060
 O'Toole, Richard F., 147, 151-152, 485-492, 488-500
 Padilla, Ezequiel, 977, 1009*n*
 Page, Frank C., 1000
 Pampliega, Gen. Amancio, 1178
 Pan American Airlines, 102-106, 431, 456-457, 465, 472*n*, 479-482, 668, 672, 743, 750, 752, 992, 1077, 1286
 Pan American Congress of Mining Engineering and Geology, Second, Rio de Janeiro, Oct. 1-15, 1946, U.S. participation in, 66-76
 Pan American Grace Airways (Panagra), 342-343, 346, 355, 672
 Pan American Highway. *See* Inter-American Highway.

- Pan American Union, 7, 28, 34, 36*n*
- Panama, 1095-1174
- Argentina, views on U.S. policy toward, 12
 - Armaments and military assistance, U.S. policy with respect to provision of, 89, 92, 96
 - Bases (*see also* Defense sites, *infra*): Panamanian demands for return of, 1101, 1109-1112; return of, 1095, 1101-1102; U.S. Embassy proposals for, 1096
 - Canal Zone, commercial relations in, 1142-1145; radio communications and defense of, 1102-1103
 - Caribbean Regional Air Navigation Meeting, 65
 - Claims pending, made by either Government in favor of its nationals, 1098, 1126, 1173-1174
 - Coinage, minting of, and restrictions regarding, 1146-1147
 - Commerce, relations with United States with regard to, 1142-1148
 - Consular services performed by U.S. consulates for Panama, and fees for, 1145-1146, 1147-1148
 - Defense sites, discussions between United States and Panama regarding, 1095-1142
 - Defense Sites Agreement of 1942: Panamanian interpretation of, and U.S. views on, 1103-1107, 1108-1109, 1114-1117, 1119-1123; proposed press release regarding, U.S.-Panama exchange of views on, 1107-1108, 1113-1114, 1126, 1127-1130
 - New agreement regarding: Panamanian proposals for, and related demands, 1097-1100, 1112-1113, 1117-1118, 1124, 1133-1134; preliminary U.S.-Panamanian discussions on, 1138-1142; U.S. views and proposals, 1100-1101, 1125-1127, 1130-1132, 1135-1138
 - Inter-American Conference for the Maintenance of Peace and Security in the Hemisphere, vote on postponement of, 7
 - Labor practices by U.S. Government agencies, Panamanian charges of discrimination, 1149-1167; consideration at International Labor Conferences at Mexico City and Montreal, 42-45, 47-64
 - Public works and facilities, U.S. participation in development of, 1167-1174
- Pantepec Oil Company, 1337-1342, 1343
- Paraguay, 1175-1205
- Agriculture development agreement, 1175*n*, 1176
 - Argentina, views on U.S. policy toward, 17-18
- Paraguay—Continued
- Armaments and military assistance, U.S. policy with respect to provision of, 87, 89, 105, 1190-1193
 - Axis interests in, U.S. concern in elimination of, 1193-1200
 - Debts of, U.S. policy regarding, 1200-1205
 - Democratic government, U.S. interest in development of, 1175-1190
 - Loans to, U.S. policy regarding, 1200-1205
 - Political situation in, 1175-1190
- Pastor Benítez, Justo, 1178
- Patterson, Robert P., 105-106, 108*n*, 290-291, 443, 704*n*, 708-709, 849-850
- Pawley, William D.: As Ambassador to Brazil, 23-24, 26-27, 138-140, 144-146, 261-262, 367, 449-557 *passim*; as Ambassador to Peru, 222, 1206-1268 *passim*
- Paz Estenssoro, Víctor, 343, 350, 389*n*, 408
- Pearson, Lt. Col. Harold J., 1185*n*, 1192*n*
- Pearson, L. B., 3-4, 195
- Pearson, Thomas, 937-938
- Peluffo, Gen. Orlando Lorenzo, 219
- Pena, Hugo V. de, 366*n*
- Peña, José M., 1283-1284
- Peña Batlle, Manuel Arturo, 216, 805*n*, 832-834
- Pentado, Eurico, 166, 490
- Pérez Alfonso, Juan Pablo, 1332-1336, 1349-1354
- Pérez Jiménez, Maj. Marcos, 1307-1308
- Perón, Col. Juan, 22, 139, 195, 199-201, 210-211, 213-214, 225, 327, 1290, 1292
- Perowne, J.V.T.W.T., 206-208
- Peru, 1206-1269
- Argentina, relations with, 1268-1269; views on U.S. policy toward, 222
 - Armaments and military assistance, U.S. policy with respect to provision of, 89, 92, 101, 1206-1210, 1213, 1219, 1222
 - Axis interests, status of replacement program, 1227-1231
 - Bases, military, U.S. relinquishment of, 1210-1213, 1213-1219, 1219-1221, 1223-1227
 - Caribbean Regional Air Navigation Meeting, 65
 - Courts, U.S. position on jurisdiction in criminal matters over American military personnel, 1232-1251
 - Debts of and loans to, U.S. policy on, 1251-1265
 - Pan American Congress of Mining Engineering and Geology, 71
 - Wheat crisis, U.S. efforts to relieve, 1265-1269
- Peterson, Maj. John L., 904

- Petroleum and Petroleum industry. *See under* Bolivia, Brazil, Chile, Mexico, and Venezuela.
- Pettigrew, Robert L., 938
- Phelan, Edward J., 43, 46
- Picado, Teodoro, 687, 690-693
- Picado, Gen. René, 690
- Pinto, Col. José Celestino, 15*n*, 343*n*, 347-348, 350, 352, 355, 360, 388
- Pioneer Highway, 168, 169*n*, 177*n*
- Pires do Rio, José, 504*n*
- Plate, Maurice, 136
- Plaza, Galo, 836, 843-848, 851, 875, 879
- Pochhammer, Wilhelm von, 193
- Podestá Costa, Luis A., 216
- Pollan, Arthur A., 890-891
- Polleri Carrió, Felix, 1283-1284
- Ponce, Maj. Antonio, 340*n*, 352, 360
- Ponce Enriquez, Camilo, 846, 862
- Posey, Carl A., 688
- Preston, Howard, 1021, 1024
- Prewett, Virginia, 577
- Price-Mars, Jean, 916-918
- Prío Socarrás, Carlos, 800
- Proclaimed List (*see also under individual countries*), withdrawal of, 76-81, 83-85
- Proposals for Expansion of World Trade and Employment, U.S., 541, 744, 915, 923, 1042*n*
- Proudfit, Arthur T., 1354
- Public Roads Administration (U.S.), 169, 175-177, 391, 880, 1132, 1168-1171, 1174
- Puyans, Tomás, 800
- Rama Road. *See under* Nicaragua.
- Ramírez Rodríguez, Pablo, 593*n*
- Ramsey, Vice Adm. DeWitt C., 650-652
- Rawson, Gen. Arturo, 240
- Ray, Guy W., 1048-1051
- Rayner, Charles B., 532-533, 538-539, 1340*n*, 1352-1353
- Rebollo Clement, Juan, 995*n*
- Reed, Leslie E., 1193-1194, 1199-1200
- Rees, Thomas Ifor, 340*n*, 342
- Renick, Abbott, 381-383
- Reveley, Paul J., 988, 1060-1061
- Reyes, R. Canedo, 387-389
- Rigaud, Emile, 905
- Rigaud, Georges, 903, 940-941, 944-949
- Rigley, Lt. Col. Orin H., Jr., 710-711, 819-820
- Riguera, Ricardo, 41, 46-47
- Rios Morales, Juan Antonio, 586, 598, 625
- Rittenhouse, Austin J., 1305
- Robbins, Mr., 516
- Robinson, J. W., 168*n*, 172
- Roca, Blas, 732
- Rocha, Antonio, 32*n*, 38-39
- Rockefeller, Nelson, 846
- Rodríguez, Mario, 603
- Rodríguez Larreta, Eduardo, 208*n*, 1278*n*, 1280, 1282, 1289-1290
- Rogers, James Grafton, 593, 600-602, 1255, 1260
- Romero Sánchez, Miguel Octavio, 1335
- Roosevelt, Franklin D., 903, 983
- Rose Ugarte, Luis, 1267*n*
- Routh, Augustus Crosbie, 921, 923*n*
- Rouzier, Gontran, 902, 906
- Rovira, German, 387-388
- Rowell, Maj. Gen. Ross E., 1207
- Royall, Kenneth C., 87-88, 90-91
- Rubber. *See under* Argentina, Bolivia, and Brazil.
- Rubin, Seymour J., 80-81
- Ruiz, Julio, 576-577, 578
- Russell, Donald S., 110
- Russell, Francis H., 409
- Saavedra Suárez, José, 396*n*
- Saballos, Fernando, 1073
- Saenz García, Eduardo, 422*n*
- Sánchez Barnett, Isaias, 47-48, 57
- Sánchez Peña, Jorge H., 383-386
- San Francisco Conference, 1945, 692, 832, 1144
- San Martín, Manuel, 777
- Sanjines, Claudio, 362
- Santamaria, Carlos Sanz de, 648-649
- Sarabia, Manuel, 1058
- Sauri, Col. Joaquín I., 128, 187
- Sayers, R. R., 66*n*
- Scanlan, William, 492-494, 625-627
- Scherer, George F., 216, 807, 819-820, 825-830
- Schiaffino, Rafael, 1280
- Schnake, Oscar, 630
- Schnee, Alexander, 578-579, 584-585, 596-598, 606-608, 610-612, 615-616, 619-620, 645-647, 1341-1342
- Schneeberger, Ernst, 924
- Schwellenbach, Lewis B., 43, 61-64
- Sciutto Moncalvo, Luis Alberto, 1276-1277
- Scott, H. D., 1081, 1083
- Scotten, Robert M., 226-227, 839-883 *passim*
- Seatrains Lines, 754-755
- Seigle, Oscar, 775, 776, 783, 793, 794, 796-800
- Serrano, Escobar, 194, 205-206
- Sevilla Sacasa, Guillermo, 227-228, 1072*n*, 1086, 1089, 1091-1092
- Shaw, George P., 840, 866-872
- Shell Oil Company, 1335, 1344-1345, 1348-1349, 1353-1355
- Sherman, Louis, 43-44
- Silva Peña, Eugenio, 893-895
- Simmons, John F., 194, 205-206
- Simpson, John L., 890-891
- Simson, Col. G. O., 566*n*
- Skeldon, Lt. Col. James F., 863-864
- Smith, H. Gerald, 1352-1353
- Smith, H. T., 873-874
- Smith, James H., 481
- Snyder, John W., 90-91, 512
- Solana, Joseph R., 686-687
- Solares, Aniceto, 362, 367-368, 370-371, 373, 397

- Somoza, Gen. Anastasio, 171*n*, 176, 227-228, 1068-1069, 1076, 1079-1080, 1086-1088, 1094
- Sonnett, John F., 708
- Soviet Union, 85, 971-972, 1342-1343
- Spaak, Paul-Henri, 248
- Spaeth, Carl B., 1, 247
- Sparks, Edward J., 208-209, 1270-1297, *passim*
- Spears, Rear Adm. William O., 649
- Spencer, George O., 863-864, 965
- Stagg, Leonardo, 872-873
- Stamets, Capt. George C., 819
- Standard Oil Company of New Jersey, 523, 525-527, 541-542, 550*n*, 553, 623-624, 630-631, 1006, 1343
- Stannard, E. T., 605-608, 610, 616-617
- Staudt, Ricardo, 328, 332
- Steidle, Edward, 66*n*
- Stenger, Jerome J., 595, 625-627, 947-954, 1200-1201
- Stettinius, Edward, 635, 1000
- Stone, Thomas A., 284-285
- Storace Bordaberry, E., 1294-1296
- Stowers, John L., 746*n*, 768
- Strobel, Jack, 1165
- Stuart, Wallace, 390-391
- Suárez, Eduardo, 1039*n*
- Sucre, Carlos, 1113, 1124, 1137*n*, 1138-1141
- Suero, Roberto, 777
- Sullivan, John L., 90-91
- Suman, John R., 623-624
- Sundt, Olaf F., 630*n*
- Surplus Property Act of 1944 (U.S.), 90, 434, 659
- Symington, W. Stuart, 90-91
- Taboada, Antonio, 17-18, 1176-1177
- Tamayo, Luis, 663*n*, 667*n*
- Tamborini, José P., 191, 221
- Taussig, Charles W., 1149-1150, 1152, 1154
- Taylor, Wayne C., 682
- Tello, Manuel, 18*n*, 349, 1018-1019
- Tewksbury, Howard H., 183
- Texas Oil Company, 550*n*
- Thornburg, Max, 1315
- Thorp, Willard L., 628, 635, 1001
- Thurston, Walter, 349, 363, 377-379, 976*n*, 986-1067 *passim*
- Tippett, Cloyce J., 442, 466, 469, 473
- Tittmann, Harold H., 925-930, 937-939, 942-944
- Tong, James, 680
- Toriello, Guillermo, 897*n*
- Toro, Emilio, 155-159
- Torres Bodet, Jaime, 1003*n*
- Torres Gigena, Carlos, 422*n*, 423-424
- Tovarías Arroyo, Gen. Manuel, 568
- Townsend, Rex M. F., 400, 625-627, 1340*n*
- Townsend, Willard, 53
- Trading with the Enemy Act of 1917 (U.S.), 77
- Treaties, conventions, etc.
- Aviation agreement between United States and United Kingdom, 1946, 470, 671
- Convention on the status of foreigners, 1928, 990
- Peace treaty between United States and Mexico, 1848, 1063
- Treaty of friendship and cooperation between United States and Panama, 1936, 1099, 1107, 1171
- Treaty of limits, isthmus transit, etc., between United States and Mexico, 1853, 1063
- Treaty of 1903 between United States and Panama, 57, 1142
- Trimble, W. C., 295
- Trippe, Juan, 480-481
- Trompowsky, Brig. Armando, 438, 440, 465, 469, 484*n*
- Trueblood, Edward G., 110*n*, 639-645
- Trujillo, José Vicente, 226*n*, 348, 842*n*, 861-863, 881*n*
- Trujillo, Generalissimo Rafael Leonidas, 806-815, 827, 829-830
- Trujillo Gurria, Francisco, 1019*n*, 1022-1023
- Truman, Harry S., 66*n*, 84*n*, 136, 169*n*, 278, 282, 298, 445*n*, 805, 886*n*, 976*n*, 979, 1051*n*, 1055, 1152
- Tucker, Capt. Forrest, 1273*n*
- Tudela, Francisco, 1261, 1263
- Tunnell, James M., 296
- Turkel, Harry R., 744-745
- Turnbull, J. Gordon, 628
- Turner, Domingo H., 48, 49, 52, 57-58
- Turton, Franklin E., 605-607
- Ulate, Otilio, 696
- Umaña Bernal, Francisco, 664*n*, 1299*n*, 1303-1304
- Union of Soviet Socialist Republics, 85, 971-972, 1342-1343
- United Fruit Company, 889-890
- United Kingdom, 65, 78-79, 206-208, 255, 278-279, 280-282, 290-291, 307-309, 322, 332
- United Nations Conference on International Organization, 1945, 692, 832, 1144
- United Nations General Assembly, 697-698, 1133
- United Nations Preparatory Committee on Trade and Employment, 744*n*, 756-757
- Uruguay, 1270-1297
- Air transport agreement, discussions between United States and Uruguay regarding, 1283-1289
- Argentina, views on U.S. policy toward, 208-209
- Armaments and military assistance, U.S. policy with respect to provision of, 89, 101, 1270-1274
- Axis interests in, U.S. concern regarding, 1276-1283
- Bolivia, recognition of Junta government in, 363-364

Uruguay—Continued

- Haiti, recognition of new government in, 910, 911*n*
- Lend-Lease account, status of, 1275
- Pan American Congress of Mining Engineering and Geology, 71
- Proposal on human rights, 1, 188-189, 245, 1075
- Wheat crises in, U.S. efforts to relieve, 1289-1297; purchase of Argentine wheat, 1290-1297 *passim*

U.S. Congress:

- Arms standardization bill, 296
- Stockpiling Act of 1946, 69
- Trading with the Enemy Act of 1917, 77

Uttinger, Gustav Eduard, 193

- Valdetaro, Col. João, 449
- Valdovinos, Arnaldo, 1190
- Vallarino, Octavio A., 1138-1140
- Vandenberg, Lt. Gen. Hoyt S., 249
- Vargas, Armando, 1059
- Vargas, Getulio, 223, 431, 432
- Vargas, Maj. Mario, 1298, 1308
- Vásquez, Horacio, 806*n*
- Vásquez Díaz, Manuel, 1213*n*, 1261, 1263
- Vega-Gomez, Felipe, 93*n*
- Velasco Ibana, José María, 836*n*
- Velazco, Col. Filomeno, 198
- Venezuela, 1298-1362
 - American petroleum companies in Venezuela, 1330-1355
 - Extraordinary excess profits tax (Decree no. 112), 1330-1335; Pantepec Oil Company protests regarding, 1337-1342, 1343
 - Labor contract negotiations, 1344-1349
 - Legislation affecting oil industry, contemplated, 1349-1352, 1353-1355
 - Oil concessions, 1335-1337
 - Soviet criticism of, 1342-1343
 - Argentina, views on U.S. policy toward, 19-20, 220
 - Armaments and military assistance, U.S. policy with respect to provision of, 89, 92, 101, 1306-1322
 - Axis economic interests, U.S. position on continued presence of, 1322-1330
 - Bolivia, recognition of Junta in, 366-367
 - Caribbean Regional Air Navigation Meeting, 65
 - Haiti, views on recognition of new government, 911*n*
 - Inter-American Conference for the Maintenance of Peace and Security in the Hemisphere, vote on postponement of, 7
 - Junta Government, 1298-1305
 - Military mission, U.S., Venezuelan interest in (*see also* Armaments, *supra*), 1307-1310

Venezuela—Continued

- Petroleum (*see also* American petroleum companies, *supra*), Venezuelan proposals to barter for Argentine lard, 1352-1353
- Political situation, U.S. interest in, 1298-1305
- Wheat crisis in, U.S. concern regarding, 1356-1362
- Vergara, Roberto, 645-646
- Vial, Osvaldo, 350*n*
- Vidal, Carlos, 1256
- Vidigal, Gastão, 488*n*, 499, 510-511, 519
- Villaruel, Maj. Gualberto, 356, 359, 378, 409
- Vittrup, R. L., 1078
- Wagner, Lt. Col. Carl G., 1310, 1320
- Walker, W. W., 766*n*
- Wallace, Henry A., 1051
- Walsh, Maj. Gen. Robert L., 87-88, 648, 654, 1271
- Walters, Brig. Gen. Harold G., 1307
- Walton, Lt. Col. Charles M., 1232
- War Department (U.S.), 685, 836, 1077-1078
- Warren, Avra M., 224*n*, 836
- Warren, Fletcher, 172-175, 178-181, 224, 1068-1093 *passim*
- Watrous, Livingston D., 692
- Watt, Robert, 46, 52
- Weaver, Capt. Paul L. F., 561*n*
- Webb, Capt. Walter W., 234
- Week, Col. John A., 1321
- Weinstein, Robert, 1165
- Welles, Sumner, 258, 806, 978-979, 986-987, 1135
- Wells, Milton K., 364, 366-367, 559, 606-610, 651*n*, 1214-1215, 1223-1225
- West, R. K., 499
- Wheat. *See under individual countries.*
- Wheeler, Leslie A., 1266*n*
- Wiesman, Bernard, 43-45
- Wiley, John C., 13, 29, 154-155, 202-203, 221, 652-681 *passim*, 1299, 1301, 1303-1304
- Willey, R. F., 338-339
- Williams, Col. Douglas E., 1321
- Williams, Murat W., 888-889
- Williams, W. H., 932*n*, 937-938
- Wilson, Earl B., 774-775, 779-784
- Wilson, Howard H., 707-708
- Wilson, Orme, 902-920 *passim*
- Wise, Murray M., 44, 60-61, 688, 1097, 1120-1174
- Wolf, Franklin W., 1296-1297
- Woodward, Robert F., 15-16, 709-804 *passim*
- Wooten, Maj. Gen. Ralph H., 93-95, 863
- Wrather, W. E., 66*n*
- Wright, James H., 17, 19, 374-376, 381-383, 541-542, 625-627, 774-775, 877-878, 1255*n*
- Zaikin, Dimitri I., 722-723
- Zarco Kramer, Jorge, 404*n*, 405-407, 415

| | |
|---|--------------------------------|
| Zavala, Louis, 342, 344 | Zorne, Jesse, 1058 |
| Zelaya, Gen. José Maria, 180 | Zuazo Cuenca, Julio, 360 |
| Zellerbach, James David, 40, 50 | Zubizarreta, Gerónimo, 1188 |
| Zevada, Manuel J., 1009 | Zuleta Angel, Eduardo, 675-677 |
| Zimmer, Verne A., 40, 46, 49-50, 52, 63 | Zuloaga, Vice Adm. José, 198 |



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233

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