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Foreign Relations of the United States

Diplomatic Papers

1941

(In Seven Volumes)

Volume VII
The American Republics



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PREFACE

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 045 of December 5, 1960, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the current regulation is printed below:

045 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

045.1 *Scope of Documentation*

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

045.2 *Editorial Preparation*

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

045.3 *Clearance*

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

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

The responsibilities of the Historical Office, Bureau of Public Affairs, for the preparation of this *Foreign Relations* volume were entrusted, under the general supervision of the Director of the Office, William M. Franklin, to the Foreign Relations Division under the direction of the Chief of that Division (Editor of *Foreign Relations*), E. R. Perkins. The compilers of *Foreign Relations*, 1941, Volume VII, The American Republics were N. O. Sappington, Almon R. Wright, the late Richard B. McCornack, and Kieran J. Carroll, a former member of the Foreign Relations staff.

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

For 1941, the arrangement of volumes is as follows: Volume I, General, the Soviet Union; Volume II, Europe; Volume III, The British Commonwealth, the Near East and Africa; Volume IV, The Far East; Volume V, The Far East; Volume VI, The American Republics; Volume VII, The American Republics.

E. R. PERKINS

Editor of Foreign Relations

OCTOBER 1, 1962.

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COLOMBIA

COOPERATION BETWEEN THE UNITED STATES AND COLOMBIA ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE;¹ DISCUSSIONS REGARDING A LEND-LEASE AGREEMENT

810.20 Defense/577¾ : Telegram

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

BOGOTÁ, February 1, 1941—1 p. m.

[Received 2:22 p. m.]

45. My telegram No. 31, January 27.² In conversation with President³ last night it was opportune for me informally to mention possibility we would desire to make survey of Old Providence Island and Cartagena. President readily assented but requested that officers and equipment sent for this purpose be temporarily attached to Naval Mission.

BRADEN

810.20 Defense/577¾ : Telegram

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

WASHINGTON, February 24, 1941—4 p. m.

53. Your 45, February 1, 1 p. m. The Department has received a communication from the Navy Department requesting that necessary diplomatic arrangements for surveys at Old Providence Island and Cartagena be made by you. When actual dates of surveys as well as ships and airplanes, have been selected, this information will be communicated to you.

Please indicate to the President that the Navy Department greatly appreciates the President's approval of the proposed surveys and his cooperative suggestion that the personnel should be temporarily attached to the naval mission. For technical reasons it would be preferred by the Navy Department not to accept that suggestion. Instead, if you perceive no objection, please inquire of the President whether it would be agreeable to have the survey made "at the joint request of the United States naval mission and of the Ministry of War of Colombia, and under their general supervision". If acceptable to

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 57 ff.

² Not printed.

³ Eduardo Santos.

the President, please make diplomatic arrangements on that basis. For your guidance, if original suggestion of President is insisted upon attachment of survey personnel to naval mission will be arranged.

HULL

810.20 Defense/631 : Telegram

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

BOGOTÁ, March 12, 1941—6 p. m.

[Received 10 : 45 p. m.]

75. Department's telegram No. 53. In my March 10 conversation with President it was apparent that . . . he is frightened by Alfonso Lopez' ⁴ attack on administration for too supinely delivering itself to the United States (my despatch No. 1327 ⁵). He expressed a desire that all matters pertaining to staff agreement or defense program be discussed intimately and exclusively by himself and me as friend to friend. . . . In my opinion his attitude and increasing disposition to flounder result from aforementioned fears.

In this connection he desires following procedure: That I obtain and confidentially give him details of what is required, *id est*, soundings, mapping of harbor etc. together with qualifications of experts to be employed; then in order to give appearance of purely Colombian initiative he will request us to add to naval mission aforementioned experts to perform specific duties their report to be submitted to Colombian Government who will in turn give copy to us. He also suggested that since Colombian Military Geographic Institute was most competent organization of any kind in this country it could make aerial survey of Cartagena. I did not refute this latter statement since in principle he is agreeable to survey and I believe that these technical details can be worked out in a satisfactory manner.

If the Department and Navy Department approve of this general procedure I recommend that I be supplied with data requested by Santos as soon as possible.

BRADEN

810.20 Defense/632 : Telegram

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

BOGOTÁ, March 12, 1941—8 p. m.

[Received 10 : 45 p. m.]

76. My telegram No. 43, February 1.⁶ Because of same underlying influences described in my telegram 75 it would seem President him-

⁴ President of Colombia, 1934-38.

⁵ Dated February 4, 1941, not printed.

⁶ Not printed.

self rather than Minister of War will before my departure for Washington review with me Colombian armament requirements.

Santos suggested Colombia's procurement of munitions be financed by part of an Export-Import Bank loan, remainder of which would be for economic purposes as mentioned in my despatch No. 1335.⁷ . . . I observed it might be best to leave this phase of matter until we had necessary information.

He also now suggests acquiring 1,000 ton freighters instead of revenue cutters (see despatch No. 1333⁸). Obviously he hopes thus to form nucleus of national merchant marine described in my despatches. I gave no encouragement.

BRADEN

810.20 Defense/716

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

No. 1458

BOGOTÁ, March 28, 1941.

[Received April 8.]

SIR: I have the honor to report that in a conversation with President Santos yesterday afternoon he repeated the assurances so often made to me that his Government would take every precaution within its powers to maintain surveillance both of its coasts and inland, to maintain internal order and to insure that no attack ever could be launched on the Panama Canal from Colombian territory. Dr. Santos added:

"We are determined that the United States shall have complete confidence that the totalitarians can do nothing in this country which remotely implies a danger for the Panama Canal, and if ever you or your Government have any observations to make in this particular please submit them to me".

I am, of course, glad to receive this assurance, but we must at all times keep in mind

- 1) that the strength of the President's declaration is measurably depreciated by reason of Colombian inefficiency and dilatoriness, . . .
- 2) the President and his Administration's timidity in taking any step which might be subjected to the criticism that Colombia was too supinely delivering itself to the United States.

In this connection it is pertinent to observe that the President again yesterday requested that all important defense matters be handled with him personally and verbally, thus avoiding the existence of memoranda and other papers (*sic*).

⁷ February 3, p. 55.

⁸ Dated February 3, 1941, not printed.

Perhaps the President's aforementioned assertion was in part due to the encouragement he has received during the last week from editorials favorable to his foreign policy, which have appeared in the opposition papers—the Conservative *El Siglo* and the Lopez *El Liberal*. These editorials resulted from my conversations with Doctors Laureano Gomez⁹ and Alfonso Lopez, as reported in my Despatches No. 1445 and No. 1447.¹⁰

In connection with this entire program I enclose a copy of memorandum^{10a} of my conversation with Dr. Urdaneta Arbelaez, until recently Colombian Ambassador in Argentina, from which it will be noted that he strongly favors and promises forcefully to urge on the President that Colombia construct naval and air bases and permit the United States to use them. Throughout this conversation I took the position that this was a matter which the Colombian Government should first propose to us and that I could not, myself, even discuss the matter excepting in an informal talk between friends, such as he.

Respectfully yours,

SPRUILLE BRADEN

821.24/126 : Telegram

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

BOGOTÁ, May 17, 1941—11 p. m.

[Received May 18—9:55 p. m.]

158. For Under Secretary.¹¹ Conversation with President Santos yesterday afternoon may be summarized as follows:

(a) He was delighted with word from Colombian Ambassador in Washington¹² that latter had been informed by the Secretary that \$16,200,000 loan for defensive purposes would be available to Colombia under the terms of the Lend-Lease Bill,¹³ and Turbay understood a portion would be free for use in Colombia in projects such as the construction of military road from Quibdó to the Pacific Coast.

To resolve details, Colombian Military Attaché there, Director General of Navy now in United States, and Chief of Air Corps leaving here Monday, would work with War and Navy Departments while Colonel Strong¹⁴ and I pursue conversations here.

⁹ Editor of *El Siglo*.

¹⁰ Both dated March 26, 1941, not printed.

^{10a} Not printed.

¹¹ Sumner Welles.

¹² Gabriel Turbay.

¹³ Lend-Lease Act approved March 11, 1941; 55 Stat. 31.

¹⁴ Lt. Col. Carl H. Strong, Military Attaché.

He was surprised when I informed him only 3 to 4 million dollars would be available in 1941 and the balance in 1942 and thereafter and said Turbay had not mentioned this.

I strongly recommend that closest liaison be maintained throughout these conversations by our governmental conferees in Washington and this Embassy, together with our Military and Naval Missions.

(b) He accepted War Department's interpretation of staff agreement hence there was now complete accord on that document. However, he desires to formalize it as a matter of public record through an exchange of notes between our two Governments summarizing essentials without going into details which might provoke prolonged debate in Congress. He would instruct Minister of Foreign Relations to prepare drafts for submission to us. This exchange of notes would be submitted to Congress at July 23 opening during the second debate on Habana Convention¹⁵ and as an implementation thereof. He argued this procedure was desirable from aspect of Colombian internal politics and would obviate necessity for our reviving same matters with next administration.

I seized this opening to indicate exchange of notes might be analogous to what I understood comprised recent agreement with Mexico¹⁶ including reciprocal uses of bases also mentioning General Van Vorlet's [*Voorhis*']¹⁷ suggestion to me that there be arranged joint maneuvers of Canal and Colombia military planes. While neither of us knew the terms of Mexican agreement he was receptive to both ideas. Hence, I request prompt instructions and if feasible copy of Mexican agreement. While Santos is in receptive mood we should grasp opportunity to cover the requirements of any military nature now foreseeable as necessary for us to get from Colombia. Santos was anxious that both military and economic loans be concluded before he presents exchange of notes to Congress thus avoiding charge that one was based upon the other.

(c) President was favorably disposed to allow our military planes armed or otherwise en route between Canal and Caribbean bases to pass over Colombian territory with emergency landings on simple notification prior to departure but any subject to granting of previous permission as presently.

(d) He was greatly concerned about difficulties in the acquisition of materials and equipment from the United States and adequate supply of shipping. I assured him both matters were receiving

¹⁵ Convention on the provisional administration of European colonies and possessions in the Americas, signed July 30, 1940; for text, see Department of State Treaty Series No. 977, or 56 Stat. (pt. 2) 1273.

¹⁶ See pp. 403 ff.

¹⁷ Gen. Daniel Van Voorhis was appointed Commanding General, Panama Canal Department, in January 1940.

most continuous and careful consideration by my Government and that we would endeavor always to meet Colombian necessities but that exigencies of the situation unquestionably would impose sacrifices on every one concerned.

(e) President declared conditions respecting economic loan had entirely changed during my absence. Amount had to be considerably increased above 6 million dollars he had originally requested because that sum would appear unbalanced when compared with military loan; public opinion would not understand why Colombia received so little when Cuba¹⁸ had been given 25 million and Ecuador¹⁹ 20 million and I doubtless had noted violent attacks on his administration by Alfonso Lopez in this whole matter.

I presented self-evident counter arguments to his, strongly advising good impression created in Washington by reasonable presentation of request for 6 million dollars not be weakened by this sudden and inconsistent increase especially as I had stated to Washington authorities additional financial assistance would be required next year. Only then did he aver additional amount was required (1) for stabilization purposes (2) because lower revenues prevented Colombia contributing to public works program as had been anticipated (see my April 16 memorandum: Colombian Request for Financial Assistance²⁰). In my opinion these two points merit scrutiny. He had no idea as to sums required under these two categories but would request recently appointed Minister of Finance to go into details with me. . . .

I pointed to his having importuned me prior to my departure for Washington to obtain 6 million dollar loan as quickly as possible and that his memorandum was the basis used by me to carry out his request speedily and successfully; Export-Import Bank authorities and others in Washington would be unable to understand sudden change and in view of progress made pursuant to his request 6 million dollars had to be starting point for conversations even with new Minister of Finance. He feared that mention of this amount would induce new Minister to put entire matter back in his lap.

I gave him no encouragement as to increase excepting that . . . perhaps consideration could be given to earmarking additional sum requested for a loan next year. He seized upon this with alacrity.

Providing we obtained all of *quid pro quo* we desire such as those mentioned in my April 16 memorandum, section (b) of this telegram and adjustment of such matters as Japanese trade encroachments on which I will cable shortly, it may be desirable to accommodate matters by earmarking an even perhaps small additional

¹⁸ See pp. 116 ff.

¹⁹ See pp. 291 ff.

²⁰ *Post*, p. 57.

amount this year. On this entire subject I urge most complete and prompt interchange of information between the Department and this Embassy.

BRADEN

821.24/126 : Telegram

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

WASHINGTON, May 27, 1941—8 p. m.

127. Your 158 of May 17, 11 p. m., and 160 of May 19, 5 p. m.²¹ The Colombian Ambassador has submitted to the Department a lengthy memorandum²² prepared in the Colombian Treasury requesting Export-Import Bank credits totaling \$13,000,000 or the equivalent of 22,750,000 pesos. This peso total is made up as follows (all figures in millions of pesos): banana disease and agricultural development fund—1.1; increase in capital for the Institute of Industrial Development—2.0; construction of three hydroelectric plants—5.7; increase in capital of the stabilization fund—2.0; highway and navigation works and construction of public buildings—7.9; total—22.8.

Regarding terms which are not treated in the memorandum, the Ambassador stated that the Colombian Government had heard that terms longer than 10 years were being offered to Cuba and that Colombia would have to have similar treatment. He also stated that the Government had in mind 3% interest with an annual amortization payment of \$750,000. The Ambassador was informed that 4% interest was the lowest that could be expected on this type of operation, and that it would not be possible to arrange for annual amortization payments in as low amounts as he had suggested. The Ambassador stated that the amount of \$13,000,000 would take care of all of Colombian requirements through the end of 1942, and that the public works mentioned are all now in process of execution but cannot be completed without financial assistance.

The Department is proceeding to study the detailed request and consider it in connection with the Export-Import Bank, the Department of Agriculture, and, with special relation to the stabilization fund request, the Treasury Department.

With respect to your Section A of your 158, the Department is pleased to learn of the reaction of the President to the military defense program. It is presently contemplated that the amount suggested would be available only for military goods to be acquired in the United States.

²¹ Latter not printed.

²² Not printed; for an account of the Ambassador's conversation with Mr. Duggan on this occasion, see memorandum of May 22, p. 66.

With respect to Section B, it is intended to present drafts of the suggested notes to the Colombian Ambassador here within the next few days.

With respect to Section C, special comments and instructions will be sent to you.

With respect to Section D, your comments are of course the appropriate ones, and the Department will continue to inform you regarding our own export control and priorities procedures and will continue to press for a hemisphere system of export control such as that suggested in the Department's circular instruction of April 1, 1941.²³

With respect to Section E, it has been mentioned above that the new matter is being considered. As you know, the Department finds itself in a position of great embarrassment with respect to the Federal Loan Agency and can only attempt to work out what may be best in view of a difficult situation arising entirely from the handling of the matter by the Colombian authorities. The comments on the balance of the economic requests with the military requests do not appear well founded as each are based on particular exigencies and are not parts of a related whole. Moreover, the military arrangement covers a long period of time whereas the original \$6,000,000 request was specifically designated for one year. There is of course no truth in any suggestion that this Government is proposing to lend \$20,000,000 to Ecuador. And in any event credit arrangements are based upon specific programs and needs and not on any attempt to balance amounts between nations.

The Department will furnish you with a copy of the Colombian memorandum, and requests your comments.

The matters discussed in your 160 will be discussed with Ambassador Turbay in connection with the further negotiations for the new credit.

HULL

810.20 Defense/892 : Telegram

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

Bogotá, June 25, 1941—4 p. m.

[Received 9 : 50 p. m.]

235. For Under Secretary. Referring to my despatch No. 1458, March 28, last paragraph and Department's telegram No. 127, paragraph number 5. By reason of his uniquely influential position as a conservative leader who has closely collaborated with the liberal governments of Olaya, Lopez and Santos, I have long cultivated Urdaneta Arbelaez' friendship. Among other things I have encouraged his idea

²³ Vol. VI, p. 151.

that Colombia in particular should emulate us in making naval and air bases available to other American Republics. Simultaneously I have emphasized my inability to broach such a proposal to the authorities here and instead have said it should be volunteered by his Government.

Urdaneta since his retirement as Ambassador to Argentina has become member of Advisory Council to Foreign Ministry and is therefore thoroughly familiar with staff agreements and related matters. June 20 when dining with him *en famille* he expounded at some length that political difficulties of the American Republics such as Colombia would be greatly eased were staff agreements to be formalized in a general agreement approved by conference of Foreign Ministers. Despite considerations of my telegram 224, June 20,²⁴ paragraph No. 2, he felt such a conference now would be successful, suggested Rio de Janeiro as locale since Brazilians would keep Argentina under control and he believed that by giving Castillo²⁵ credit for initiative it would accommodate latter's position vis-à-vis radicals and bring Argentina into full cooperation; in fact Urdaneta himself would be willing to go to Buenos Aires to work to this end. By reason of Urdaneta's influence as an outstanding possible conservative presidential candidate and since Laureano Gomez and De la Vega have argued for such a conference he believes Conservative Party could be estopped from attacks on conference results. He concluded by offering to discuss in detail with Santos to which I said I had no objection providing that he presented whole idea as entirely his own and that my role was exclusively as a listener since I was unauthorized even to discuss it informally. In response to my inquiry he was confident through a conference of this kind utilization of air and naval bases by all could be embodied in basic inter-American agreement which in practice would mean our being sole beneficiaries.

. . . I have always considered it would be unwise for me even informally first to bring up topic of Colombian bases being made available to us. On the other hand since we might at some time wish to enjoy these facilities I have considered it advisable to encourage Urdaneta on his own to explore the situation. In fact I feel that Santos' suggestion (my telegram No. 158,²⁶ section (b)) to formalize staff agreements by an exchange of notes to be ratified by Congress was induced by Urdaneta.

Last night at intimate dinner in the Embassy Urdaneta said he had a conversation with Santos yesterday who requested him to tell me:

1. The President believes that a rapidly convened and quickly terminated meeting of Foreign Ministers now would be entirely successful.

²⁴ Not printed.

²⁵ Ramón Castillo, Acting President of Argentina.

²⁶ May 17, 11 p. m., p. 4.

2. Sole purpose thereof should be to establish bases of cooperating to meet the new and portentous developments resulting from the war and further to insure hemisphere solidarity and defense.

3. A formalized multilateral agreement embodying staff conversations and reciprocal use of bases would constitute conference's main accomplishment and would greatly facilitate acceptance of those undertakings by congresses and public in many countries.

4. He preferred to handle the matter himself and not to have it even discussed with anyone including the Minister of Foreign Relations until it was further advanced.

5. He was most friendly in his references to me and hoped I would call soon when he would discuss the entire subject.

In view of this last indication I ought to request interview with Santos within the next few days. However, my conversations with Urdaneta have been so guarded that I can easily without slightest embarrassment to anyone dismiss entire subject as informal chats between two friends or I can with equal facility push forward in whatever degree the Department may desire.

Please instruct what if anything you may care to have me do.

BRADEN

810.20 Defense/892: Telegram

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

WASHINGTON, June 26, 1941—3 p. m.

171. Your 235, June 25, 4 p. m. Your message has been exceedingly interesting and I fully approve the steps you have so far taken. I suggest that you have some further conversations with the President and find out more precisely what he has in mind and what his considered decision may be concerning the wisdom of his going ahead with the plans he has in mind.

For the time being I think it would be preferable for us to withhold any commitment until you can see more clearly what his final considered judgment may be.

For the time being I have personally felt it better for this Government to refrain from proposing or supporting any plan for an immediate consultative meeting of Foreign Ministers. As I know you will understand, the situation is changing with kaleidoscopic rapidity and the position of this Government would not be easy were a consultative meeting to be held immediately in view of the fact that our own international position and our own policy may be subject to rapid change in the light of developing contingencies. Furthermore I have never myself felt that technical military and naval questions such as those embodied in staff conversations could be appropriately dealt with in a

consultative meeting of Foreign Ministers, first, because of the fact that secrecy could not be maintained, which in my judgment is essential for a joint defense agreement, and secondly, because at any meeting of the Foreign Ministers political considerations due to publicity are inevitably bound to be predominant. This objection of course would not apply to any formalized multilateral agreement covering the reciprocal use of bases such as that suggested in point 3 of your telegram under reference.

I should add that neither the Brazilian nor Argentine Foreign Ministers believe that the moment is propitious for a consultative meeting and I doubt whether, without their full support, the results of a consultative meeting under present conditions would be as satisfactory as we should desire.

I am giving you these views with the understanding that they are tentative, but I wish to make as clear as possible to you the way the Department is considering this question at the present moment.

Consequently I would suggest that you talk further with the President and send me by telegraph all developments which may result from your conversations with him, making it clear to Dr. Santos that we are particularly sympathetic with the objectives he has in mind and would be more than glad to cooperate should it be possible in our judgment for us effectively to do so within the limitations I have indicated above.

WELLES

810.20 Defense/1009 : Telegram

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

BOGOTÁ, July 1, 1941—11 p. m.

[Received July 2—7 : 52 p. m.]

242. For the Under Secretary. Department's [*Embassy's*] number 235, June 25 and 238 of June 27.²⁷ In long conversation with President this afternoon, after giving him ample opportunity to bring up subject of Urdaneta's 5-point message from him, I broached it recalling his invitation to me. Santos, while admitting discussion with Urdaneta respecting consultative conference of Foreign Ministers, at first denied any mention of bases but later said there had been "some vague reference thereto".

I outlined as per your indications but not mentioning I had heard from you, that while we were entirely sympathetic with his objectives, a consultative conference might be inopportune at this time. Whereupon Santos agreed entirely and added that these meetings of Foreign Ministers were fast developing into Inter-American conferences with

²⁷ Latter not printed.

large delegations instead of being limited only to Foreign Ministers; also too many subjects were presented.

I explained I was mentioning air and naval bases to him solely because of Urdaneta's initiative and I traced for him my conversations with the latter. Santos argued he had recently read in American periodicals that far outlying bases were the only ones of value; that all we would require in the Atlantic was Martinique; and that were the enemy to get through our present bases the jig would be up in any case. (This defeatist attitude is disturbing.) I argued the contrary thesis, telling him of my conversation with General Van Voorhis who felt the necessity for an air base at Barranquilla. Santos remarked that the extension of the present Barranquilla airport was already under way. I said my understanding was that requirement was for a military base with adequate gasoline, supplies and shops.

Santos declared it would be utterly impossible for his administration even to touch upon proposal for bases since it would provide violent attack by opposition and particularly by Alfonso Lopez.

Following my explanation he agreed with my every argument as to desirability of bases from aspect of common defense and said when he retired to private life in his paper and in every other way he would defend that idea, but his Government could not touch the subject. Since he will not retire for over a year these are empty words.

An hour later he inquired whether there was any truth in reports that we were acquiring Galápagos as base. I replied this was a matter in which I had had no part but that here again the question arose of our being unable to bring up matters of this kind even though they might be mutually beneficial.

During conversation Santos several times repeated that in his message at the opening of Congress July 2 he intended to make the most forthright statement he could that relations between our two countries had never been so good as now; from the beginning of the war the United States had never made the slightest move to which any exception could be taken and on the contrary we had been punctilious to an extreme; there was complete confidence in President Roosevelt and his administration and it was imperative Colombia dedicate herself unreservedly to friendship with the United States; and that since Colombia in modern warfare could not protect herself there was further reason for maintaining staunch friendship with the United States.

I brought up possible repercussions on Catholic population of Hitler's "Crusade" against Communist Russia. He said this presented a serious problem to all South American Governments.

810.20 Defense/1016 : Telegram

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

BOGOTÁ, July 2, 1941—6 p. m.

[Received July 3—9: 58 a. m.]

244. For Under Secretary. My telegram number 242, July 1, 11 p. m. There is developing here not only in conservative church circles but even among Right Wing Liberals increasing sentiment favoring German victory over Russia. While this is not surprising the development is greater in extent than I anticipated and merits careful consideration. I get reactions from variety of sources among which the following are especially interesting:

1. Minister of War,²⁸ at our regular bi-weekly luncheon yesterday, was tremendously exercised at "peril resulting from widespread conviction throughout American Republics that Hitler, in his crusade against iniquitous Communists, deserves full support." He declared "Some action or incident must be brought about immediately in order to commit all of these Republics to the British and American cause to insure continued hemisphere solidarity and to present the oppositions in the several countries with a *fait accompli* from which withdrawal would be impossible." He pointed to fact that all these nations have suffered for years from Communist activities but so far in no way had ever been injured by the Nazis; that as faith in crusade increases, conservative church elements even though they be minorities would adopt totalitarian methods and seize power becoming vassals of Germany destroying whole inter-American structure and isolating the United States. In fact a rapid German victory over Russia might swing many American Governments directly into the Nazi orbit. He declared there was no time to educate publics on true situation but could make no concrete suggestion as to what should be done although he seemed to flirt with idea that we should enter war calling upon other Republics to join us. (This last thought goes much further than Santos was willing to contemplate in our talk yesterday.) I gathered his alarm which he admitted resulted from many conversations he had had and his political sense was measurably induced by fear developments along these lines would deprive him of office and influence.

While I do not highly rate Minister's general boast, he is administration's ablest political contact with the masses.

2. Chief of Staff, a Conservative but genuinely friendly to us, while not so alarmed as the Minister, quoted a number of friends, including Liberals, as now preferring German victory over Russia.

3. Responsible University Professor tells me he has noted increasing "pro-crusade" sentiment in many quarters including students.

²⁸ José Joaquín Castro Martínez.

4. Enrique Santos, President's brother, in editorial column, while still strongly supporting Britain and democracies, hopes two contenders may kill off one another or that at least time be given for the United States to prepare. He says Russian victory would be cure worse than the disease and choice is between German injustice and Russian disorder but implies German victory would be preferable since Russian disorder also "contains the greatest of injustices to which humanity has been subjected."

5. Other reliable informants in various walks of life who are strongly anti-Nazi are becoming alarmed by the increasing number of people they encounter who hope for German victory over Russia. The Nazis are, of course, actively fomenting spread of the above described sentiments.

It is too early to foresee how far this trend may grow but thus far it is increasingly disturbing. As a quick remedial measure and to counteract muddled thinking on this subject I respectfully suggest possibility of a speech by President Roosevelt amplifying the fine statement made by Under Secretary on the outbreak of hostilities with Russia,²⁹ particularly stressing anti-Christian (Catholic) acts and ideologies of the Nazis and the other parallels with Communism. Because of his enormous prestige the weight of the President's words in a widely diffused radio address might stem the tide.

BRADEN

810.20 Defense/1017 : Telegram

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

Bogotá, July 2, 1941—9 p. m.

[Received July 3—10: 17 p. m.]

245. For the Under Secretary. With further reference to my telegram No. 242 of July 1, I did not pursue with Santos formalization of staff agreements for ratification by Congress since I consider it preferable for us to hand him our own drafts for exchange of notes (as indicated in section B of my telegram No. 178 of May 29, 1941³⁰) rather than to take as a basis the Minister of Foreign Relations' drafts when presented.

You will observe that although Santos reversed himself as I had feared . . . the conversation nevertheless served to clarify his position so that we now have better idea of where we stand at the moment.

The conversation has had the added advantage of for the time being at least obviating Santos agitating for a consultative conference of

²⁹ See Department of State *Bulletin*, June 28, 1941, p. 755.

³⁰ Not printed.

Foreign Ministers which from your telegram number 17 [171?] ³¹ appears presently undesirable.

The most valuable result of talk is in my view the fact that while formerly I could not properly bring up with Santos or others the subject of bases it has now been placed on the table by Urdaneta in a manner which enables me at any time our Government so desires, to reopen the question without embarrassment.

BRADEN

810.20 Defense/1071d : Telegram

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

WASHINGTON, July 9, 1941—9 p. m.

188. The Department on July 7 handed to the Colombian Ambassador a draft ³² of basic agreement for the lend-lease program of transferring military matériel to the Republic of Colombia. The principal financial provisions are as follows: Colombia is to receive a total of \$16,200,000 of war and navy matériel, of which it is expected \$5,000,000 of army matériel and \$500,000 of navy matériel will be transferred during the fiscal year ending June 30, 1942. This delivery date is subject to change if broad defense considerations so require.

With respect to repayment, Colombia is expected to pay \$1,625,000 in each fiscal year until 1947, making a total of \$9,750,000 to be repaid prior to June 30, 1947. In consideration of the broad objectives of the program and of certain very general economic concepts, the entire obligation of Colombia to the United States would be considered discharged by such payments.

The Colombian Ambassador indicated that his government would be able to pay not more than \$1,000,000 a year and asked whether 9 or 10 years might be allowed. He was informed that the entire program with all of the American republics is limited strictly to 6 years. He undertook to obtain at once the views of his Government.

WELLES

810.20 Defense/1083 : Telegram

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

BOGOTÁ, July 15, 1941—10 p. m.

[Received July 16—4:25 a. m.]

269. For Under Secretary. My telegram number 244, July 1 [?]. Having sensed diminishment in sympathy for the Nazis in their

³¹ For telegram No. 171, June 26, 3 p. m., see p. 10.

³² Not printed.

war against Russia, today at luncheon I renewed the subject with Minister of War who agreed with me and attributed this favorable development to the Pope's failure to support Germany and to Russian successes. Nevertheless he still maintained that much of this feeling persisted and would revive strongly were the Nazis to have a rapid and overwhelming victory.

BRADEN

821.032/350 : Telegram

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

BOGOTÁ, July 21, 1941—11 p. m.

[Received July 22—4 a. m.]

286. President Santos in message upon opening of Congress July 20 declared relations with the United States "marked by most perfect mutual respect" and "affection" and testified to "sincerity and good faith of good neighbor policy." He indicted Nazi philosophy, which he said "simply means the destruction of our nationality" under which "countries such as Colombia would pass automatically into state of vassalage," and that the defense of Colombia would be found in its position as a part of the continental bloc.

The President declared "The Panama Canal is vital for the life of America and vital for the defense of the United States; it constitutes for Colombia an essential means of communication whose interruption would occasion us untold dangers. Our condition as neighbors of this canal imposes on us the obligation of seeing that it should never be damaged or attacked from our territory."

Referring to bases he said question had not been "proposed in any form whatsoever" and that events did not seem to indicate need for bases. If necessity should arise Colombia would have to solve it with its resources and authority alone.

Economic cooperation is described as based on country's needs and not in exchange for political friendship but adds that this cooperation of the three Americas must assume more intelligent and generous characteristics.

Message has been eulogized in liberal press and *El Siglo* gave it more than customary kindly reception.

Full Spanish text has been forwarded direct air mail today.

I expressed today to the Foreign Minister my sincere thanks for President's fine reference to relations with the United States and my admiration for message as a whole.

BRADEN

810.20 Defense/1177: Telegram

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

Bogotá, July 30, 1941—1 p. m.

[Received 10:40 p. m.]

304. For Duggan.³³ Department's telegram No. 188.³⁴ Minister of War and Chief of Staff at luncheon yesterday emphasized to me the following:

1st. Colombian military requirements are not merely for equipment but for number of other items purchasable or requiring expenditures within this country such as for health, transportation, radio, clothes, lighting systems, et cetera. For example as reported by me over 2 years ago War Ministry purchased large number of steel houses from the United States Steel Corporation. These now stored Barranquilla but there is no money to erect them at strategic points along the coasts.

2nd. Military equipment now mostly 7 or more years old and is wearing out so that only protection on Pacific Coast is gunboat *Junin* and two ancient airplanes. Public and Congress will soon ask why equipment is lacking since Government was authorized to borrow funds wherewith to purchase up to 30 million pesos and the United States authorities have publicly announced desire to aid.

3rd. Colonels Tamayo³⁵ and Buenaventura³⁶ returned from United States last week with "absolutely nothing concrete except a draft contract under Lend-Lease Act which includes certain declarations having political flavor" and provides for material only but no free funds which Colombia has since January stated would be required.

4th. Minister of War had gathered from staff conversations that Colombia because of geographical location would be given preference in obtaining material but the two colonels report that some quarters in Washington considered this country important whereas others put at the end of list. For instance on aviation which has always been recognized as of prime importance for Colombia the colonels were told it was not sure when training planes could be supplied and that even the less advanced types of fighting planes could not be furnished until 1943. This would mean that with wearing out of present equipment Colombian officers returning from instruction in the United States would be without ships to fly or to instruct their fellow officers.

³³ Laurence Duggan, Adviser on Political Relations.

³⁴ July 9, 9 p. m., p. 15.

³⁵ Col. Francisco Tamayo Cortes.

³⁶ Col. Ernesto Buenaventura Guerrero.

I replied that the only draft I had seen (Department's circular instruction strictly confidential of July 11³⁸) briefly referred to inter-American political agreement³⁹ already concluded. Then I called Minister's attention to vital necessity of equipment of all kinds being supplied to Great Britain, China and for our own re-armament and hazarded opinion that a better understanding might have been reached in Washington if Chief of Staff and Military Attaché here⁴⁰ had more thoroughly determined all facets of this question reporting their findings as a basis for Washington conversations (the Department will recall Colonel Strong's conversations with Chief of Staff were long delayed despite Santos's instructions, because of antagonism between Ministry of War and General Castaneda and former's failure to instruct latter to pursue convention [*conversation?*] with Military Attaché; in fact Chief of Staff never has been able to go into Colombia matériel needs with us). When the Minister agreed with me I suggested that subject to approval of the Department, I would recommend that detailed survey by these two officers be effected as soon as Military Attaché returns from lowlands where he was forced by illness to go day before yesterday.

There would seem to be much merit in Minister's complaint at not receiving training planes promptly and undoubtedly if expenditures were properly supervised Colombia could beneficially use some free funds if our policy permits, to improve efficiency of army and navy. Since I have scant information respecting distribution of \$16,200,000 loan I am unable to express opinion thereon but do feel that this Embassy in consultation with Naval and Military Attachés⁴¹ and Missions might render valuable advice if given opportunity to go into this matter thoroughly at an early date and before program has assumed definite form.

In view of the foregoing I would appreciate being informed as to how matters were left in Washington by Colonels Tamayo and Buena-ventura and instructions as to whether Colonel Strong, perhaps with Naval Attaché should proceed jointly with Chief of Staff to make detailed report and survey.

Please instruct.

BRADEN

³⁸ Not printed; the draft transmitted with this instruction is basically the same as that worked out with special reference to Brazil, submitted to the President by Mr. Welles with his letter of June 28, printed in vol. vi, p. 138.

³⁹ The Declaration of Lima, a Declaration of the Principles of the Solidarity of America, approved December 24, 1938; for text, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27* (Washington, Government Printing Office, 1941), p. 189.

⁴⁰ Lt. Col. Carl H. Strong.

⁴¹ Lt. Col. Byron F. Johnson and Lt. Col. Carl H. Strong, respectively.

810.20 Defense/1182 : Telegram

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

BOGOTÁ, July 31, 1941—3 p. m.

[Received 11 : 12 p. m.]

312. For Duggan. My telegram No. 304.⁴² President yesterday afternoon confirmed to me Minister of War's statements and had me read Santos' 6-page letter of June 20 to Turbay which emphasized the same points but also stressed that instead of undertaking large expense for purchase of Springfield rifles, adequate supply of Mausers could be bought from Brazil if we would supply financing therefor. Santos said Colonels Tamayo and Buenaventura had been told in Washington that funds for construction of military or quasi-military nature in Colombia would be available under a Lease-Lend loan providing work were done by American firms. However, he observed that American contractors performed work on such lavish scale as to make it too exorbitant. His impression was that those representing us in conversations with two Colonels were perhaps unfamiliar with conditions here and trying to make a blanket program for entire hemisphere which, by reason of varying conditions in each country, was impossible. He felt Colombia probably did not need and should not undertake so vast a program as was contemplated in Washington conversations and concluded by suggesting that since Turbay would arrive here next week conversations could be transferred from Washington to Bogotá to be uninfluenced by the President and myself.

I countered by telling him of recommendation last sentence of antepenultimate paragraph of my telegram under reference and suggested that once Colombian Chief of Staff and our Military Attaché had submitted their findings to him and me we could then, after reviewing them, forward them to Washington for final discussion.

While I am unfamiliar with program as [apparent omission] in Washington, I do feel that by restricting Colombian acquisition of equipment along general lines suggested on page 3 my despatch No. 1112 [1122], October 28, 1940,⁴³ we will obtain from this country the maximum effective aid they will be able to render for some time to come in connection with Hemisphere and Canal defense. In fact, were this Government to be given certain amount of free funds (Santos once mentioned \$1,000,000 to me but probably now has somewhat larger

⁴² *Supra.*

⁴³ Not printed. The suggestion was that United States aid should be limited to facilitating the following: purchase of training planes and ground equipment; improvement of airfields and the building of such new ones as considered desirable; the purchase of such other military equipment as is necessary to insure adequate protection of airports and other strategic points and maintenance of internal order; the purchase by Colombia of fast revenue cutters to maintain surveillance of its coastline, and such other naval equipment as recommended by the Chief of the United States Naval Mission. (821.51/2553)

amount in mind) in addition to really necessary equipment to be purchased in the United States, the total loan probably could be kept considerably below \$16,200,000. Even though a part of "free funds" were to be ill-spent, the net financial loss for us would not be as great as contemplated in plan outlined in Department's telegram No. 188 of July 9, 9 p. m.

BRADEN

810.20 Defense/1177 : Telegram

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

WASHINGTON, August 5, 1941—5 p. m.

234. From Duggan. Your telegram no. 304, July 30, 1 p. m. The points you raise are being discussed with the War and Navy Departments. The Department's views on your four points are:

1st. It is not possible to supply free funds under the Lend-Lease agreement.

Under conditions of very real necessity, resort might be made to the President's emergency defense funds. Under this procedure the War and Navy Departments would have to demonstrate controlling reasons of a defense character for such an allocation. Although obviously those two Departments will have to determine for themselves whether in this case such reasons exist, in frankness the Department is compelled to state that on the basis of data presently available it would not be disposed to attempt to persuade the War and Navy Departments to make such a request of the President. If, however, you believe it desirable to look into this possibility you should instruct your Military and Naval Attachés to make complete reports in the premises to their own Departments, furnishing copies of these reports directly to this Department together with your recommendations.

In order not to raise the hopes of the Colombian Government for any free funds, you are instructed not to make any mention of this possibility to the Colombian Government.

2nd. Since Colombia has not as yet submitted its lists, neither this Department nor the War and Navy Departments are able to do anything until the schedule has been presented.

3rd. The declarations have no political flavor. They are simply statements in the preamble to the draft agreement which refer to the Declaration of Lima and state that the two countries together with all other American republics are united in the defense of the Americas, are determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents, that the defense of each of the American republics is vital to the defense of all and for that reason the United States proposes to provide the defense articles later

listed. These statements are even less specific than declarations already arrived at in inter-American conferences and meetings of Foreign Ministers. The Department is sure you will have no difficulty in convincing the Minister of War the agreement is not at all political.

4th. The Department is endeavoring to ascertain from the War Department its attitude on plane deliveries.

The Department sees no reason why Colonel Strong (subject to instructions from his Department) and the Chief of Staff should not go ahead in Bogotá with a survey of Colombia's needs. It is, however, impossible for conversations regarding the details of material which will be furnished to take place other than in Washington. Consequently, the survey should be limited to determining what Colombia needs and not to committing this Government on what will be delivered. It would then probably be necessary that appropriate Colombian officers again come to Washington to work out the details. If the War Department approves, this Department feels that either the Military Attaché or a ranking member of the Military Mission should thereafter accompany them to Washington.

Please impress on the appropriate Colombian authorities that this Government wishes to assist them in negotiating a Lend-Lease agreement, if such is desired, but cannot move until Colombia has acted. [Duggan.]

HULL

810.20 Defense/1177 : Telegram

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

WASHINGTON, August 7, 1941—8 p. m.

241. Your 312, July 31, 3 p. m. The Department's telegram no. 234 of August 5, 5 p. m. replies to the points made in your telegram no. 304.

The Department cannot believe that any governmental authorities informed Colonels Tamayo and Buenaventura that free funds would be available under the Lend Lease program for construction work provided this was carried out by American firms. Since it is impossible to provide free funds under the Lend Lease law no limitations have ever been formulated or suggested. As stated, however, in the Department's telegram no. 234 the War and Navy Departments might be persuaded to request the President to make an allocation out of his emergency defense funds in order to provide free funds for construction activity of an unequivocal defense character. The statement is repeated, however, that the Department is not convinced that the construction activity which the Colombian military and naval authorities have in mind is essential to the defense of the United States.

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HULL

810.20 Defense/1264 : Telegram

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

BOGOTÁ, August 9, 1941—midnight.

[Received August 10—3:10 a. m.]

341. For Duggan. Department's telegrams 234 and 241. This afternoon meticulously following instructions of telegrams under reference, I discussed with President Santos possible Lease-Lend loan to Colombia.

Turbay has reported to the President that the Under Secretary had expressed hope that free funds might be obtained through R. F. C.,⁴⁴ by special arrangements yet to be made by President Roosevelt particularly as some other American Republics were in an analogous position. While expressing my interest to learn of this report I said I had not received it and my purely personal reaction was that it would be imperative to base a request for free funds on a completely detailed study demonstrating that the money was essential from a purely military aspect.

The President was anxious to have the negotiations completed here but I pointed out it was impossible because more than one department in Washington was concerned and officials could not be brought to Colombia because negotiations were simultaneously proceeding there with other republics. Santos accepted with alacrity suggesting that insofar as possible complete detailed list of Colombia's military requirements be prepared here in collaboration with the Military and Naval Attachés and Chiefs of our Military, Aviation and Naval Missions and that one or more of these officers should then accompany the Colombian officers to Washington.

President says he is now anxious to conclude discussions of this matter here next week. I should be surprised if any such speed is made.

BRADEN

821.24/140

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

No. 830

WASHINGTON, August 9, 1941.

SIR: The receipt is acknowledged of your strictly confidential telegram no. 158 dated May 17, in section B of which you refer to the desire of the President of Colombia to formalize through an exchange of notes the recommendations made by the General Staffs of Colombia and the United States in pursuance of the staff conversations held in

⁴⁴ Reconstruction Finance Corporation.

Bogotá in September 1940. This exchange would be submitted to the Colombian Congress for the latter's approval during its debates on the Convention signed at the Meeting of Foreign Ministers held in Habana in July 1940.⁴⁵

In pursuance of this request, the Department has prepared a draft of this note⁴⁶ which you are authorized to submit to President Santos for an expression of his views. The text has received the approval of the War and Navy Departments. You will please keep the Department informed concerning your conversations with the President of Colombia and report any alterations which he may desire to make in the text.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

[Enclosure]

*Draft Note to the Colombian Minister for Foreign Affairs
(Lopez de Mesa)*

EXCELLENCY: I have the honor to advise the Government of Colombia, through Your Excellency, that the appropriate officials of the Government of the United States have approved the agreements arrived at during the staff conversations held in Bogotá, September 10-26, 1940 between General L. M. Castaneda, Chief of Staff of the Colombian Army; Captain F. C. Riefkohl, United States Navy; and Lieutenant Colonel N. Randolph, United States Army.

These staff conversations were designed to elaborate certain cooperative measures which Colombia and the United States, each on its own volition, and as a function inherent in its sovereignty, might be able to take in defense of the two countries themselves and of the Western Hemisphere. The measures have been adopted in pursuance of the obligations assumed in the interest of continental defense to which all the American republics subscribed at recent inter-American meetings and in particular at the meeting of Foreign Ministers held in Habana in July 1940. They include such measures as liaison between the military and naval staffs of each country for the defense of the American hemisphere, this liaison comprising complete and effective exchange of information relative to continental security and the establishment of adequate channels of communication. In addition, each country agrees to adopt appropriate measures relative to coast patrols and to render the other suitable assistance of a military nature within the scope of its resources, legal authorizations or available means, such as the training of personnel and the lending of technical advisers. Other

⁴⁵ See *Foreign Relations*, 1940, vol. v, pp. 180 ff.

⁴⁶ The enclosure to this document.

measures of this nature relate to permission for visits of medical officers and aerial photographers.

The United States will take such means as are at its disposal to prevent attacks on Colombia by a non-American state while Colombia will endeavor to prevent an attack from its territory on the United States or its possessions, particularly against the Panama Canal. In the event of attack by a non-American power, the United States, should Colombia so request, will employ its armed forces to assist in repelling any such attack while Colombia will supply timely information and all possible facilities to the forces coming to her aid. In the event that the United States sends its armed forces to the help of another American republic as a result of a request or of an inter-American consultation, to the decision of which Colombia has given its approval, the latter will give all possible facilities to United States forces advancing to the assistance of the attacked country.

These measures have been adopted in an atmosphere of inter-American solidarity and in a spirit of mutual helpfulness. They have been drawn up and approved by both governments in the realization that, in view of the conditions prevailing throughout a large portion of the world, the United States of America and Colombia should cooperate to preserve their sovereignty and independence against non-American aggression.

Accept, Excellency, the assurances of my most distinguished consideration.

810.20 Defense/1300 : Telegram

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

Bogotá, August 14, 1941—11 p. m.

[Received August 15—2:45 a. m.]

349. For Duggan. My telegram No. 341, August 9, midnight. The President summoned me this afternoon and with the Minister of War present, assured me that early next week he would give me a detailed list of all military requirements for an army of 20,000, which they believe is the number necessary. The principal items which they wish to cover under the Lend-Lease Act are:

(1) Aviation equipment. What they now have is so antiquated that at any time they may be unable to put any planes in the air.

(2) Two small coast guard cutters of about 400 tons to service coastal garrisons.

(3) Repair of Colombia's two destroyers (please see my personal letter to you dated August 6, 1941⁴⁷).

(4) Shall require other general equipment including a few cannons.

⁴⁷ Not printed.

The President said "a *sine qua non* to the entire transaction" was that they obtain some free funds, in particular for uniforms, construction of barracks, and for military road connecting Quibdó with Bahai, Solano [*Bahía Solano?*] and Puerto Utria. He said that the uniforms and barracks are especially necessary since it was discovered in recent plot that one of appeals made to non-commissioned officers and troops was inadequacy thereof. The President desires that Colombia be committed to repay free funds which might be loaned dollar for dollar at usual rate of interest and not under liberal terms of Lend-Lease Act. He again stressed that with afore-described assistance both he and his successor could guarantee us internal order throughout Colombia and that no attack on Panama Canal by subversive elements would be attempted from this country.

He said equipment acquired under the Lend-Lease Act plus free funds would total less than the \$16,200,000 contemplated in the Department's proposal. He hoped I would carefully study both equipment and free fund requirements; any questions I might have would be fully answered and he earnestly requested that as soon as I was completely satisfied, I assist them to obtain their needs in Washington.

I assured Santos and his Minister that Military and Naval Attachés and I after carefully going over list would make recommendations to Washington and assist him in every appropriate way. But that obtaining free [funds] as I had before stated in my opinion would be extremely difficult and in particular I did not believe any loan could be made wherewith to purchase second-hand Mausers from Brazil. To this latter statement the Minister of War replied that they could not get rifle ammunition from the United States and the army was now "practically without any rounds".

BRADEN

810.20 Defense/1264: Telegram

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

WASHINGTON, August 20, 1941—5 p. m.

260. Your 341, August 9, midnight. For your very confidential information the only free funds that have thus far been made available to any American Republic are \$275,000 to Ecuador. These funds were furnished by special allocation from the President's emergency funds. It is repeated that this is the only way by which free funds not to be repaid can be made available.

Should the President desire that a U. S. officer accompany the Colombian officers to Washington he should be neither your military nor naval attaché but the chief or one of the officers of the advisory missions to the Colombian Government.

HULL

821.24/144 : Telegram

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

BOGOTÁ, September 19, 1941—8 p. m.
[Received September 20—10 a. m.]

417. My telegram No. 349, August 14, 11 p. m. President Santos yesterday afternoon informed me Government was not empowered to sign a contract along the lines of Lend-Lease draft contract enclosed with Department's instruction No. 858, of August 21.⁴⁹ Moreover, he objected to this form of contract because, (1st) it appeared to be an agreement between belligerents, (2nd) rights of the United States to inspect and to suspend at any time were unacceptable, (3rd) while acknowledging the liberality of the terms, they nevertheless involved annual payments by Colombia of approximately \$1,000,000 a year, which, under existing circumstances, was too heavy a burden for Colombia to accept. Therefore, he earnestly begged that I do all possible to obtain a "free loan" of \$6,000,000 at normal interest rates to be repaid in full over sufficiently long period of time—he mentioned 30 years—would not unbalance the annual budget.

\$200,000 would be for aviation, Coast Guard cutters and some infantry equipment; the balance for expenditure in the country including adequate intelligence service for protection against subversive activities.

He preferred to obtain this money through a foreign loan but if that were not possible he proposed to obtain authorization from Congress for an internal loan. He observed that this latter course unfortunately would bring the criticism that the United States was not assisting this country in its part in heroic hemisphere defense program.

I believe that, although Santos may be reluctant to submit the proposed lend-lease contract to Congress, as he claims would be necessary, the fundamental reasons for his desiring a "free loan" are (a) that he wants the \$3,000,000 for expenditures (as previously described by me) in Colombia and (b) point (3) above.

I also feel it is important for us at least to give the appearance of assisting Colombia in defense loan. The \$6,000,000 requested by Santos would from our viewpoint be as effective in increasing efficiency of Colombian forces as the \$16,200,000 proposal now under consideration and would have the added advantage of no financial loss for the United States.

BRADEN

⁴⁹ Not printed.

821.24/151

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

No. 3056

BOGOTÁ, September 22, 1941.

[Received September 30.]

SIR: I have the honor to refer to the Department's instruction no. 830 of August 9, 1941 (file no. 821.24/126 [140]) enclosing a draft note for me to submit to President Santos in connection with his proposal to formalize through an exchange of notes the recommendations made by the General Staffs of Colombia and the United States in pursuance of the Staff conversations held in Bogotá during September 1940.

President Santos after studying the Department's draft advised me on September 9 that he found it entirely satisfactory, subject to the change which begins on line 7, page 2, and would make the balance of that page read as follows:

"They include such measures as liaison between the military and naval staffs of each country for the defense of the American hemisphere, this liaison comprising complete and effective exchange of information relative to continental security, permission for visits of medical officers, and the establishment of adequate channels of communication. In addition, each country agrees to adopt appropriate measures relative to coast patrols and to render the other suitable assistance of a military nature within the scope of its resources, legal authorizations or available means, such as the training of personnel and the lending of technical advisers."

The President preferred not to mention specifically the visit to Colombia of aerial photographers and observed that this contingency could be arranged readily under the provision looking to "the lending of technical advisers". . . .

The alterations made by the President, while rendering the exchange of notes slightly more general, do not appear important, and it is entirely possible that were the reference to aerial photographers to remain it might give some rise to opposition in Congress.

On September 18 the President delivered to me a draft of the note which he proposed as the Minister of Foreign Relations' reply to the note drafted by the Department. (copy enclosed)⁵⁰ Dr. Santos observed that he felt it was best to omit all reference to reservations made by the War Department (see Department's strictly confidential instruction no. 500 of January 14, 1941⁵⁰), since they consisted merely of clarifications in form rather than in substance.

Should the Department care to make any further alterations in either its draft or in that prepared by President Santos, I request that I be specifically instructed in the premises, preferably by tele-

⁵⁰ Not printed.

graph, in order that I may endeavor to induce the President's acceptance of such changes. On the other hand, if the Department desires no changes beyond those made by President Santos, I request that I be instructed so to advise the President and that I be authorized formally to complete the contemplated exchange of notes.

Respectfully yours,

SPRUILLE BRADEN

821.24/144 : Telegram

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

WASHINGTON, September 25, 1941—11 p. m.

316. Your 417, September 19, 8 p. m. The Department continues perplexed by the wavering Colombian attitude on lend-lease.

Please see President Santos again in an effort to untangle present confusion. The Department goes into the following detail so you will have its full thoughts: Colombia entered into lend-lease discussions on the same basis as other countries. The Colombian Congress authorized the negotiation of a defense loan. Colonels Buena-ventura and Tamayo came here to study availabilities and indicate Colombian needs. The results were practically nil. As reported in your no. 304, July 30, 1 p. m., upon the return to Bogotá of the aforementioned officers, the Colombians raised several objections, including implications that the Agreement had "political flavor". These points were answered in the Department's no. 234 of August 5, 5 p. m., and it is felt that point "third" of the Department's last mentioned telegram should be reviewed to President Santos, to indicate that far from being an Agreement between belligerents, it in addition has no political flavor.

Colombian instability is further illustrated by Turbay's, last Spring, requesting \$6,000,000,⁵¹ stating this was all for a year. This was procured promptly. After actual approval by the Export-Import Bank, the Ambassador completely reversed his position by wanting \$12,000,000. He reiterated no further credits would be requested for a year.

It is recalled from your telegrams that you were then dubious regarding both the need or desirability of the additional sum. Nevertheless in an endeavor fully to satisfy the Colombians, the increase was procured with difficulty and embarrassment to the Department. Santos now tells you he wants \$6,000,000 more, making a total of \$18,000,000 this year, in addition to the \$10,000,000 last year. This time they do not even say they will not seek more.

⁵¹ See pp. 55 ff.

Turbay called at the Department on September 16, saying Colombia was not interested in receiving \$16,200,000 worth of lend-lease equipment, but preferred to cut this down to about \$10,000,000 and make a repayment arrangement of that amount proportionate to the tentative Agreement which had already been reached for the higher sum. He said Colombia really needed about \$5,000,000 for local defense expenditures as a loan on regular interest and amortization basis for as long as possible (it is assumed these are the same funds Santos mentioned to you). He was told that this would require the Department's most careful consideration and that he should make concrete his requests. No commitment of any kind was made to him.

If the Colombians do not want the \$16,200,000 arrangement, they should indicate what their desires really are. The Department is far from favorably impressed with the Colombian handling of this matter. They persist with an outspoken trading attitude and, at the same time, produce nothing concrete on the basic problem. They should state once and for all what they desire and follow that definite course.

In all frankness to you, the Department at this juncture does not wish to raise Colombian hopes for a defense loan other than the lend-lease arrangement and you should not mention this possibility to the Government. However, in view of the confusion, the Department would appreciate receiving urgently your own opinions concerning the necessity for such a loan, giving your reasons why you feel it should or should not be extended, together with an indication of the minimum amount you feel justifiable or would satisfy the Colombians. This will enable the Department better to consider the matter.

The Department does not understand Santos' statement to you that his Government is not empowered to sign a contract along the lines of the lend-lease draft. Is it for lack of authority or other reasons that he cannot sign and what kind of a contract could he sign? While the Department will listen to such modifications in the Lend-Lease Agreement as Colombia might care to propose, it should be made clear that the objections raised do not appear valid and that no other Government has suggested that the Agreement appears to be between belligerents. Several Governments have already signed and others are on the point of signing.

The need for the provision regarding suspension should be obvious to Santos, quite apart from its being required by the Act of March 11, 1941. Although this Government has every intention and hope of supplying the equipment Colombia desires, it cannot unequivocally bind itself, on account of the uncertainties of war developments, to definite commitments. This Government believes that the terms are liberal and entirely within Colombia's capacity to pay.

Regarding "aviation, Coast Guard cutters, and some infantry equipment" may the Department repeat that Colombia may obtain this equipment under the lend-lease allocation and that unless it is so obtained, delivery, which may be slow in any case, would probably be deferred indefinitely.

Please have a frank talk with the President at his earliest convenience and make the Department's views clear. It should be pointed out that the longer Colombia delays, the slower delivery dates will be, because of previous orders placed by other Governments which have already signed or which are progressively signing. Throughout, please make it unmistakably clear that the United States is not urging Colombia to take advantage of the lend-lease arrangement and that the decision of whether Colombia wishes to receive any armament from the United States rests solely with Colombia.

Please report by telegraph.

HULL

821.24/146 : Telegram

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

BOGOTÁ, September 26, 1941—10 p. m.
[Received September 27—12: 31 a. m.]

435. Department's telegram No. 316, September 25, 11 p. m., arrived just as I was leaving for appointment with President. I therefore arranged for another meeting with him at 6 p. m. on September 30 and would appreciate receiving by the morning of that day any further comments which the Department may care to make. In the meantime the following may assist to clarify the situation:

1. For well over a year the Colombian authorities have been discussing with me, but only in general terms, military requirements. However, despite my repeated requests for concrete data and suggestions that their needs be worked out to a finality in cooperation with our Military and Naval Attachés and Missions, they have apparently not even yet reached a decision in these matters.

2. The nearest approach to a definition of their needs appeared in my April 16, 1941, memorandum "Colombian Request for Financial Assistance"⁵² and enclosures thereto left by me with the Under Secretary and in which Colombian military needs were indicated at just under \$4,000,000.

3. This afternoon the President told me that Turbay had informed him that October 2 was the deadline for presentation of financial condition under the Lend-Lease Act. The Ambassador had added that an informal approximate and tentative list should be pre-

⁵² *Post*, p. 57.

sented to the Department before that date so that Colombia would be sure to get something. Santos says this list will be ready to show me when I see him September 30.

4. All of the considerations in paragraph 2 of the Department's telegram under reference I have already presented to the President, but I shall do so again at our next meeting. . . . The foregoing observations also apply to the antepenultimate paragraph of the Department's telegram under reference; in fact on September 9th, when Santos in a preliminary way casually mentioned his objections to the draft contract, I suggested that he prepare a redraft for our study. This he promised to do, but on September 19 excused himself on the score that our draft was too divergent to be accommodated with his as it appears thereto.

5. I entirely share the Department's unfavorable impression with Colombia's handling of this matter. . . . However, for the reasons set forth on page 3 of my despatch No. 1122 of October 28, 1940,⁵³ and subsequent communications on this subject including the penultimate paragraph of my confidential letter August 9, 1941, to the Under Secretary,⁵⁴ I have been content to let the discussions drag but always taking especial pains to keep the record absolutely clear that every delay has been of their making.

6. With reference to paragraph 3 and 4 of the Department's telegram under reference, while "free funds" requested by the President might in part be considered as an economic loan, I have always discussed it as a purely military loan to be segregated from other credits extended for economic purposes. In this connection, the following is pertinent:

(a) Santos is vacillating on the military loan in the same way but in greater measure than he did on the economic credit.

(b) The 6 million dollars requested by the President and approved by the Export-Import Bank in April⁵⁵ was an estimate rushed out by him because he wished me to take it to Washington. Subsequently an increase thereto was requested largely because of Alfonso Lopez'⁵⁶ attacks on the administration for not having obtained more money from us and also I believe because Turbay wished to gain kudos by obtaining more than the President had requested.

(c) The Department may recall that when the question arose of increasing the Export-Import Bank credit from 6 million to 12 million dollars, I recommended that the additional amount be earmarked for expenditures next year and I assume that, since the Bank must give its prior approval for all expenditures, my recommendation will be followed in practice.

(d) Six million dollars now requested by Santos he states is for purely military purposes. Therefore, it should be considered from

⁵³ See footnote 43, p. 19.

⁵⁴ Not found in Department files.

⁵⁵ See pp. 55 ff.

⁵⁶ President of Colombia, 1934-38.

the military aspect alone and should not be lumped with the 12 million dollar Export-Import Bank credit.

7. This afternoon the President confirmed to me his desire to obtain this 6 million dollar military loan under the conditions described in my telegram 417.⁵⁷ Therefore, Turbay's statements to the Department may again be an attempt by him to make a better trade than was contemplated by the President.

8. So soon as the garbles in the Department's telegram under reference have been clarified and I have had my September 30th conversation with the President, I will reply to the other questions raised by the Department, but my preliminary conclusions are as follows:

(a) This Government definitely wants a loan from us for military purposes;

(b) As a gesture of inter-American solidarity and friendship for Colombia, we should assist this country with such a loan within reasonable limits, and if possible in such an amount as will make them content. Moreover, Siemels [*sic*] giving them this financial assistance in order that they may acquire sufficient equipment to enable our Naval, Aviation and Military Missions to function efficiently and to avoid the criticisms which otherwise might be cast upon these Missions. Also for the army to obtain some new equipment may assist the Government to keep the officers content and thus help in the maintenance of internal order. Finally, there is a remote possibility that Santos might be willing to establish a Colombian Intelligence Service to function smoothly with us; if this could be accomplished I could [*would?*] be willing to recommend that some of the loan be dedicated to this purpose.

(c) In so far as possible we should not supply Colombia with equipment which, in the event of a successful subversive movement here, could be used against us.

(d) Excepting for reasons outlined in (a), we must recognize that, due to Colombian inefficiency the proceeds of a military loan will serve in only a minimum degree for protection of the Panama Canal and hemisphere defense.

(e) In short, any advances made should be kept as small as possible. I prefer to see the Colombian estimated requirements before making a final recommendation in this particular, but, since Santos in March only requested 4 million dollars for military ends and has now twice committed himself to me for 6 million dollars, I consider the latter figure one that we should stick to unless convincing reasons are presented for increasing it.

BRADEN

821.24/146: Telegram

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

WASHINGTON, September 27, 1941—6 p. m.

322. Your 435, September 26, 10 p. m. With regard to the question of a loan for military purposes, you mention in (b) under numbered

⁵⁷ September 19, 8 p. m., p. 26.

paragraph 8 that the loan would be used in order that Colombia "may acquire sufficient equipment to enable her military and naval missions to function efficiently." Section (e) under numbered paragraph 8 also is interpreted to refer to requirements for equipment. If this is the case the Department repeats that the Lend Lease program is the only way in which Colombia can secure early delivery of military and naval matériel from the United States. From the standpoint of acquiring war and naval matériel in a reasonable period of time, it is futile to continue to talk about any other procedure than the Lend Lease program.

Please inform the President that this Government will, of course, be glad to consider appropriate terms so that Colombia can secure under the Lend Lease agreement \$6,000,000 of military and naval equipment. (It is, of course, obvious that this would mean Colombia would give up the opportunity of securing \$10,200,000 of additional military and naval equipment under a Lend Lease agreement.)

HULL

821.24/153 : Telegram

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

BOGOTÁ, October 3, 1941—11 p. m.

[Received October 4—12:20 a. m.]

452. My telegram No. 435, September 26, 10 p. m. In conversation this morning with the President and Minister of War⁵⁸ I meticulously reviewed all the considerations respecting Lend-Lease agreement outlined in several recent telegrams from the Department. In particular I emphasized that my Government was not urging Colombia to take advantage of our offer, that the decision was exclusively Colombia's but if he desired any deliveries it was absolutely essential to have complete details in the Department's hands at the earliest possible date.

Santos by end of talk largely abandoned his previous arguments about political flavor in such matters as "suspensioned," although he raised one innocuous new point: In article 5 of the draft word "consent" should be changed to "with prior approval." He remarked that other American Republics had raised similar objections to Department's draft. To this I expressed doubt because I said I understood most already had [apparent omission] said he was convinced present Congressional authorizations only empowered his Government to borrow money to spend on armaments and did not permit a deal direct from government to government for matériels; hence new legislative authority must be obtained. He added that this was

⁵⁸ José Joaquín Castro Martínez.

as much for our protection as his own since his successor in office might repudiate the commitments of the present Government. Therefore he proposed to redraft the Department's agreement in the form of a convention which, if approved by us, he would submit to Congress. I suggested it might be preferable for him first in broad terms to obtain authorization which would permit him to sign a Lend-Lease agreement. He admitted this was possible.

When I pointed out the delays involved in getting Congressional authorization and the necessity for Colombia to get her requirements on our priority lists as soon as possible he said that Turbay now had a list of general classes of equipment needed but without prices or other details. I expressed doubt that such a list would be of much use. He said that he would have detailed lists prepared covering Colombia's immediate requirements and later others would be presented. I told him for Colombia's own benefit it was desirable to present now complete lists with all details since otherwise due to wide and large calls on our manufacturing capacity we could promise little or nothing for orders placed in the future. He finally instructed the Minister of War forthwith to prepare complete specifications, as urged by me.

While President once again confirmed 3 million dollar figure for matériel, Minister of War observed it was more likely to be from 6 to 8 million dollars to which Santos by his silence seemingly assented.

Santos said Congressional attacks on recent military aviation accidents had made army officers unwilling to pronounce any Colombian Army plane fit for service. As a result Aviation Corps was practically paralyzed and there was urgent need for small planes—bombers could come later on.

The President again repeated that it was imperative for Colombia to obtain some free funds and implied that the matériel acquired under Lend-Lease already would be measurably ineffective without this cash. I told him it was absolutely impossible to get free funds under Lend-Lease, that Export-Import Bank could not lend for military purposes and moreover in the light of embarrassment caused last May in connection with increase in economic loan from Evans [*Export-Import Bank?*] notion [*sic*] neither Colombia nor the Department could return to that institution for another loan for a considerable time to come. He suggested that with Department's aid loan might be obtained from private institutions. I discouraged this idea and said the only hope I personally could hold out was for detailed estimate of free fund necessities to be prepared for me and for careful checking by my Military and Naval Attachés. Based upon their reports I might be able to send certain recommen-

dations to Washington. Even in this case I said I was not sanguine because of our legislative restrictions.

While there may be some element of a trading attitude in this situation particularly in connection with free funds I think most of the confusion arises from fact that War Ministry even with advice of our Military and Naval Missions has simply been incompetent to decide on exactly what equipment they desire. Also the administration fears opposition attacks in Congress; however, we agree latter connection Santos admitted that presentation to Congress of convention suggested by him would at least make clear exactly who the pro-Nazi elements were among the opposition and we both would know where we stand on this whole question.

Before submitting my own opinion concerning the necessity for a free fund loan I still prefer to await the estimates thereon which are to be prepared and submitted to me by the Minister of War.

BRADEN

821.24/179 : Telegram

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

BOGORÁ, December 15, 1941—7 p. m.

[Received 7:58 p. m.]

662. Foreign Minister⁵⁹ this morning renewed discussion with me of Lend-Lease and free funds. This is first time any mention has been made of this topic by any Colombian official since my conversation of October 3 with President Santos (please see my telegram No. 452, October 3, 11 p. m. and despatch No. 3237⁶⁰). I am sending full report by tomorrow's courier. Turbay receiving instructions to reopen discussions with the Department.

BRADEN

821.24/183

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

No. 3375

BOGORÁ, December 15, 1941.

[Received December 22.]

SIR: I have the honor to refer to my telegram no. 662 of December 15, 7 p. m., and to report that this morning the Minister of Foreign Relations emphasized to me the well-nigh unrestricted nature of the commitment undertaken by President Santos in his December 13 telegram to President Roosevelt.⁶¹ So strongly did the Minister stress the obligations thus assumed by the Colombian people and Govern-

⁵⁹ Luis Lopez de Mesa.

⁶⁰ Latter not printed.

⁶¹ For text, see Department of State *Bulletin*, December 20, 1941, p. 546.

ment and himself as Foreign Minister that I felt he was leading up to telling me that he could not go along with the President in this stand. My reaction in this particular was also induced by my having been reliably informed from three separate sources that the Minister was the only Cabinet member to vote against breaking relations with Japan and because of his having wished to defer the break with Germany and Italy until after the consultative conference. However, the Minister finally switched into a long exposition, the essentials of which were as follows:

This country, by President Santos' telegram, is committed to do everything within its power for the democracies. Because of continental solidarity and defense, she is particularly committed to the United States and the Panama Canal defense. She will take every possible step; but, as I well knew, the Foreign Minister said, Colombian inefficiency would hamper these activities all along the way (he cited as an example the impossibility of obtaining competent intelligence officers). The Army would have been in condition to do its part, but the outbreak of the war in 1939 had prevented the shipment of munitions and armament from Belgium. Hence, the Colombian Army and Navy presently were practically impotent; the former even to maintain internal order required ammunition for Mauser rifles, but this could not be obtained in the United States, accordingly 50,000 rifles with an appropriate amount of ammunition are needed. Similarly other equipment should be acquired.

He appreciated the high motives of inter-Americanism which led us to offer such a substantial discount under the Lend-Lease program; but this was tantamount to a gift, which Colombia could not accept with dignity. Therefore, in order for this country to do her full part, he suggested that under a Lend-Lease agreement we make delivery of \$16,200,000 worth of equipment (he later admitted that a smaller amount would suffice), billing this country therefor at the aggregate of the annual installments contemplated in the Department's proposal, i. e., \$9,750,000. He suggested that the balance (\$6,450,000) be lent in free funds for expenditures on strategic roads, barracks, uniforms, et cetera. (It will be observed that the total of the obligation is hereby raised to \$22,650,000, i. e., \$16,200,000 for equipment plus \$6,450,000 in free funds.) The total obligation to be repaid would, on this basis, be \$16,200,000. He feared that Colombia under war conditions could not safely undertake to meet the heavy annual amortizations provided under our plan and, therefore, requested that these payments should begin after the war. There were three other minor points in connection with the Lend-Lease program which he would like to discuss later, but was sure they could be easily adjusted. Turbay had been instructed to take this matter up along the aforegiven lines.

I replied that I was sure my Government had understood the full portent of President Santos' telegram of December 13 to President Roosevelt. I reviewed our discussions with respect to the acquisition of armament and munitions, beginning with the time when legislation was still pending in the Colombian Congress, when I had observed to him and to the Minister of War that they were thinking in terms

of millions when, in fact, perhaps it should be hundreds of thousands of dollars. As for instance, I said, 20,000 rifles would amply cover the Army's needs in that item, and, as so often discussed with President Santos, Colombia's other requirements were relatively modest: some aviation, some patrol boats, the repair of the destroyers and perhaps some other equipment. In short, I had felt a year and a half ago that Colombia should concentrate largely upon aviation and a few other essentials rather than on so vast a program as was then contemplated.

I summarized the conversations which I had had with President Santos, beginning in January 1941, and made the situation clear with respect to Lend-Lease and free funds, as described in my despatch no. 3237 of November 5, 1941.⁶² I called attention to the fact that at no time had we wished to press a Lend-Lease agreement on this country. For the same reason, while I had called unofficially by telephone to the new Minister of War immediately after he took office, I had subsequently awaited a call from him, realizing that he was tremendously occupied with the reorganization of his Ministry.

I said that the foregoing was the situation which prevailed up to December 7. Thereafter, I had had no word from my Government, but my purely personal opinion was that the acquisition of equipment under Lend-Lease had probably become much more difficult than before. I had seen a press statement from England to the effect that even Great Britain expected to get much less. Therefore, while we deeply appreciated Colombia's desire to assist in every way, by force of circumstances she might be compelled to concentrate her cooperation largely on such matters as the control of enemy aliens, communications, et cetera. Moreover, I said I could visualize, under the changed conditions of war, our making certain requests which previously we had not and would not even have mentioned, but which from now on might enable Colombia to assist very effectively.

The Minister reiterated that, quite irrespective of whether or not the United States could make a Lend-Lease and free fund agreement such as he outlined, Colombia would give her every assistance without restraint, but that naturally this cooperation could not be very effective unless she were able to obtain equipment and funds as described in his aforementioned proposal. I promised to communicate his thoughts to the Department.

It seems reasonable to anticipate that, as the war develops, we will have numerous facilities to request of Colombia, as, for instance, those covered in the Department's telegram no. 500 of December 13, 7 p. m.⁶² I am sanguine that many, if not all, of these requests will be granted readily. Hence, the Department may prefer to keep such matters entirely apart from the assistance and facilities of a military or eco-

⁶² Not printed.

conomic nature we may grant to Colombia. On the other hand, were it possible to work out some such Lend-Lease and free fund arrangement as the Minister requests, it might form a part of a broad program of collaboration between the United States and Colombia for Canal and hemisphere defense, and it might include an obligation by Colombia to grant us, for the strictly limited period of the war, every reasonable facility we might request. Self-evidently such an agreement would be practically tantamount to an alliance.

Respectfully yours,

SPRUILLE BRADEN

740.0011 European War 1939/17619 : Telegram

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

BOGOTÁ, December 18, 1941—3 a. m.

[Received 7:10 a. m.]

675. No reply from President Roosevelt to President Santos' telegram of December 13 has yet been published here. Department may desire to ascertain whether reply has been sent and if so giving publicity thereto. Santos' telegram is generally considered here to indicate that Colombia is now fully behind the United States and Foreign Minister told me on Monday that this country is thereby committed to the United States and to Panama Canal defense.

BRADEN

740.0011 European War 1939/17619 : Telegram

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

WASHINGTON, December 18, 1941—5 p. m.

508. Your 675, December 18, 3 a. m. The President on December 17 sent the following message to President Santos:

"I acknowledge with sincere and heartfelt thanks Your Excellency's message expressing the solidarity of your Government and people with the Government and people of the United States in this grave hour. It is particularly heartening to receive this message from the President of a country so distinguished for its love of liberty and devotion to democracy. The struggle which confronts free nations and free men everywhere is a severe one; the profound faith which you have so eloquently expressed in the principles and obligations upon which inter-American solidarity and cooperation are based will be an important factor in the final victory."

A translation of President Santos' telegram of December 13 to President Roosevelt and President Roosevelt's reply thereto are being given publicity today.

HULL

740.0011 European War 1939/17705 : Telegram

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

BOGOTÁ, [undated].

[Received December 20, 1941—2: 24 a. m.]

689. My telegram No. 688.⁶³ President has just informed me that in addition to having broken relations he will issue decree within next few hours according us treatment as non-belligerents.

He has promised me that he will concentrate all leading or potentially dangerous Nazis, including former Scadta pilots, co-pilots and mechanics, in small towns under strict surveillance and with warning that their least movement out of restricted area or any suspicious act will cause their immediate imprisonment.

Also he promised to install close supervision of all shipping along coast including alleged fishing boats, and will not permit operation thereof by any Germans or suspicious characters.

Under special powers further decrees are being issued for control of foreigners, radio, et cetera. These will have real teeth and will be decidedly stronger than action it has been possible to take heretofore.

BRADEN

740.0011 European War 1939/17782 : Telegram

The Colombian Minister for Foreign Affairs (Lopez de Mesa) to the Secretary of State

[Translation]

BOGOTÁ, [undated].

[Received December 22, 1941—11: 14 p. m.]

I have received with pleasure the message in which Your Excellency comments in friendly fashion on the attitude of the Colombian Government in breaking off diplomatic and consular relations with the Governments of Germany and Italy in fulfillment of our pacts of Pan American solidarity and in the service of the continent's welfare. To work for the honor and justice of our nations is indeed one of life's rewards and to be able to do so in the noble company of statesmen like Your Excellency, to whom I am united by such lofty memories, adds a highly cordial stimulus thereto.

LUIS LOPEZ DE MESA

AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA PROVIDING FOR THE CONTINUATION OF THE MILITARY AVIATION MISSION AGREEMENT OF NOVEMBER 23, 1938, UNTIL A NEW AGREEMENT COULD BE NEGOTIATED

[For text of agreement effected by exchange of notes signed at Washington November 19, 1941, and February 19, 1942, see Depart-

⁶³ Dated December 19, not printed.

ment of State Executive Agreement Series No. 237, or 56 Stat. (pt. 2) 1413.]

SUPPLEMENTARY AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA MODIFYING THE AGREEMENT OF NOVEMBER 23, 1938, RESPECTING A NAVAL MISSION, SIGNED AUGUST 30, 1941

[For text of supplementary agreement, see Department of State Executive Agreement Series No. 218, or 55 Stat. (pt. 2) 1336.]

EFFORTS OF THE UNITED STATES TO CONCLUDE A PRECLUSIVE AGREEMENT FOR THE PURCHASE OF ALL OF COLOMBIA'S PLATINUM

811.20 Defense (M)/2093a : Telegram

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

WASHINGTON, May 23, 1941—noon.

124. The Metals Reserve Company^{63a} is willing to buy all the Colombian platinum production less such part of that production as is now being shipped commercially to private buyers in the United States. The agreement would provide for the purchase of a fixed number of ounces and this amount would be in excess of the present production. The agreement would thus be in effect a commitment to buy the entire production. The agreement might be for one year or possibly a longer period. This arrangement would be on the following conditions:

First, the Colombian Government would establish an export control barring the export of platinum except to the United States. Second, a decree or other governmental regulation would be issued requiring all the small producers to sell their entire production of platinum to the Colombia Central Bank or some other governmental organization.

Please advise whether you believe that the Government of Colombia would be willing to make arrangements along these lines if such an offer were made by the Metals Reserve Company.

HULL

811.20 Defense (M)/2111 : Telegram

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

BOGOTÁ, May 27, 1941—11 p. m.

[Received May 28—1:26 a. m.]

175. Department's No. 124, May 12 [23]. Today while discussing other matters with President Santos it was opportune for me to men-

^{63a} A purchasing agency of the Reconstruction Finance Corporation operating under the Federal Loan Agency.

tion possible platinum arrangements. He expressed his enthusiasm for such a plan but said he would like to consult practical phases with his advisers.

BRADEN

811.20 Defense (M)/2137 : Telegram

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

BOGOTÁ, May 31, 1941—3 p. m.

[Received 8 : 40 p. m.]

182. My telegram No. 175. Minister of Foreign Relations⁶⁴ summoned me this morning to say he had been encouraged at first but later had been informed legal technicalities made any platinum monopoly plan impossible. He had insisted arrangement might be consummated through Bank of the Republic. This also failed. Upon his re-statement that such a strategic material must go to Colombia's friends there had been developed a "complicated triple plan" whereby Government would follow same procedure as with gold, and we to establish certain banking credits in the United States. He did not yet have memorandum of details but said this plan would bring criticism and greatly augment difficulties of preventing contraband in metal. Therefore to satisfy public opinion here and "emphatically in no way as a trade of favors" it had been asked whether or not we could give assurances that Colombia would receive zinc, mercury, raw and construction materials.

I repeated my previous statements to him and others that we were not producers of mercury and it should be obtained direct in Mexico. I said I doubt any assurances could be given on zinc. As for the other materials we were and would continue to assist Colombia in every way we could but sacrifices would have to be made by all and with daily changing conditions it appeared well-nigh unsurmountable task to make any definite promises.

Please instruct.

BRADEN

811.20 Defense (M)/2137 : Telegram

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

WASHINGTON, June 13, 1941—6 p. m.

152. Reference your 182 of May 31. The Department trusts that the views of the Minister of Foreign Relations do not constitute a final rejection of the proposal to purchase the entire Colombian platinum output as proposed in our 124 of May 23. It is realized that there are certain advantages which come from the sale of platinum to the

⁶⁴ Luis Lopez de Mesa.

Axis at high prices, but from a strictly commercial point of view, it should be emphasized that the proposal of Metals Reserve Company is to buy the entire output for a year or even possibly more. This obviously has certain advantages over the Japanese buying which for various reasons may stop at any time. But apart from the commercial aspects of the problem, it is hoped that the Government of Colombia will give proper weight to the hemisphere defense factors involved in selling all its platinum to the Metals Reserve Company.

With respect to the suggestion concerning raw and construction materials, the Department confirms the position which you have taken. Every effort will be made to make available to Colombia the raw and finished products which Colombia needs and this should be simplified by the recent Colombian export control decree, but of course this desire on the part of this Government is limited by the necessity of conserving in this country materials urgently needed for national defense. This observation applies particularly to zinc and mercury as to which no assurances can be made at this time. In this connection it is suggested that you advise the Department of any extremely urgent needs for raw and construction materials. Every effort will be made to satisfy specified requests where they are urgently needed.

It is accordingly suggested that you take up the platinum proposal as outlined in the Department's 124 once more with the appropriate governmental authorities, emphasizing that this Government urgently hopes that a satisfactory reply will be given.

HULL

811.20 Defense (M)/2409: Telegram

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

Bogotá, June 20, 1941—midnight.

[Received June 21—1:43 p. m.]

225. Department's telegram No. 152, June 13. Minister of Foreign Relations informed me this afternoon that exchange control office has already issued two of the three decrees necessary to enable Bank of Republic to purchase all platinum in a manner similar to that now employed in purchasing gold. He hoped there would be no further legal obstacles although one could never be sure in countries like the United States and Colombia having so many laws (*sic*). However, he was confident by aforementioned steps all Colombian platinum would be routed to the United States and he assumed contract for total production for 1 or 2 years could be made with the Metals Reserve Company.

Despite the Minister's assurances, I fear illicit buying and smuggling will continue.

BRADEN

811.20 Defense (M)/2463 : Telegram

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

BOGOTÁ, June 24, 1941—midnight.

[Received June 25—11:13 a. m.]

234. Reference is made to my telegram No. 225. Minister for Foreign Relations today stated to me enabling decrees had all been issued. Manager of Bank of Republic informed Commercial Attaché⁶⁵ bank is prepared to purchase platinum for account of Metals Reserve Company charging only necessary expenses of the operation. He desires information regarding price, terms, form of contract with Metals Reserve Company, shipping arrangements, etc.

Please instruct.

BRADEN

811.20 (D) Regulations/3164 : Telegram

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

[Extract]

BOGOTÁ, July 3, 1941—8 p. m.

[Received 9:35 p. m.]

250. Chief of Office of Exchange Control has just informed Commercial Attaché as follows:

As Government did not have power to prohibit the exportation of platinum, two control regulations have been issued in line with the information given me by the Minister of Foreign Affairs and reported in my telegram 225. The first of these instructed all outlying control offices to refer applications for licenses to Bogotá; the second that platinum could only be shipped against an irrevocable financing credit opened in a New York Bank and stating both the name of the shipper and the consignee. . . .

The Bank of the Republic is still awaiting a reply to the questions transmitted in my telegram 234.

BRADEN

811.20 Defense (M)/2707b : Telegram

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

WASHINGTON, July 16, 1941—8 p. m.

196. Reference Embassy's 250 of July 3 and 234 of June 24 and Department's 124, May 23. Metals Reserve Company is now willing

⁶⁵ Merwin L. Bohan.

to proceed with the purchase of Colombian platinum upon the following conditions:

1. There must be an effective export control system which will prohibit the export of platinum to any country except the United States, and to other American Republics (or in the case of other American Republics exports must be permitted only for internal consumption and not for re-export).

It appears from your 250 that such an export control system has not been established. The requirement of an irrevocable financing credit opened in a New York bank is obviously not sufficient to prevent Axis purchases. It must be remembered that the freezing orders are not broad enough to prevent the obtaining of letters of credit which would result in the platinum going to undesirable destinations. A solution would be, if possible, to require that the consignee named in the letter of credit be located within the United States.

2. It is understood the South American Gold and Platinum Company, owned by American stockholders, produces about 50 or 60 per cent of the platinum of Colombia and that the current market price obtained by this Company is about \$32.00 per ounce of fine platinum, f.o.b. New York. The other producers who are willing to sell to countries other than the United States obtain, it is understood, about \$38.00 per ounce for their product. South American Gold and Platinum Company is willing to continue to sell in the American market at the price which it can obtain there. It is accordingly suggested that a Colombian decree permit the producers of platinum either to export their product under an irrevocable letter of credit opened in New York to the order of a consignee located in the United States, or to sell their production to the Bank of the Republic at a fixed price. Metals Reserve Company will then agree to buy at a price to be agreed upon with the Colombian Government all of the platinum acquired by the Bank. It is suggested that this price be (1) \$36.00 an ounce for the platinum content of crude metal, the Bank of the Republic to pay its incidental costs out of this gross price or (2) the current price of fine platinum in the United States for the platinum content; whichever of these two prices will be the higher. Since the \$36.00 price is and probably will continue to be higher than the market price in the United States, it is assumed that all of the platinum will be bought by the Bank of the Republic and resold to Metals Reserve Company with the exception of the South American Gold and Platinum Company whose production, in accordance with an understanding with us, will continue to be shipped directly to the trade in the United States.

3. The contract will be for one year. It will consist of a commitment of Metals Reserve Company to buy not in excess of a certain fixed number of fine ounces of platinum, say 40,000 ounces. Any

amount sold directly to the trade will be credited on the obligation of the Metals Reserve Company to buy. The figure of 40,000 being in excess of the normal production of Colombia is intended to be and is in effect an obligation to acquire the total production of Colombian platinum.

4. You are requested to discuss this proposal with the appropriate Colombian authorities and to start your discussions as has been indicated with the suggested price of \$36.00 per ounce for the platinum content of crude. In addition Metals Reserve will pay for other metals contained in the crude platinum \$18.00 per ounce for osmium, for pure gold \$34.50 per troy ounce, and for palladium \$15.00 per troy ounce. It is understood that these prices are in accordance with existing commercial practice.

5. These prices are c. i. f. New York. Settlement for the material will be made on the basis of assays by an experienced platinum assayer in the United States. In this connection the Bank of the Republic may wish technical assistance in setting up its own system of purchasing from the producers in Colombia. Metals Reserve would be prepared to send a representative to Colombia to assist in arranging for local assays, and other details that may arise in connection with the purchasing.

When an agreement has been reached in principle on the above proposal, a formal contract will be drafted here and sent to you for submission to the Colombian authorities.

The Department regards the completion of an agreement which will achieve the results above suggested as of substantial and immediate importance to the defense program. It desires that the agreement be put into effect at the earliest practicable moment. It is accordingly suggested that you telegraph the Department as soon as possible as to the course of the negotiations.

WELLES

811.20 Defense (M)/2727 : Telegram

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

BOGOTÁ, July 23, 1941—11 a. m.

[Received July 24—5 : 28 a. m.]

294. For details letter with reference to our telephone conversation today Chief of Exchange and Export Control has agreed to delay approval of export permits for platinum covered by irrevocable letters of credit number 1140 for \$12,167, number 1138 for \$44,965, both on the Manufacturers Trust Company of New York and number 3687 for \$4,150 on the National City Bank of New York for so long as possible probably 2 or 3 days but he urges that the Manufacturers Trust Company and the National City Bank of New York would like cancella-

tion of the above credits to the Banco de Bogotá immediately. I sincerely trust this may be done and that no other New York banks issue any credits having to do with platinum. Meanwhile the Colombians are studying the proposals embodied in Department's telegram No. 196 ^{65a} and we will endeavor to expedite in every way. The authorities expect that at least we can control our own banks. Since no platinum shipment can be made except on letter of credit opened in New York as indicated in my telegram No. 250 by preventing could [*sic*] obtainance thereof we can prevent shipments to any place other than United States and so soon as other details are worked out we can insure all production coming to us.

With further reference to my closing remarks in our telephone conversation the Chief of Exchange and Export Control suggests Metals Reserve Corporation offer forthwith to buy all platinum now on hand in the name of the Banco de la Republica. With this firm proposal as authorization bank will endeavor to acquire stocks now held by Suganami.

BRADEN

811.20 Defense (M)/2727 : Telegram

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

WASHINGTON, July 30, 1941—6 p. m.

217. Reference your 294, July 23. The Department has referred the matter of the three letters of credit to the Treasury for immediate action under the recent Executive Order freezing Japanese funds.

It is clear that the recent freezing order is not sufficient to make the instructions from the Office of Control of Exchange and Exports requiring the issuance of irrevocable letters of credit by New York banks the solution of the problem. It is still necessary even with this freezing order to have some supplementary Governmental action either in the form of executive decree or legislative enactment, as you may determine, to perfect the prohibition of exports except to the United States. After discussion with Wright ⁶⁶ it seems to the Department that the best method would be a decree, resolution or other similar action requiring as a matter of law the sale of all platinum to the Bank of the Republic (with the one possible exception mentioned below). This method, according to Wright, has the advantage that it might encourage the proper authorities to use more vigilance to prevent smuggling than they otherwise would. Wright states that it is his belief that the basic exchange legislation is sufficiently broad

^{65a} *Supra.*

⁶⁶ Possibly James H. Wright of the Division of the American Republics.

to enable either the Ministry of Finance or the Control Board to issue an appropriate decree or regulation to this end. Your views are requested. The Department will naturally be guided by you as to the form the Governmental action is to take, provided that it achieves the main objectives which are, first, the ironbound prohibition of exports except to the United States, and, second, keeping smuggling to a minimum. The present set-up leaves loopholes which must be stopped. The one exception referred to above is the South American Gold and Platinum Company which should be allowed, if the Colombian authorities approve, to continue its exports of platinum directly to the American market.

With respect to the closing paragraph of your 294, please telegraph the amount of platinum now on hand which it is suggested the Metals Reserve Company offer to purchase and also telegraph the price at which you believe it necessary for the Metals Reserve Company to offer. If possible, this price should not be in excess of that set forth in the Department's 196.

Chargeable to Metals Reserve Company, in accordance with Section V-45, Foreign Service Regulations.

WELLES

811.20 Defense (M)/2829 : Telegram

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

BOGOTÁ, August 4, 1941—10 p. m.
[Received August 5—12:30 p. m.]

327. For Finletter.⁶⁷ Reference our telephone conversation August 1, Foreign Office and Office of Control have no knowledge of credits for platinum having been canceled. Please telegraph me immediately if notice of cancellation has been given by three New York banks. Otherwise Foreign Office will have to permit Office of Control authorize export permits.

Commercial Section of Foreign Office also informed the Embassy that consideration is being given to inducing [*introducing?*] a bill subjecting platinum to the same restrictions as gold, i. e., making the Bank of the Republic the only buyer. However, it was unofficially pointed out that such a law would have little effect unless Metals Reserve Company were prepared to pay a higher price than \$36 an ounce as Japanese have been offering up to \$42 and such prices would inevitably lead to widespread smuggling. What are the Department's ideas in the premises?

BRADEN

⁶⁷ Thomas K. Finletter, Special Assistant to the Secretary of State, in charge of the Division of Defense Materials.

811.20 Defense/2829: Telegram

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

WASHINGTON, August 6, 1941—2 p. m.

236. Your 327, August 4, has been discussed with the Treasury. The Treasury officials tell us that they are telephoning the New York banks which issued the letters of credit and are instructing these banks to telegraph to the Banco de Bogotá instructing that bank that no drafts on the letters of credit which have been or shall be drawn on or after July 26 will be honored unless a license is granted by the Treasury. The Treasury will not authorize any such licenses and, therefore, the effect of the foregoing is to cancel or more properly to suspend during the existence of the freezing order, the letters of credit. Please telegraph if this arrangement is satisfactory to the Colombian authorities.

With reference to the closing paragraph of your 327, it has been understood from the telephone conversation of August 1 that legislation subjecting platinum to the same restrictions as gold would be most difficult to obtain. It was furthermore understood that your strong recommendation was that export control be obtained through control of the New York banks, that is to say, by having the Treasury instruct the New York banks that no letters of credit for the export of platinum except to the United States should be issued. The Department has accordingly taken up this proposal with the Treasury and is urging upon them the taking of the necessary steps to carry out the program along these lines. As yet no definite reply has been received, but it is expected that action along these lines will be put into effect by the Treasury. Pending the reply from Treasury, and further consideration of whether this action will be sufficient for the purpose, the Department reserves judgment as to legislation. However, it is noted from your telegram no. 327, second paragraph, that the Commercial Section of the Foreign Office is considering introducing a bill to place same restrictions on platinum as now exist for gold. The Department feels you should encourage this action and in the meanwhile the Colombians should use maximum control possible under their present legal set-up. Smuggling is a problem the Colombians will have to control. The United States is offering to purchase Colombia's entire platinum output for a year while Japan can give no such assurances.

The Department will be largely guided by your advice.

HULL

894.24/1536 : Telegram

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

BOGOTÁ, August 24, 1941—11 a. m.

[Received 1 : 49 p. m.]

369. For Finletter. My telegram No. 365.⁶⁸ Yesterday afternoon I emphasized to President Santos that it was imperative no platinum go to Japan or other totalitarian country. He replied, "As you know that has been arranged. What about the silk?" He then expressed deep regret for the matter having been taken up with me on Friday⁶⁹ both the Foreign Minister and myself. I reassured him on this and repeated the hope already stated to the Minister for Foreign Affairs that the Colombian Government would, in view of the military requirements in the United States, withdraw its request in this particular. He said since failure to get silk would ruin mill and put 284 employees out of work he preferred not to commit himself but leaves the matter to be worked out between the Foreign Minister and myself.

The Foreign Minister told me on 22d that the Japanese would accept nothing in exchange for silk but platinum, not even gold metal.

BRADEN

894.24/1536 : Telegram

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

WASHINGTON, August 27, 1941—5 p. m.

270. From Feis.⁷⁰ Finletter on the 22d wrote you a personal letter^{70a} giving in detail the Colombian platinum and silk situation. You may find the information contained therein is sufficient to enable you to work out a solution for the matter as presented in your 369, August 24. Would you kindly cable an estimate of the quantity of silk that Colombia on the basis of ordinary consumption would need to carry it through an adjustment period of some 3 months at the end of which it should be possible for the mills to utilize other materials making adjustments similar to those faced by the silk and hosiery mills of the United States. No promise can be held out that even a very small amount of silk can be procured for Colombia in the light of the fact that practically none is being made available for civilian use in the United States; however, on receipt of estimates of the quantities needed, fresh consideration could possibly be obtained in the matter in the light of our very real wish that none of the platinum go to destinations other than this country.

⁶⁸ August 22, 4 p. m., not printed.⁶⁹ August 22.⁷⁰ Herbert Feis, Adviser on International Economic Affairs.^{70a} Not printed.

Should the mills be able to use rayon, which probably will turn out to be the main material used in the replacement of silk in the United States, it might well be easier to obtain rayon supplies for Colombia. The Department is willing to make every effort to try to see that Colombian mills receive the same consideration as regards rayon supply as the mills in the United States producing for civilian use.

In estimating the amount of silk needed to carry the mills for 3 months, you should of course deduct any stocks which are now on hand in Colombia, separately reporting the same to the Department.

Since dictating the above your 372 received.⁷¹ On receipt of estimates requested Department will do its very best as regards silk. [Feis.]

HULL

894.24/1593 : Telegram

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

Bogotá, September 9, 1941—8 p. m.

[Received 10:35 p. m.]

393. For Finletter. Reference is made to the Department's telegram No. 270, August 27, 5 p. m. Yesterday Minister for Foreign Relations handed me a memorandum giving the requirements of the five Colombian silk mills at 44,418 pounds per quarter, stocks now on hand amounting to 31,532 pounds although some mills, including Modelia, have less than a month's supply. Memorandum states that while Colombian Government appreciates Department's attitude in placing Colombian factories on the same footing as American as concerns rayon, local manufacturers claim it will take some time to adapt equipment to rayon and that natural silk must be obtained to prevent closing plants. If these allegations are untrue I would appreciate full information together with definite assurances of a rayon supply otherwise I recommend that the silk situation be earnestly considered, a prompt decision taken and we be informed by telegraph.

While we have succeeded in temporarily divorcing platinum and silk it is necessary that platinum negotiations be concluded without further delay and essential that the 62,376 grams of this metal now on hand be purchased at once.

Recent press articles state that because Japan is no longer purchasing, platinum price has fallen below that for gold. The Government in principle has accepted all our proposals. Therefore, I recommend that duly authorized representative of the Metals Reserve Company be sent to Bogotá by plane to conclude contract, organize the purchasing program, and instruct the Bank of the Republic in all

⁷¹ Dated August 26, 6 p. m.; not printed.

details regarding assay shipment, et cetera. The only point still open for discussion is whether to set a price of \$38 per fine ounce for the life of contract or to set prices for shorter periods; Chief of Exchange Control Office says either procedure will be acceptable.

Every day's delay will further complicate the situation. Already "jewelers" in both Argentina and Cuba are reportedly making offers and with the Bank of the Republic unable to proceed or to offer to purchase platinum, prompt and immediate action must be taken.

BRADEN

811.20 Defense (M) Colombia/7b : Telegram

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

WASHINGTON, September 26, 1941.

319. Metals Reserve Company has sent to the Bank of the Republic a letter dated September 23 outlining the conditions for the purchase of up to 40,000 ounces of platinum. A copy of this letter is being sent to National City Bank, Bogotá. It is suggested that you inquire from the Bank of the Republic whether this draft, a copy of which has also been sent air mail to you, is satisfactory to the Colombian authorities.

Chargeable to Metals Reserve Company in accordance with Section V-45, Foreign Service Regulations.

HULL

811.20 Defense (M) Colombia/14 : Telegram

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

BOGOTÁ, November 26, 1941—9 p. m.

[Received November 27—1:51 a. m.]

585. Reference is made to your inquiry of November 13⁷² concerning the status of arrangements for purchase of platinum through the Banco de la Republica.

The National City Bank at Bogotá advises that the Banco de la Republica has not yet made shipment of the 1900 ounces already held, and had not informed them of any further purchase to apply against the further 40,000 ounces mentioned in the Metals Reserve Company's authorization dated September 23 to the Banco de la Republica.

Meanwhile there is reason to believe that contraband exports continue and the Embassy believes that the Exchange Control authorities in certain cases allow open selling, witness a shipment of United States dollars 1700 worth by air express for one Gustavo Lafosee at Rio de Janeiro recently insured by a local company.

⁷² Letter of November 13 not printed.

My recommendation is that the National City Bank agency here be instructed energetically to follow up with the Banco de la Republica both the 1900 ounces shipment and the purchase of the additional 40,000 ounces. If this does not produce satisfactory results then I should be informed in detail in order that I may pursue the matter with the authorities.

BRADEN

811.20 Defense (M) Colombia/14 : Telegram

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

WASHINGTON, December 4, 1941—11 p. m.

460. Your 585, November 26. From this telegram and from a letter dated November 17 from the Banco de la Republica to Metals Reserve Company received recently, Metals Reserve has the impression that Colombian authorities now regard the price of \$38 an ounce for fine platinum, c. i. f. New York, as an offer by Metals Reserve without a corresponding obligation on the part of the Colombian Government. This is not the case however. The offer of the Metals Reserve Company to pay \$38 an ounce was conditioned on the understanding that the Colombian Government would deliver the total annual Colombian production up to 40,000 ounces during the period of one year, less amounts sold direct to the trade in the United States, and that accordingly exports to other countries would be prohibited.

In recognition of such effective export control, Metals Reserve offered to take such net total annual production at the \$38 price which is in excess of the current market price in the United States.

Metals Reserve requests that the Banco de la Republica be advised that Baker and Company has estimated the cost of refining at \$1.50 per ounce of crude platinum. Metals Reserve understands from the aforementioned letter of November 17 that Banco de la Republica is prepared to assume the cost of refining.

With the understanding that the prices for gold and palladium are definitely fixed, but that the osmiridium price will be half the price paid for platinum, Metals Reserve will further agree that in the event the official United States market price for platinum exceeds \$38 per ounce, it would be willing, at least, to consider with the Banco de la Republica possible price increase, providing the Banco de la Republica would similarly be prepared to consider revision downward if the official United States market price declined below present market of approximately \$34.

The National City Bank branch in Bogotá was placed in funds in mid-September, and Metals Reserve was prepared to purchase the first lot of 1,900 ounces at Cali. The delay in effecting delivery of this

material is apparently caused by the failure of the Banco de la Republica to act on Metals Reserve agreement forwarded September 23 outlining in detail its agreement between representatives of our respective Governments, the Banco de la Republica, and the Federal Loan Agency. Settlement in New York after delivery assaying and refining is, of course, entirely satisfactory, and with this additional information it would appear that a conclusion should be effected without further delay. Please urge the Colombians to expedite this matter.

Charge Metals Reserve.

HULL

811.20 Defense (M) Colombia/14 : Telegram

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

WASHINGTON, December 9, 1941—7 p. m.

480. Your 585, November 26 and Department's 460, December 4. Department and Metals Reserve wish to conclude platinum purchase agreement so that it may be placed in effect as soon as possible. Please urge upon Colombian authorities importance of taking all necessary steps to prevent smuggling. Do you think it would be desirable to request cooperation of Panair and Panagra in inspecting all baggage carried by plane? It is understood that these airlines already have a system of inspection for bombs and inflammable material, and Department would be willing to take up with them the question of additional inspection for platinum if you approve.

Pending actual conclusion of the agreement, please ask the Colombians to inform you well in advance of any sales they may intend to make to buyers other than Metals Reserve or legitimate American purchasers.

HULL

811.20 Defense (M) Colombia/14 : Telegram

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

WASHINGTON, December 23, 1941—6 p. m.

538. Following from Metals Reserve:

"Reference is made to telegram no. 610, dated December 4⁷³ from the Embassy and to telegrams nos. 460 and 480 dated December 4 and 9 from the Department bearing on the subject of platinum.

Representatives of the largest Colombian producer of platinum, the South American Gold and Platinum Company, have shown concern over reports that the Colombian Government may issue decrees requiring all producers of platinum to sell their production to the Bank

⁷³ Not printed.

of the Republic. Previous telegrams on this subject as well as the text of the agreement sent by the Metals Reserve Company to the Bank of the Republic simply provide that the Metals Reserve will purchase all platinum produced in Colombia and not sold through private channels to the United States.

It does not appear necessary for the production of the South American Gold and Platinum Company to be included in the proposed contract between Metals Reserve Company and the Bank of the Republic since the South American company has satisfactory arrangements with private consumers in this country under which the use of the product can be controlled for defense purposes if necessary. In addition, Metals Reserve does not wish to have to pay the proposed subsidy price of \$38 an ounce for this company's very substantial production, which is understood to amount to two-thirds of that of the entire country.

It is believed that the Colombian Government can establish satisfactory control of the platinum situation without forcing all sellers to sell to the Bank of the Republic through requiring registration along the same lines as in the case of gold sellers. If this is done and if sellers are required to obtain satisfactory letters of credit from United States bank before being permitted to export, continued sales through private channels should be feasible. Metals Reserve Company will, of course, continue to be prepared to purchase platinum not sold to the United States through private channels, provided only the necessary export regulations are put into effect.["]

Charge Metals Reserve.

HULL

811.20 Defense (M) Colombia/17: Telegram

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

BOGOTÁ, December 25, 1941—2 a. m.

[Received 12:58 p. m.]

718. Department's 538, December 23, 6 p. m. In preliminary conversations with the Ministry of Foreign Relations on December 11 it was stated by the Ministry that they were now studying the possibility, under the recently enacted special powers, of the Government purchasing platinum on the same basis as it now purchases gold. A representative of the Embassy brought up the question of the production of the South American Gold and Platinum Company and the Ministry statement that if such arrangement were worked out the production of this American company could undoubtedly be expected [excepted].

I am hoping shortly to see the Minister of Finance on this and other matters and will report more fully after my conversation with him.

BRADEN

[In telegram No. 118, January 29, 1942, 1 p. m., the Ambassador in Colombia reported that the South American Gold and Platinum Company and its subsidiaries would be permitted to continue direct exportation and sales (811.20 Defense (M) Colombia/23). In despatch No. 3669, February 9, 1942, he reported that the Bank of the Republic had written to the Metals Reserve Company confirming the bases for the sale of independently produced platinum to the United States and that the Minister of Finance had issued instructions that no platinum produced in Colombia should be sold anywhere other than in the United States (811.20 Defense (M) Colombia/30).]

GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS REGARDING THE RESUMPTION OF PAYMENTS ON THE COLOMBIAN FOREIGN DEBT; EXTENSION OF CREDIT BY THE EXPORT-IMPORT BANK⁷⁴

821.51/2591

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

No. 1335

Bogotá, February 3, 1941.

[Received February 15.]

SIR: I have the honor to refer to my despatch no. 1111 of October 22, 1940,⁷⁵ in which I anticipated that Colombia would again appeal to us for financial assistance, and to report that on January 31, 1941, I called on President Santos at his request.

The President expressed his gratification with the working out of the coffee agreement,⁷⁶ said the outlook was bright and thought Colombia could maintain economic equilibrium providing it got through 1941, which was the critical year. But conceivably Colombia would require financial assistance in this connection if everything did not work out as hoped for. Therefore, he wished me to study with the Minister of Finance⁷⁷ a plan contemplating a five million dollar loan in the event assistance were needed and needed quickly at any time. It was essential to hold up coffee prices and sales, otherwise chaos would result (*sic*).

He continued that there were also certain public works which he would like to forward and which would need financing. It would be no great sum because he had no ambition to leave a series of monuments to himself in the form of public works, and with them obligations on the people. But there were such undertakings as an electrification

⁷⁴ Continued from *Foreign Relations*, 1940, vol. v, pp. 695-723.

⁷⁵ Not printed.

⁷⁶ See *Foreign Relations*, 1940, vol. v, pp. 380 ff.

⁷⁷ Carlos Lleras Restrepo.

program, which he would like to get underway. These public works he also desired me to discuss with the Minister of Finance.

I replied that I would be very happy to study these matters with his Minister and I deemed it wise to do so well in advance of the time when funds would be requested because there were so many details to be gone into in the way of preparation so that we would know beforehand exactly what could be done and how. I, of course, had in mind the adjustment of such matters of common interest as were mentioned in my despatch under reference.

This part of the conversation concluded by the President saying he would on February 3 instruct his Minister of Finance to get in touch with me on these several matters; also, he would discuss them further with me himself, probably within another week or so.

Respectfully yours,

SPRUILLE BRADEN

821.51/2591 : Telegram

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

WASHINGTON, February 19, 1941—8 p. m.

48. Your despatch no. 1335, February 3, 1941. Please indicate to the Department in as much detail as is readily available what types of public works projects the Colombian Government may wish to carry out with Export-Import Bank assistance within the next 2 or 3 years.

HULL

821.51/2601a : Telegram

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

WASHINGTON, March 27, 1941—7 p. m.

79. The Colombian Embassy is completing preparation of the detailed offer to the holders of the Federal dollar bonds. With this matter out of the way, the Department believes it important that the Colombian Government proceed with discussions regarding the Federally-guaranteed agricultural mortgage bank debt, and that some settlement be worked out for the several provincial, local and banking issues. Please investigate the prospect for such further debt discussions and report to the Department personally when you arrive in Washington.

WELLES

821.51 Cooperation Program/3

*Memorandum by the Ambassador to Colombia (Braden),
Temporarily in Washington*

[WASHINGTON,] April 16, 1941.

COLOMBIAN REQUEST FOR FINANCIAL ASSISTANCE

As will be recalled, President Santos on January 30, 1941, summoned me to indicate that Colombia would appreciate receiving in the near future financial assistance for both economic and military purposes.

Following other conversations with the President and his Ministers, which were reported to the Department, Dr. Santos on the morning of March 31, 1941 had delivered to me a letter and memorandum, as per the enclosed copies,⁷⁸ requesting a \$10,000,000 loan for 10 years to be made direct to the Colombian Government (*not* to the Banco de la Republica with the Government's guarantee, as was done last year).

The proceeds of this \$10,000,000—17,500,000 pesos according to the enclosed memorandum would be distributed:

- I—Military requirements 7,000,000 pesos or \$3,990,000.
- II—Economic requirements (irrigation, highways, public buildings and electric power plant machinery) 9,850,000 pesos or \$5,614,500.

My observations on certain details of the military requirements are given in the enclosed memorandum. It is pertinent to add that I have expressed to President Santos, the Minister of War and Ambassador Turbay⁷⁹ my purely personal opinion that the Export-Import Bank might be unable, under its authorization, to grant credits for military purposes, but that subject to priority restrictions Colombia's necessities in these particulars probably could be cared for under the provisions of the "Lend-Lease Bill"⁸⁰ and in that case the interest rate and other terms might be more advantageous to Colombia than through a straight banking operation.

There is also enclosed copy of memorandum⁷⁸ handed me by Ambassador Turbay—pursuant to Dr. Santos' promise to forward further details to me. It will be noted that the amount requested in this document—7,000,000 pesos—covers only the program for this year of the Ministry of Public Works. The Ambassador estimates that the Ministry of National Economy will need between 3,500,000 and 4,000,000 pesos for its plan of irrigation and power plant construc-

⁷⁸ Not printed.⁷⁹ Gabriel Turbay, Colombian Ambassador in the United States.⁸⁰ Act approved March 11, 1941; 55 Stat. 31.

tion. These last two items in the President's memorandum total 3,638,000 pesos. The Ambassador includes 1,000,000 pesos for navigation, not in the President's memorandum, increases the public building estimate by 500,000 pesos and reduces the highway item in the President's memo by 712,000; as a result his total estimated requirements range from 10,500,000 to 11,000,000 pesos. The latter maximum figure plus the military requirements would bring Colombia's total request to 10¼ million dollars. However, it is worthy of comment that on the public works program alone the government plans to expend an additional 6,000,000 pesos or \$3,420,000 from internal sources. This evidences good faith and is in a manner a guarantee of the soundness of the loan.

I also call attention to the Ambassador's remarks pointing to the urgency of this financial aid for the preservation of his country's economic and social equilibrium.

Dr. Turbay mentioned Argentina having received recently an interest rate of 3½ percent and hopes the same may be done for Colombia.

I confirmed to Ambassador Turbay the assurances given me by President Santos that since he recognized the difficulties of our position certain guarantees as to exchange would be given to this loan. I said that while the extension of a credit perhaps should not be made contingent on these guarantees, nevertheless the following should be considered coincidentally:

(a) Foreign exchange should be made quickly and readily available to our exporters. Exchange permits should be issued at the same time with import permits.

(b) Exchange regulations should not be made retroactive, as has been done heretofore with prejudice to American exporters.

(c) It should be possible to accomplish an adjustment and renewal of service on some of Colombia's foreign indebtedness, such as that of the Agricultural Mortgage Bank; the City of Bogotá and the Departments of Santander and Santander del Norte.

(d) Similarly, exchange should be provided so that service on the Barranquilla loan would henceforth be remitted to the bondholders.

(e) The National City-First of Boston Banking Group loan should be refunded to avoid repeated renewals thereof every six months.

More detailed comment on the foregoing and on other points is given in the enclosed memorandum. I do not recommend the adjustment of these several matters being exacted as a *quid pro quo* for the granting of a loan but I do feel they should be discreetly called to the attention of our Colombian friends.

I told the Ambassador that President Santos on March 28, 1941, after talking with me, had summoned the Manager of the Agricultural Mortgage Bank and the Mayor of Bogotá to insist to them that an attempt be made promptly to accommodate their respective foreign debt situation.

Dr. Turbay acknowledged that at the time when the national debt offer had been approved by the Under Secretary⁸² and Messrs. Morgenthau⁸³ and Jones,⁸⁴ he had promised that a representative of the Agricultural Mortgage Bank would come to the United States to negotiate. The Ambassador inferred that this visit had been deferred because there was no one with whom he could deal, since manifestly Colombia could not with dignity and self respect carry on discussions with the Foreign Bondholders Protective Council, Inc.

I replied that my personal suggestion, and I had no idea of the Department's views in the premises, was for some one person to be fully authorized by both the bank and the Municipality of Bogotá, to come here and begin informal conversations. During the course of such discussions I said perhaps a way to a formal settlement would be uncovered and at least Colombia would have taken this step to indicate her good faith.

Respecting the Bankers Group loan, the Ambassador said the National City Bank officials had displayed scant interest to negotiate when he had suggested a refunding at 3 percent and amortization of \$1,000,000 per year to liquidate the indebtedness in approximately 15 years.

Conclusion: The economic purposes to which the larger part of this financing will be dedicated appear to be sound and should improve the country's productive capacity in several particulars. The servicing of this credit probably will not be too great a burden on Colombian capacity to pay. For us to lend assistance in this manner, from the political and diplomatic aspect, is a worthwhile gesture. It is expedient for Colombian economy to be supported by us in these times. Therefore, I recommend that favorable consideration be given to this project.

The 7,000,000 pesos requested for military ends is of course dependent on many production and priority conditions here with which I am unacquainted. However, I recommend that it might be beneficial to us in principle and assist in the defense of the Panama Canal were special consideration to be given to the following items in President Santos' memorandum.

- (a) Aviation 2,700,000 pesos, or \$1,539,000. As per my memorandum, it might even be advantageous to increase this allotment.
- (b) Repair of two destroyers, estimated at something in excess of \$200,000.
- (c) Munitions for rifles, machine guns and ammunition therefor. Cost to be estimated.

⁸² Sumner Welles.

⁸³ Henry Morgenthau, Jr., Secretary of the Treasury.

⁸⁴ Jesse H. Jones, Secretary of Commerce.

- (d) Six fast motor torpedo 70 to 80 ft. boats with equipment of torpedoes and depth charges. Cost estimated at \$1,365,000.

The remaining military requirements do not impress me as being essential for Colombia nor of benefit to us.

SPRUILLE BRADEN

821.51 Cooperation Program/3

The Secretary of State to the Secretary of Commerce (Jones)

WASHINGTON, April 23, 1941.

MY DEAR MR. SECRETARY: Reference is made to discussions between officers of the Department and officers of the Export-Import Bank with respect to the request of the Colombian Government for a credit of \$6,000,000 for irrigation works, the construction of highways, machinery for electrical power plant and other public works. Copies of letters and memoranda from the President of Colombia and from the Colombian Ambassador, as well as memoranda from Ambassador Braden relating to this request, have already been made available to the Export-Import Bank and to Mr. W. L. Clayton, Deputy Federal Loan Administrator.

In the discussions referred to above, the view has been expressed that a program of economic cooperation could proceed on a better basis if certain economic problems affecting the relations between the two countries were satisfactorily settled. These matters include especially the handling by Colombia of its exchange control arrangements, and continued attention to Colombian foreign indebtedness, following up the present national debt settlement with discussions of the guaranteed and local debts. The Department has already received assurances that conversations will begin shortly with respect to the guaranteed indebtedness. It is prepared to undertake at once and continue informal discussion of the other matters, including the exchange control situation, and it is confident that the Colombian Government will continue to take measures for the solution of outstanding problems.

The Department has carefully examined the Colombian request for credits for public works purposes and strongly recommends that the Export-Import Bank make a general commitment for public works of \$6,000,000, individual projects to be subject as usual to the specific consideration and approval of the bank.

Sincerely yours,

For the Secretary of State:
SUMNER WELLES
Under Secretary

821.51/2611

*The Colombian Ambassador (Turbay) to the Under Secretary
of State (Welles)*

No. 854

WASHINGTON, April 28, 1941.

MY DEAR MR. WELLES: On December 30, 1940, I had the honor to announce on behalf of my Government the bases for the permanent settlement of the External Sinking Fund Gold Bonds of 1927 and 1928 of the Republic of Colombia. At the same time an announcement was released to the press through the State Department⁸⁵ commenting favorably upon this settlement.

After working out the necessary technical and legal details, we have now completed the formal documents to put this settlement into effect, in accordance with the letter and spirit of the bases announced on December 30th, 1940.

I have the honor to enclose for your examination copies of the proposed Offer, Paying Agency Agreement, form of Bond, Exchange Agency Agreement and form of Certificate to be used in connection with this matter.⁸⁶ Your impressions about these documents would be truly appreciated.

I avail myself of this opportunity to thank you again for your kind interest and collaboration in these arrangements.

Sincerely yours,

GABRIEL TURBAY

821.51/2621

*Memorandum of Conversation, by Mr. Emilio G. Collado of the
Division of the American Republics*

[WASHINGTON,] May 2, 1941.

Participants: Señor Dr. Gabriel Turbay, Colombian Ambassador
Mr. Duggan⁸⁷
Mr. Collado

The Colombian Ambassador stated that he had learned from Ambassador Braden and Mr. Duggan that the Export-Import Bank had on May 1 adopted a resolution authorizing the officers of the Bank to work out the details of the credit to the Government of Colombia. The Ambassador stated that he felt it a repetition of the difficulties of last year, at which time he stated there was confusion between the Bank and Bogotá regarding the purposes to which the credit would be put and the proportion of the credit, if any, which might be used locally. Mr. Collado indicated that the Executive Committee of the Bank had adopted its resolution in the broadest terms leaving all such

⁸⁵ Department of State *Bulletin*, January 4, 1941, p. 12.

⁸⁶ None printed.

⁸⁷ Laurence Duggan, Adviser on Political Relations.

details to be worked out between the Bank and the Government of Colombia. Mr. Collado stated that he believed those details would be worked out upon the return to Washington Sunday of Ambassador Braden. Ambassador Turbay stated that he was afraid that the initial memorandum of the President to Ambassador Braden,⁸⁸ which he stated was only a preliminary proposal, was not sufficiently ample and did not request credits of sufficient magnitude. He stated that while that memorandum requested credits of U.S.\$10,000,000, U.S. \$7,000,000 was needed for public works, almost as much for the needs of the Ministry of Economy (which needs he did not specify), or a total of perhaps U.S.\$12,000,000, and that in addition the Treasury wished some form of stabilization operation which might require immediately an additional U.S.\$3,000,000, a grand total of U.S. \$15,000,000.

Mr. Duggan explained to the Ambassador that we had received through Ambassador Braden a memorandum of the President of Colombia and a memorandum with respect to highways, irrigation projects, buildings, navigation, and equipment for power plants which Ambassador Turbay had submitted, and that the Department had formally requested the Export-Import Bank to act with respect to the non-military sections of these memoranda. Mr. Collado indicated that the memorandum of the President of Colombia requested slightly over U.S.\$4,000,000 for military purposes, and that this had been excluded in the Department's discussions with the Export-Import Bank. The Executive Committee of the Export-Import Bank had approved a credit of up to \$6,000,000 and had been specifically informed that no additional credits would be requested by Colombia for a year or so. Mr. Duggan pointed out that the military items were to be handled in a separate phase, as the Under Secretary had explained to the Ambassador.

Mr. Collado went on to point out that the memoranda submitted indicated 7,000,000 *pesos* for the public works projects and that this figure plus the other figures mentioned in the detailed memorandum submitted through Ambassador Turbay checked closely with the item of slightly under U.S. six million *dollars* mentioned in the memorandum of the President of Colombia. Mr. Collado further pointed out that there had been no previous mention in any of the correspondence of any funds for stabilization purposes.

Ambassador Turbay stated that he did not believe his Government would accept a credit of less than U.S.\$10,000,000 and did not seem impressed with the fact that that was what they would be getting, U.S.\$6,000,000 for public works plus the military arrangements.

⁸⁸ Not printed; see memorandum of April 16, by Ambassador Braden, p. 57.

He produced newspaper clippings from Bogotá indicating an expectation of U.S.\$12,000,000 in credits. After considerable discussion, it was left that no announcements would be made by the Export-Import Bank, and no further action would be taken pending the return from Bogotá of the Ambassador, who would present upon his return the detailed requests of his Government. At that time it would be decided whether it was feasible to ask the Export-Import Bank to reconsider the whole matter.

821.51/2611

The Under Secretary of State (Welles) to the Colombian Ambassador (Turbay)

WASHINGTON, May 3, 1941.

MY DEAR MR. AMBASSADOR: I acknowledge the receipt of your letter No. 854 of April 28, 1941 enclosing copies of the proposed Offer, Paying Agency Agreement, form of Bond, Exchange Agency Agreement and form of Certificate to be used in connection with the permanent settlement of the External Sinking Fund Gold Bonds of 1927 and 1928 of the Republic of Colombia announced by you on December 30, 1940.

The Department has examined these documents and compared them with the general bases presented in your letter No. 2325 of December 30, 1940⁸⁹ and the press release at that time issued by your Embassy. It is the Department's opinion that the present detailed offer is substantially in accordance with the general bases which you outlined in December and regarding which, as you indicate, the Department issued a press release of December 30 [31], 1940 on behalf of itself, the Treasury Department and the Federal Loan Administrator.⁹⁰

The Department welcomes the action of the Colombian Government in making this formal offer to the holders of its dollar bonds and takes pleasure in reiterating the favorable appraisal of this offer contained in the press release under reference.

I am [etc.]

SUMNER WELLES

821.51/2612 : Telegram

The Chargé in Colombia (Keith) to the Secretary of State

BOGOTÁ, May 10, 1941—7 p. m.
[Received May 11—1:25 p. m.]

145. Following Dr. Turbay's arrival May 6, continuous and varied publicity has been given to question of a loan to Colombia,

⁸⁹ *Foreign Relations*, 1940, vol. v, p. 720.

⁹⁰ Department of State *Bulletin*, January 4, 1941, p. 12.

news reports from Washington quoted Jesse Jones to effect that a 6 million dollar Export-Import Bank loan had been granted to Colombia and that no further loans were on application. Confusion subsequently resulted from a statement by the Colombian Minister of Finance who when questioned regarding the matter declared in the press on May 8 that the amount of the new credits had not been determined and would be a question for discussion in New York and Washington with the Colombian Ambassador who was receiving precise instructions thereon.

Still further on May 9th Turbay declared to the press

"The data published regarding the amount and terms of the projected loan of the Export-Import Bank are absolutely without foundation. It is evident that before my trip to this country I discussed with the appropriate parties certain aspects of the loan which will be concluded and which constitutes a part of the program of economic cooperation by the United States. My presence here has precisely as its objective to agree with the Government on the specific bases for the negotiations and certain details of the program for the corresponding allocations. To which end I have initiated the necessary study with the Ministries of Finance, Public Works, National Economy and War. The versions which may be published are solely based on supposition as the definitive program is being completed precisely at this time.

As a result of the negotiations up to now I believe I can affirm that on my return negotiations will be concluded in a short time in a satisfactory form."

Today there is published under a Washington date line an Associated Press despatch that a well informed source has reiterated that Colombia requested a credit of 6 million which was conceded promptly, and added that there is no pending request for more credit.

Considerable editorial space has been devoted to this subject and has been in a vein to create the expectation that more than 6 million would be forthcoming.

Ambassador Turbay and Secretary General of the Foreign Office were at my house yesterday and neither they nor I made any reference to the loan.

This morning the President summoned me both to give me certain information on another subject I had previously requested and obviously also to speak in strict confidence of the confusion which had resulted from the press publicity regarding the amount of the loan. In view of this and that certain factors had changed since he and the Ambassador had last discussed the matter he said he would appreciate my informing the Ambassador as he passes through Barranquilla that he would be grateful if no mention were made regarding the amount of the loan until he had had an opportunity personally

to inform him of the present situation. I believe the President feels that following the return of Dr. Turbay to Washington, who will arrive there May 14, and of the Ambassador here the issue can, aided by their presence, be resolved with avoidance of public misunderstanding. Already today there is a tendency to let the issue subside in the shadow of the news regarding the bonded debt conversion and the efforts of Turbay towards Liberal Party unity. The whole problem is unquestionably complicated by Dr. Lopez'⁹¹ bitter antipathy towards Santos and the consequent critical publicity primarily in *El Liberal*.

Certain newspaper clippings forwarded direct air mail to Satterthwaite⁹² today.

KEITH

821.51/2622

The Deputy Federal Loan Administrator (Clayton) to the Under Secretary of State (Welles)

WASHINGTON, May 12, 1941.

MY DEAR MR. SECRETARY: I enclose draft of resolution⁹³ of the Export-Import Bank authorizing a credit of \$6,000,000 to the Republic of Colombia.

May we suggest before this credit is made available to Colombia, the advisability of requiring satisfactory assurance that:

1. Import permits will be issued only with due regard to the availability of free exchange.

2. Decrees relating to taxation, imports, or exchange will not be retroactive.

3. Negotiations will be undertaken with the bond holders of the Bogotá loan and of the Agriculture Mortgage Bank loan.

4. Service will be resumed on the Barranquilla, Santander and Santander del Norte obligations.

May I add that in our opinion some representation could well be made to the Republic of Colombia regarding the undesirability of recent legislation, notably the corporation law, from the viewpoint of attracting capital for the development of Colombian resources. The development of these resources is essential for the maintenance of Colombian buying power and debt paying ability in terms of foreign currency.

Sincerely yours,

W. L. CLAYTON

⁹¹ Alfonso Lopez, President of Colombia, 1934-38.

⁹² Livingston Satterthwaite of the Division of the American Republics.

⁹³ Not printed.

821.51/2622

The Under Secretary of State (Welles) to the Deputy Federal Loan Administrator (Clayton)

WASHINGTON, May 21, 1941.

MY DEAR MR. CLAYTON: I acknowledge the receipt of your letter of May 12, 1941 enclosing a draft of resolution of the Export-Import Bank authorizing credits of \$6,000,000 to the Republic of Colombia and suggesting certain existing economic problems which should be worked out in connection with carrying on this development credit.

These matters have been the subject of considerable discussion between the Department, Ambassador Braden, and officials of the Federal Loan Agency, and Ambassador Braden has indicated his desire to proceed informally to work out these matters with the Colombian authorities. I am, accordingly, making available copies of your letter and the resolution to Ambassador Braden at Bogotá for action.

I wish to take this opportunity to express my appreciation for the prompt attention and splendid cooperation which you and the Federal Loan Agency have given in connection with recent requests for financial assistance made by the Governments of Colombia, Cuba⁹⁴ and Haiti.⁹⁵

Sincerely yours,

SUMNER WELLES

821.51 Cooperation Program/10

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

[WASHINGTON,] May 22, 1941.

The Ambassador of Colombia handed me the memoranda attached.⁹⁶ These memoranda set forth the desire of the Colombian Government to obtain a credit from the Export-Import Bank of \$13,000,000 for various types of public works and for a small addition to the capital of the stabilization fund. The Ambassador stated that, in so far as the Colombian Government could now state after a careful study of its needs, a credit of \$13,000,000 would take care of all of its requirements for the remainder of the present calendar year and for the entire calendar year 1942.

Regarding terms, which are not treated in the memorandum, the Ambassador stated that his Government had heard that terms of longer than ten years were being offered to Cuba and that the Government of Colombia would like to have similar treatment; in fact, terms of longer than ten years would be necessary since the Gov-

⁹⁴ See pp. 127 ff.

⁹⁵ See pp. 322 ff.

⁹⁶ Not printed.

ernment, given the debt payments it had agreed to make, would be unable to liquidate a credit of \$13,000,000 in ten years. In reply to my inquiry as to what terms the Government had in mind the Ambassador said an interest rate of 3 percent and an annual amortization payment of \$750,000. I told the Ambassador that no long term credit had been given for as low an interest rate as 3 percent and that I was quite certain that the Bank would not agree to an interest rate of that amount.

The Ambassador stated that he wished to make it clear that all of the public works which are mentioned in the documentation are now in process of execution. They are not new projects to be undertaken if a credit is obtained but projects which the Government, with its own funds, undertook but which cannot be carried to completion because of a reduction in Government revenues. Customs collections are now running a million pesos a month below budget estimates. It has been necessary to curtail work on some of the projects and some projects are about to be temporarily halted for lack of funds. If funds become available through an Export-Import Bank credit, work could be immediately resumed.

The Ambassador also stated that the completion of some of the public buildings mentioned in the documentation was very important since rent to the value of 200,000 pesos would be saved if the Government could occupy its own buildings. The Ambassador stated that he had a tabulation setting forth the rents that the Government was now paying which would be eliminated were public buildings now under construction to be completed. At my request, the Ambassador stated that he would send a copy of this tabulation.

I told the Ambassador that the Department would give this request of the Colombian Government for additional funds its immediate consideration and would immediately confer with the Export-Import Bank. In as much as the documents he left were in Spanish, I told the Ambassador that it might be necessary to have some of them translated for the officers of the Export-Import Bank. This would take time. I stated that I hoped, however, to be able to advise him in the early days of next week of the time of a meeting between himself, officers of the Bank, and officers of this Department.

821.24/127 : Telegram

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

Bogotá, May 29, 1941—10 a. m.

[Received 3:59 p. m.]

177. For Under Secretary and Duggan. Department's 127, May 27.⁹⁷ All my comments on financial assistance to Colombia have been

⁹⁷ *Ante*, p. 7.

always premised on it being politically advisable and the necessity for maintaining this country's economic equilibrium but at all times keeping in mind that control in so far as possible should be on sound economic basis, that our largesse should not be given all at once, that Colombians should be made to understand it is not merely an easily obtained handout and that they must reciprocate in every way.

Yesterday President and Minister of Finance separately informed me negotiations were proceeding very satisfactorily in Washington and they expected closing before June 15. Latter added thanks to me for obtaining approval \$6,000,000 credit since thereby they were assured of at least that amount. They stated Turbay had proposed \$7,000,000 for this year, \$5,000,000 for 1942 and [\$]1,000,000 for 1943.

I shall, of course, comment in full on receipt of Colombian memorandum but my preliminary impressions are:

Loans for banana district, irrigation and drainage, prudent amount for highways and navigation if it be for improvement of Dique or other sound projects appear reasonable. Municipal development fund is loosely run and any advance should be for carefully scrutinized specific projects and then only for import requirements. Industrial Development Institute is unproven; of two and two-thirds million pesos paid—in capital two million is from last year's loan; only 547,000 pesos so far invested in new projects none of which are known to be functioning; hence need now for further capital is questionable and any advances should be subject to approval of detailed plans. No advance for hydroelectric plants which could remotely compete with those now operated by American capital should be countenanced.

Over 75 percent gold reserve on note circulation and other present favorable factors indicate nothing required now for stabilization fund, which has been profitable organization and I would favor advance only when actual need appears. President claims construction of public buildings will bring great saving in present rentals but here again scrutiny is desirable.

In final analysis request for additional loan appears to be motivated in large measure by Lopez attacks alleging Santos was not getting enough from us. Therefore to help latter over this obstacle some earmarking along the lines requested by Turbay may be acceptable always provided it is thoroughly understood by Colombians that money will be handed over only after completely detailed and satisfactory plans have been approved.

821.51 Cooperation Program/3

The Secretary of State to the Secretary of Commerce (Jones)

WASHINGTON, June 3, 1941.

MY DEAR MR. SECRETARY: Reference is made to my letter of April 23, 1941 recommending the extension by the Export-Import Bank of a credit of \$6,000,000 to the Government of Colombia, and to Mr. Will Clayton's letter of May 12, stating that such a credit had been extended and indicating certain outstanding economic problems which it is deemed desirable be taken up simultaneously with the Government of Colombia. Reference is also made to a memorandum of the Colombian Ministry of Finance subsequently submitted by the Colombian Ambassador, and to conversations between the Ambassador, Mr. Warren L. Pierson, President of the Export-Import Bank, and officers of the Department.

The Colombian memorandum mentioned, copies of which have been made available to the Export-Import Bank, requests the Export-Import Bank to consider a broader program, involving projects to be carried out through the end of 1942, which would require the extension of credits of up to \$13,000,000. The Colombian Ambassador has indicated that his Government requests and would need as favorable terms as possible, including low rates of interest and amortization spaced over a period of more than ten years.

The Department has carefully considered the additional projects listed, has discussed them with appropriate agencies of this Government, and believes that they would represent useful undertakings necessary and desirable in the maintenance and improvement of the Colombian economy. The Department therefore recommends that the Export-Import Bank as soon as conveniently possible consider the increase of the present credit to the Colombian Government of \$6,000,000 to one of \$13,000,000, at the Bank's regular interest terms of four percent and with amortization handled in a manner similar to that provided in the recent credit of \$25,000,000 to the Government of Cuba. Each individual project would of course be subject to the approval of the Bank, and all supplying of machinery and equipment would be carried out with due regard to the exigencies of our national defense program.

Sincerely yours,

For the Secretary of State:
SUMNER WELLES
Under Secretary

821.51/2632

The Colombian Ambassador (Turbay) to the Adviser on Political Relations (Duggan)

No. 1215

WASHINGTON, June 5, 1941.

DEAR MR. DUGGAN: I am pleased to send you herewith, for your information, two copies of the announcement published in today's newspapers with regard to the Offer of the Republic of Colombia for the exchange of the 1927 and 1928 6% External Gold Bonds and two copies of the Offer and Letter of Transmittal to be sent directly to the bondholders.⁹⁸

With best regards, I am

Yours very sincerely,

GABRIEL TURBAY

821.51 Cooperation Program/6a: Telegram

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

WASHINGTON, June 5, 1941—5 p. m.

138. Conversations have taken place between the Export-Import Bank, the Department and Ambassador Turbay regarding the Colombian request for additional credits. The Bank has already offered to increase the credit to \$10,000,000 and the Department continues to press for \$12,000,000. The matter should be clarified within a few days.

The Colombian request included 2 million Colombian pesos for the stabilization fund. The Department, the Export-Import Bank, and the Treasury believe that this is a proper matter for discussion with the Treasury Department, and Ambassador Turbay has been informed of this opinion. He has stated that he would consult his Government for instructions whether to proceed with stabilization discussions with the Treasury Department.

HULL

821.51 Cooperation Program/7: Telegram

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

BOGOTÁ, June 6, 1941—5 p. m.

[Received 9:45 p. m.]

197. For Duggan. Department's 138, June 5. I consider it essential insofar as possible that Export-Import Bank obtain commitments from Turbay to adjust several matters mentioned in Clayton's

⁹⁸ Enclosures not printed.

letter to Under Secretary of May 12 forwarded with Department's instruction no. 699⁹⁹ including also mention of desirability for reform in petroleum law. Moreover I feel that of ten to twelve million to be loaned no more than six or seven million should be made available this year and balance should be earmarked for next year.

In connection with foregoing and referring to my telegram No. 160 of May 19¹ am reliably informed that no less than 115,000 yards of cotton textiles have been ordered in Japan by the Department of Cundinamarca although such products were not included in the list attached to report number 515 of March [*May*] 5.¹ Likewise no less than \$40,000 in electric light bulbs have been ordered in Japan and Japanese are with some success making drive to obtain agents in Colombia for a wide variety of manufactured and consumer goods. The office of Exchange Control on July [*June?*] 5 added a number of articles to the already ample list of products which can be imported from Japan on free exchange basis, among those were porcelain ware, buttons, wool yarn and additional agricultural machinery. All of this has been done under the guise of obtaining raw materials for national industry but only a part of the products exempted from compensation may be so classified and the balance are obtainable without undue delay in the United States.

As stated in my telegram No. 160, it is definitely against our interests to use exchange resulting from American purchases and loans to stimulate sale of Japanese manufactured and consumer goods thus indirectly supplying Japan with foreign exchange and giving them opening in this market from which it will be difficult to dislodge them. I urge we be adamant in not lending a cent until Colombia is committed to confining Japan to a bona fide trade basis. In other words, this country in all fairness should only purchase from Japan those articles which cannot be obtained in the United States.

While I have repeatedly in a discreet manner broached matters discussed in paragraph No. 1 above to the authorities here, I have not recently touched upon the Japanese because several important persons appear to be getting side commissions thereon whereas bank can discuss all these situations without embarrassment. Consequently in view of defense and necessity for maintaining cordial relations with the Colombian authorities by the Department and this Embassy, I recommend Export-Import Bank assume all responsibility for the presentation of and insistence on all our aforementioned requirements.

BRADEN

⁹⁹ Instruction No. 699 not printed.

¹ Not printed.

821.51 Cooperation Program/7a : Telegram

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

WASHINGTON, June 7, 1941—8 p. m.

145. The Export-Import Bank on June 6 approved a resolution for the extension of credits of up to \$12,000,000 to Colombia, all specific projects to be subject to the approval of the Bank. Details will be worked out with Ambassador Turbay.

The Bank will again request the Department to take up with the Colombian Government the several issues regarding exchange control, the dollar indebtedness of the Agricultural Mortgage Bank and the Municipality of Bogotá, and so forth, of which you are aware. The Bank expects that these will be settled to our satisfaction, but will not include them as specific conditions to the credit.

Ambassador Turbay has indicated that his Government is interested in having him discuss with the Treasury a possible monetary or stabilization operation, and the Department has requested the Treasury Department to go into the matter. The Secretary of the Treasury will see Turbay early in the week, and preliminary discussions will begin then, although the Treasury cannot move rapidly until legislation now pending for the extension of the Stabilization Fund beyond June 30, 1941 is adopted. The Treasury has asked a number of specific questions regarding points of the Colombian exchange arrangements not entirely clarified in the recent excellent reporting of the Embassy :

1. Relations of the Exchange Stabilization Fund to the Exchange Control Office.

2. What are the resources of the Exchange Stabilization Fund and for what purposes does it allocate foreign exchange.

3. Has the Embassy any further facts regarding the allocation of dollars for Japanese imports in Class I, for payment of the 5-year Italian compensation notes, and in any other similar arrangements.

HULL

821.51/2636a : Telegram

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

WASHINGTON, July 25, 1941—4 p. m.

208. An agreement was signed July 23 between the Colombian Ambassador and the Export-Import Bank establishing a line of credit not in excess of \$12,000,000 in favor of the Republic of Colombia. Sums drawn against this line of credit will bear 4% interest and must be amortized on a semi-annual basis within 12 years. The credit may be availed of at any time up to December 31, 1945.

The Department will send you by air mail pouch a full copy of the agreement between the Colombian Government and the Export-Import Bank.

WELLES

821.51/2636 : Telegram

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

WASHINGTON, July 31, 1941—8 p. m.

223. Reference is made to the Department's telegram no. 210 of July 25, 9 p. m., and to your reply no. 299 of July 28, 9 p. m.³ On July 29 the Treasury Department handed Turbay a draft agreement between the Colombian Stabilization Fund, the Bank of the Republic, and the Government of Colombia on the one hand, and the Secretary of the Treasury of the United States on the other, providing for a \$3,000,000 stabilization fund operation. A full copy of this draft agreement is going forward to you air mail but in as much as Turbay leaves Washington this afternoon by airplane for Bogotá where he should arrive the morning of August 2, it is thought that certain details would be of interest to you.

The draft agreement itself in paragraph 6 thereof includes certain commitments on the part of Colombia with a view to maintaining stability of the United States dollar-Colombian peso rate of exchange; that no important change will be made in the Colombian exchange control system without an opportunity for consultation by the United States; that diligence will be exercised by Colombia in the issuance of import permits and exchange approvals to avoid in so far as possible undue delays in payments for imports from the United States or in other remittances to the United States.

In addition to the commitments in the draft agreement Dr. Turbay immediately following the meeting which was held in the Treasury Department was handed in this Department a note which it was requested he address to the Secretary of State confirming the following:

1. Import licenses or exchange approvals would be kept commensurate with exchange availabilities to avoid unpaid backlog periods.
2. Retroactive exchange decrees or regulations detrimental to the United States would not be promulgated.
3. Colombia would seek to avoid undue delay in the payments of legitimate United States exchange requirements.

³ Neither printed.

4. Colombia recognizing that the stabilization loan and credits from other United States Government agencies have important stabilizing influence on Colombian exchange would not divert funds so procured to countries whose interests are inimical to those of the United States or Colombia and there would be consultation on this point when there might be a difference of views.

Ambassador Turbay was told that these commitments were in continuation of the conversations you had already held successfully with the Minister of Finance on related subjects. For the most part it only summarized what the Minister had already told you but in explanation of point 4 which had not been presented by you to the Minister of Finance in just that form, he was told that the United States obviously could not mention Germany, Japan, or Italy in a formal note of this kind but that the Department wished to have point 4 on record so that if any later questions were asked by the press or in Congress the Department would be in a position adequately to answer these inquiries or attacks. Dr. Turbay was told that this Department was very happy to recommend that the Treasury authorize the \$3,000,000 stabilization amount in view of Colombia's fine cooperation with us, but for the sake of the record had to have something to stand on. Turbay offered no objection and seemed very happy about the whole affair.

This information is being sent in order that you may be fully informed should Turbay or the Minister of Finance raise the subject.

It was considered inadvisable in these stabilization discussions to bring up the subject of the Agricultural Mortgage Bank, the petroleum laws, or the corporation law since you had already adequately covered these points in your talks with the Minister of Finance.

WELLES

821.51/2655 : Telegram

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

BOGOTÁ, October 7, 1941—noon.

[Received 1:22 p. m.]

464. Export-Import Bank loan approved by both Houses, now goes to President for signature.

BRADEN

821.51/2673

*Memorandum of Conversation, by Mr. James H. Wright of the
Division of the American Republics*

[WASHINGTON,] October 31, 1941.

Participants: Dr. Fernando Salazar, representative of the Agricultural Mortgage Bank of Colombia;
Mr. Livesey—FF;⁴
Mr. Walmsley⁵ and Mr. Wright—RA.

Dr. Salazar called at our request to receive a reply to his memorandum dated September 30⁶ in which he had proposed possible bases for the settlement of the Government-guaranteed Agricultural Mortgage Bank bonds and the non-guaranteed dollar bonds of that institution.

Dr. Salazar was told that the Department, the Foreign Bondholders' Protective Council, and the bondholders themselves were anxious for a settlement which would reinforce confidence in Colombia and its credit. The Department had studied his memorandum and had certain informal comments to make. The Department could not act as a negotiator but would be glad to cooperate with him with a view to arriving at some solution which might form the basis for a satisfactory offer by the Bank to the bondholders. One very important series of information which was missing and which we wish to obtain as soon as possible was the breakdown of the item given on Page 6 of his memorandum as "valores diversos" of 22,812,354.20 pesos. It is pointed out that included in this sum was an undetermined amount of various of the Bank's outstanding bonds. Unless we all knew just what these bonds were and in what amounts, our discussions could not proceed along any accurate course. Dr. Salazar promised to obtain this information as soon as possible.

Dr. Salazar was told that, still speaking informally, it was considered highly doubtful that the bondholders could accept, or that this Department could give any approval to, a settlement less favorable than the 3 percent settlement made on the bonds of the Republic of Colombia. The Agricultural Mortgage Bank bonds had been guaranteed by the Republic of Colombia; the Bank was a semi-official organization and, even admitting that the Bank had lost much of its capital and other assets, the bondholders and the public in this country would look to the guarantor for service in the event that the principals, in this case the Bank, were unable to pay. It was pointed out that the Department had been glad to lend its good offices in the settlement of

⁴ Foreign Funds and Financial Division. Mr. Frederick Livesey became Acting Chief of this Division October 8, 1941.

⁵ Walter N. Walmsley, Jr.

⁶ Not printed.

the bonds of the national Government and if it were then to acquiesce in a less favorable settlement for a Government-guaranteed issue, its position would be an untenable one in the face of questions from bondholders, the public, or political sources as to why the Department of State could on one day say 3 percent could be paid by Colombia, on the next day loan Colombia \$10,000,000 through the Export-Import Bank, then subsequently loan Colombia another \$12,000,000 from the Export-Import Bank, and on the heels of this say Colombia was only capable of paying 2½ percent. Dr. Salazar readily recognized this position but stated that there were considerations in Colombia which rendered it difficult to make a settlement more favorable than the 2½ percent one he had offered. He finally said that his instructions were clearly limited to a settlement on a 2½ percent basis with the back interest to be forgiven. On the non-guaranteed bonds he could offer only equal or rather similar treatment, in any case not less favorable treatment than that extended to Lazard Brothers on the Sterling issues.

Dr. Salazar was told that the only way the Department could come into this discussion was because of the Government guarantee. Had it been a private bond issue with private holders, we would never have entered the discussions. The bondholders and the public here took the position that the Bank being a semi-governmental organization and its bonds having been guaranteed by the Government should not be treated as a private organization and when the Bank could not pay, the Government should. Dr. Salazar said that he recognized the logic and legal aspects of this argument and would present it to his principals.

Dr. Salazar assured us that in no instance would the non-guaranteed bonds receive treatment less favorable than that accorded the Lazard settlement. As a matter of fact, there was a possibility that the treatment might be slightly more favorable since the Bank might wish to issue a larger percentage of American bonds in dollars and not in pesos, as was the case for the Sterling bonds, and reduce the rate of interest to 3 percent instead of 4 percent as was paid on the Sterling ones. Thus the non-guaranteed dollar bonds would continue in dollars at a lowered principal amount and at 3 percent interest instead of 4 percent, but since a larger amount of the bonds would be given in dollars than was given in pesos for the Sterling bonds, the net return to the American bondholders would be essentially the same with the added advantage in having their obligation in dollars instead of pesos.

We discussed with Dr. Salazar the possible advisability of the Bank's lumping the non-guaranteed and the guaranteed bonds into a single refunding issue all bearing the same rate of interest. Since the Bank already contemplated refunding the non-guaranteed bonds in dollar bonds and not in peso ones, this would be simple. Each would carry the same rate of interest and consequently there was no reason

why the guaranteed bonds could not be lumped dollar for dollar with the non-guaranteed bonds at a percentage to be agreed upon and have the combined new issue carry 3 percent. This could have the advantage to the bondholder of having only one bond quoted on the market and should facilitate trading. The advantage would result to the Bank of having only one issue which would be more easily controlled and which would be more readily marketable since there would be a single quotation for the bond instead of a high quotation for the principal issue and a low quotation for the subordinate issue.

Dr. Salazar said that he was anxious to leave for Colombia in February and he would take this matter up immediately with his principals and hoped to arrive at some settlement.

The meeting was throughout cordial and Dr. Salazar exhibited a most cooperative attitude although he made it unquestionably clear that his activities were distinctly limited by the instructions he had received.

821.51/2662a : Telegram

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

WASHINGTON, November 8, 1941—6 p. m.

405. The Department is informed that on December 1 the short-term debt amounting to \$15,000,000 to the National City Bank group will mature. The Department further understands that you have suggested a plan involving interest at the rate of 3 percent and amortization payments beginning at \$1,000,000.

The Department is of course interested in a satisfactory settlement of this matter, and requests that you report by telegraph its status.

HULL

821.51/2663 : Telegram

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

BOGOTÁ, November 10, 1941—10 p. m.

[Received November 11—12:25 a. m.]

546. Department's No. 405, November 8, 6 p. m. Manager of National City Bank confirms that loan will mature on December 1 and best that he expects is another renewal for 6 months at 3% interest and with possible \$100,000 amortization.

I have never suggested any specific plan of settlement of this so-called short time credit. My efforts have been limited strictly to:

(1) On all appropriate occasions I have called to the attention of President Santos and other Colombian authorities desirability of reaching a settlement because so long as this matter remained outstanding the members of National City Bank—First of Boston group and even perhaps other bankers in the United States would be less

bankers [*inclined?*] than otherwise to extend their operations in this country.

(2) During my visit last April to Washington National City Bank officers expressed the hope indebtedness to their group might be liquidated by means of an Export-Import Bank loan to Colombia. I stated to them my personal opinion that such an operation was out of the question.

(3) Also while I was in Washington Turbay informed me he had tentatively suggested to the group that credit be settled on terms mentioned in Department's telegram under reference. I intimated to him that bankers probably ask better conditions, as for instance a fixed annual payment of approximately \$1,450,000 (to include 3% interest) until extinguished. Later I informed Rentschler and Schoepple of National City Bank and Baker and Goodhue of Bank of Manhattan Company of my conversation with Colombian Ambassador and I expressed my personal opinion that this was about maximum Colombian budget would stand. Also in reply to questions by these bankers I observed that only way to get a settlement was actively to pursue negotiations. This apparently they have been reluctant to do and the Colombian Government is content to have this matter run along as it has for years past.

BRADEN

821.51/2664 : Telegram

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

BOGOTÁ, November 13, 1941—2 p. m.

[Received 5:52 p. m.]

551. My telegram No. 546, November 10, 10 p. m. Manager of National City Bank advises me that about 2 months ago he received a letter from the Minister of Finance in which the latter confirmed a previous promise to endeavor to obtain congressional authorization for the settlement of the group loan and to include \$500,000 for amortization in 1942 budget. The Minister has done neither so far but in this letter he includes a self-serving declaration to the effect that the group had been unwilling last January to negotiate.

The manager and bank attorney feel it is important to recommit the Minister definitely to his promise and simultaneously to make clear that they by no means refused to negotiate. I entirely concur with their judgment in this particular. However, the New York Office of the bank appears reluctant to take this action.

I have expressed my purely personal opinion to the manager as follows:

If by so recommitting the Minister negotiations were to be opened they would have to be handled carefully to avoid placing the group

in a bad trading position as for instance if they agreed to minimum terms with the Santos Government but the deal were not made legally binding the new administration which takes office next August might try to obtain still further reductions. On the other hand Lopez, in expectancy of his being the next President, might be glad to have Santos assume the responsibility for the settlement and accordingly might lend the necessary congressional support to conclude the matter.

I shall take an appropriate opportunity in the near future to renew my discussion of this affair with the President and Minister of Finance.

BRADEN

821.51/2668 : Telegram

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

BOGOTÁ, November 18, 1941—9 p. m.

[Received 11 : 10 p. m.]

565. My telegram No. 551, November 13, 2 p. m. Minister of Finance informed me today that he had been authorized by the Control Board to negotiate a definitive settlement of group loan and to include an amount therefor in budget for next year. He implied however that this sum would be less than for future years. He expects to initiate negotiations about the middle of December.

I have informed National City Bank manager and attorney of the foregoing.

BRADEN

821.51/2669 : Telegram

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

BOGOTÁ, November 21, 1941—8 p. m.

[Received 11 : 33 p. m.]

574. My telegram No. 565, of November 18, 9 p. m. President this afternoon confirmed Minister of Finance's statement to me that group loan would be settled within the near future. However, he was apparently somewhat confused as he mentioned obtaining the enabling legislation which the Minister does not believe to be necessary.

BRADEN

821.51/2670 : Telegram

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

BOGOTÁ, November 24, 1941—10 p. m.

[Received 11 : 05 p. m.]

578. My telegram No. 574. Revised budget for the year 1942 is now being considered by joint Senate and House committees and is

generally expected to be approved including article 17 which provides authorization for the Government to settle the group loan at an interest rate no higher than 3%, amortization during 1942 not to exceed \$200,000 and that the period for total amortization shall not be less than 10 years.

This would appear to make possible some such arrangement as mentioned in paragraph 3 of my telegram number 546, November 10, 10 p. m. and which judging by personal letter dated November 5 I have received from Rentschler of National City Bank, would be satisfactory to the group.

BRADEN

821.51/2668 : Telegram

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

WASHINGTON, November 24, 1941—11 p. m.

434. Your 565, November 18, 9 p. m., and 574, November 21, 8 p. m. The Department is gratified at the progress being made in these discussions. Counsel of the National City Bank today informed the Department that the amount which it is proposed to include in the budget for next year makes provision for the equivalent of only \$287,000 towards amortization instead of \$500,000 which the Bank had been led to expect. Please continue to inform the Department fully regarding these matters.

HULL

821.51/2674 : Telegram

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

BOGOTÁ, November 26, 1941—1 p. m.

[Received 3:20 p. m.]

582. Department's telegram number 434, November 24, 11 p. m. Draft budget for year beginning January 1, 1942, involves no increase in service charges over present year and Minister of Finance therefore believes it will easily pass whereas to attempt to obtain amortization of \$500,000 for 1942 might precipitate debate which due to congressional adjournment within next 4 weeks might imperil entire authorization.

BRADEN

821.51/2674 : Telegram

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

WASHINGTON, November 29, 1941—4 p. m.

445. Your 582, November 26, 1 p. m. Counsel of the National City Bank has called the attention of the Department to draft legislation

pending in the Colombian Congress which would empower the Finance Minister to make a settlement of this matter on the basis of 3 percent interest and 10-year amortization. The legislation, described as "Article 17" is reported to have been read at least once already in the Lower House with final action expected by next week.

In view of this expected legislation and general hopefulness of the Bank's Colombian branch managers, the Bank is prepared to agree to an extension for 6 months to May 31, 1942 at the present rate of interest and with \$100,000 amortization—that is, half of the \$200,000 annual amortization provided in the proposed budget.

During the 6 months period negotiations would take place under the above-mentioned pending legislation for a permanent settlement. The Bank would be prepared to settle on the basis of total annual payments of approximately \$1,435,000 including interest at 3 percent. During the first year this would provide an amortization of approximately \$1,000,000, which would be stepped up as the amount needed for interest diminished. In addition to this basis of settlement, the Bank would require that in the first year there be an additional payment of \$500,000 which the Bank states has been promised to it but not carried out.

HULL

821.51/2675 : Telegram

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

BOGOTÁ, December 1, 1941—noon.

[Received 1:17 p. m.]

593. Department's telegram No. 445, November 29, 4 p. m. Pending legislation provides that during 1942 amortization payments should not exceed those received during 1941. Thereafter amortization could amount to one million dollars or more per year, always providing no less than 10 years were taken for extinguishment of debt.

While it is true that \$500,000 payment was discussed for 1942, this is not provided for in draft legislation which has already passed Lower House and an attempt now to get this additional \$300,000 for 1942 might imperil entire project.

BRADEN

COSTA RICA

CONCERN OF THE UNITED STATES REGARDING GERMAN AND ITALIAN SHIPS AT PUNTARENAS; SCUTTling OF SHIPS AND DEPORTATION OF THEIR CREWS

800.8591/554

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

No. 2937

SAN JOSÉ, February 26, 1941.

[Received March 5.]

SIR: I have the honor to refer to my despatch No. 2921 of February 18, 1941,¹ wherein I reported the possibility of the scuttling of German ships at Puntarenas harbor in the event we should become involved in war.

Yesterday the British Chargé d'Affaires² called at the Legation to advise me as to the seriousness of the situation and asked my advice as to what he should do, or what I might be able to do, in regard to the matter. He was told that inasmuch as I represent a neutral country I found myself, in the absence of instructions, unable to take the matter up with either the President³ or the Foreign Office, but because he represented a belligerent country I thought it quite proper for him in his capacity as British Chargé to make representations in regard to the matter. I suggested to him that at a cocktail party which was to be held on the same evening at the Union Club in honor of the wife of the President of Peru, he would have an opportunity to meet the President of the Republic and the various Cabinet officers, at which time the matter could be discussed informally with them. He called this morning to advise me he had taken it up with three Cabinet officers and with don Luis Anderson,⁴ and that while he received no definite assurances as to whether or not the Costa Rican Government is prepared to wink at the law of nations and remove the crews from these vessels he was hopeful something might be done.

I told him that in the absence of instructions from the Department I could be of no material aid in the matter, but with his permission

¹ Not printed.

² George Lyall.

³ Rafael Angel Calderón Guardia.

⁴ Authority on international law and consulting attorney for the Honduran Government.

I would report to the Department that he had held certain discussions with Costa Rican officials pertaining to the situation.

I should appreciate it if I could be advised as to whether or not the Department wishes the Legation to inject itself into this situation.

Respectfully yours,

WM. H. HORNIBROOK

800.8591/565

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

No. 2950

SAN JOSÉ, March 1, 1941.

[Received March 10.]

SIR: Referring to my despatches Nos. 2921 and 2937 of February 18 and 26, respectively, 1941,⁵ concerning the German and Italian merchant ships seeking refuge at Puntarenas, I have the honor to enclose a memorandum containing the remarks made to me by Foreign Minister Echandi on the subject.

Respectfully yours,

WM. H. HORNIBROOK

[Enclosure]

Memorandum by the Vice Consul at San José (Zweig)

SAN JOSÉ, March 1, 1941.

During the visit of Foreign Minister Alberto Echandi at the Minister's residence on the afternoon of February 28, 1941, he expressed the opinion that the German and Italian merchant ships *Eisenach* and *Fella*, seeking refuge at Puntarenas, could block the harbor by merely moving a few hundred yards nearer the dock and scuttling themselves in front of the pier. He said that Costa Rica could not prevent this action as it was in a position to do nothing but hold up its hands and ask them to stop if the crews tried to scuttle the ships.

The Foreign Minister made these remarks presumably because of representations made to him by the British Chargé d'Affaires in San José.

B[EN] Z[WEIG]

800.8591/623 : Telegram

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

SAN JOSÉ, March 26, 1941—8 p. m.

[Received 10:50 p. m.]

49. I have seen telegram No. 42 of March 13, 11 a. m., despatch No. 3001 of March 21 and the Department's telegram No. 37 of March 19, 6 p. m.⁶ regarding the German and Italian ships at Puntarenas.

⁵ Despatch No. 2921, February 18, not printed.

⁶ None printed.

The Legation was informed this morning that the President and four of the five members of his Cabinet are in favor of taking over immediately the *Fella* and the *Eisenach* at Puntarenas and that the opposing member of the Cabinet is the Minister of Foreign Affairs, Albert Echandi.

I was also informed this morning by the British Chargé that he had made representations to the Costa Rican Government and had obtained a favorable reaction.

The Legation was informed that the President would seek an interview with me for the purpose of discussing [apparent omission]. I had been expecting the President to communicate with me this afternoon, but I now learn that a member of the Military Attaché's office was called by telephone this afternoon to come to the office of the Chief of Staff who told him that the Government had decided to take possession of these ships. Shortly afterwards the Minister of Public Safety entered the office of the Chief of Staff and repeated that the Costa Rican Government had decided to take possession of these ships and was attempting to devise a plan by which this can be done without giving the crews an opportunity of scuttling them.

The Legation understands action contemplated is a police or public security measure based upon persistent rumors that the ships are to be scuttled.

HORNIBROOK

800.8591/626 : Telegram

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

SAN JOSÉ, March 27, 1941—6 p. m.

[Received 8:21 p. m.]

50. Referring to my telegram No. 49 of March 26, 8 p. m., I was summoned by the President of the Republic this afternoon to discuss plans for preventing scuttling of the German and Italian ships in Puntarenas harbor.

I informed the President that I had no instructions from my Government on this subject, but that I would be glad to comply with his request and ascertain if on the day that his police assumed possession of these ships the United States Government would be kind enough to instruct an American gunboat to arrive casually in the harbor of Puntarenas, for the moral effect of the same.

He also inquired as to whether or not the proposed action of taking over these ships might embarrass the United States with Germany and Italy and said that if the Department of State objected to his so doing he would refrain from taking such action.

He is very much of the opinion that the two ships are a menace to the harbor and believes that some drastic action should be taken im-

mediately. He furthermore requested me to advise the Department by cable of his plans and to advise him immediately of the Department's reaction.

I await the Department's telegraphic instructions.

HORNIBROOK

800.8501/623 : Telegram

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

WASHINGTON, March 28, 1941—2 p. m.

43. Your telegram no. 49, March 26, 8 p. m. and no. 50, March 27, 6 p. m. Please inform the President of Costa Rica that this Government shares his concern regarding the two foreign vessels at Puntarenas. The problem involved is one to which this Government has been giving the most careful study and in regard to which it is hoped in the relatively near future to determine upon a policy. As soon as any determination is reached, it is planned to inform the Costa Rican Government and the Governments of other interested American republics, in order that this Government may obtain the benefit of their views. You should suggest to the Costa Rican authorities the desirability of not taking any specific steps in this matter other than those which are merely precautionary pending further developments.

WELLES

865.85/258a : Telegram

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

WASHINGTON, March 30, 1941—1 p. m.

45. Department's 43, March 28, 2 p. m. and your 51, March 29, 10 a. m.⁷ Please at once seek an interview with the President and give him the information contained in the following circular telegram which is being sent to all our chiefs of mission in the other American Republics:

[Here follows text of circular telegram of March 30, printed in volume VI, page 185.]

In view of these circumstances, the suggestion contained in the final sentence of the Department's No. 43 of March 28, 2 p. m., is no longer pertinent. The Department will be interested in learning of

⁷ Latter not printed.

the decision of the Costa Rican Government regarding the two vessels at Puntarenas. The situation which has developed in the United States illustrates the desirability of maximum precautionary measures.

WELLES

865.85/246 : Telegram

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

SAN JOSÉ, March 30, 1941—9 p. m.

[Received March 31—9:35 a. m.]

54. Department's telegram No. 45, March 30, 1 p. m. The President⁸ and Minister of War⁹ were interviewed by me tonight at 8 p. m. and after the substance of the above-mentioned telegram had been submitted to them they advised me that they propose to take possession of both German and Italian ships tomorrow. They requested that if an American destroyer or gunboat is in the proximity of Puntarenas it be despatched there immediately. They fear that they will be unable to prevent the ships from being scuttled and blocking the harbor because they lack technical advice which a United States naval vessel could confidentially give them. The President also asserted that the moral effect of the presence of such a vessel would be helpful. Substance repeated to Commandant 15th Naval District.

HORNIBROOK

862.85/1857 : Telegram

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

SAN JOSÉ, March 31, 1941—8 a. m.

[Received 9:37 a. m.]

55. Referring to the Legation's telegram No. 54 of March 30, 9 p. m. Belligerent ships *Fella* and *Eisenach* now at Puntarenas have been set afire by their crews. Fire first discovered about 6:30 this morning. This has been confirmed by Vice Consul Ben Zweig now at Puntarenas and by other reliable sources.

Airplanes thought to be United States Army flying over Puntarenas making observations.

Members of both crews now in life boats surrounding burning vessels apparently waiting for them to sink. Several explosions occurred on *Eisenach* which is now listing badly, *Fella* apparently not burning so fiercely.

HORNIBROOK

⁸ Rafael Angel Calderón Guardia.

⁹ Francisco Calderón Guardia, the President's brother.

862.85/1977

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

[Extract]

No. 3055

SAN JOSÉ, April 9, 1941.

[Received April 15.]

SIR: I have the honor to refer to the Legation's telegram No. 56 of March 31, 6 p. m., 1941,¹⁰ in which it was reported that officers and crews of the German and Italian merchant ships *Eisenach* and *Fella*, recently burned and sunk at Puntarenas were being held in custody in the penitentiary, and to the Legation's despatch No. 3037 of April 3, 1941,¹⁰ in which fear was expressed that the Costa Rican Government cannot be depended upon to keep the members of these crews in custody.

I now have the honor to report that the situation here seems to be undergoing a change in respect to the attitude of this Government toward these crews and present indications are that the Government will adopt rigid measures to hold them in custody, and that they are to be brought to trial. The Legation has been informed that the members of the crew of each of the ships have been charged with arson and wilful obstruction of navigation, with the additional charge of "disobedience of orders" in the case of the crew of the German ship.

According to the local press, in statements published today, declarations made before the investigating judge hearing the case discloses that both captains declared that they had received orders to burn their ships and that the order had been confirmed to the captain of the *Eisenach* by the German Legation in San José. The press also stated that, taking into consideration the points brought out in the hearing, the judge decreed the prisoners detention, to be held for trial on the charges brought against them, which constitute an attempt against public security.

Respectfully yours,

WM. H. HORNIBROOK

862.85/1977 : Telegram

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

WASHINGTON, April 25, 1941—5 p. m.

60. Your no. 74, April 22, 7 p. m.¹⁰ Please state to the appropriate authorities that this Government hopes the members of the crews of

¹⁰ Not printed.

the two ships recently destroyed in Puntarenas will not be released. It is felt that the presence of these individuals at liberty in Costa Rica would constitute a threat to the safety of that country and of the other American republics.

The Government of the United States is anxious to cooperate in every possible way with Costa Rica and every effort is being made to work out a plan to handle this matter satisfactorily. In any event, it is hoped that the prisoners may be held in custody while in Costa Rica.

HULL

862.85/2017 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

[Extract]

SAN JOSÉ, April 26, 1941—5 p. m.

[Received 9:52 p. m.]

82. Referring to Department's telegram No. 60, April 25, 5 p. m. the substance of which was conveyed verbally by me today to the President and his brother, the Minister of Government and Public Safety, who expressed gratification at the interest of our Government and the effort being made to find a plan to handle the situation. They are anxiously awaiting information as to any plan which the Government of the United States may be able to work out.

Referring to your telegram No. 61 of April 25, 6 p. m.,¹² I was informed by the Minister of Government and Public Safety that the court procedure in this case is as follows:

There are three stages, the first known as investigation in which the judge receives the sworn statements of witnesses and defendants. This is limited to not exceeding 30 days but in the present instance this period is already closed and the case has entered the second stage during which not to exceed 50 days is permitted in which to submit and receive proofs. The case then passes the third stage of [omission?] or judgment which may be rendered at any time after reaching that state. The procedure of open trial as known in the United States is not followed under the laws of Costa Rica.

In the meantime an appeal may be made for the release of the prisoners under bond. In the present case such an appeal has been made and will be decided next week.

DWYRE

¹² Not printed.

862.85/2002 : Telegram

The Secretary of State to the Chargé in Costa Rica (Dwyre)

WASHINGTON, May 13, 1941—7 p. m.

68. Your 74, April 22,¹³ and 82, April 26. Please confirm our belief that, as a solution of the problem, the Government of Costa Rica is prepared to deport these seamen as undesirables by transporting them under necessary guard to Port Limon and placing them aboard the S. S. *Stella Maris*, to sail as early as possible, Friday morning, May 16, thus discharging that Government's responsibility in the premises. Upon arrival in the Canal Zone, these seamen will be subject to the jurisdiction of the American authorities. Please cable reply immediately.

HULL

862.85/2038 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, May 13, 1941—11 p. m.

[Received May 14—1:15 a. m.]

95. In an interview with the President of Costa Rica this evening I brought the matter contained in the Department's telegram No. 68, May 13, 7 p. m. to his attention and urged that he take this opportunity to discharge the Costa Rican Government's responsibility in the premises.

The President requests that he be given the assurance of the Department that the seamen will be permitted to be embarked in the Canal Zone for Japan since the men are [under?] the jurisdiction of the Costa Rican Courts and he must give this assurance to the court before he can issue a decree of expulsion and repatriation. With the Department's pledge that these seamen will be permitted to proceed to Japan when a Japanese boat is available the President will, I am sure, carry out the plan outlined in the telegram referred to above.

I feel that the Costa Rican Government has compromised itself with the German Minister not to turn over these men to the United States authorities for concentration and has promised that they will be deported to Japan (see my despatch No. 3143 of May 2nd, 1941¹³).

I shall see the President at 10 a. m., May 14, and should like to give him the Department's reply at that time. Urgently request telegraphic reply is therefore requested.

DWYRE

¹³ Not printed.

862.85/2059 : Telegram

The Secretary of State to the Chargé in Costa Rica (Dwyre)

WASHINGTON, May 16, 1941—11 a. m.

73. Your 95, May 13, 11 p. m. This Government will place no obstacle in the way of the seamen being permitted to embark in the Canal Zone for Japan by the first Japanese steamer calling in the Zone.

Cable immediately triple priority the decision of the Costa Rican Government and Department will cable further as to schedule of deportation steps.

HULL

862.85/2059 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, May 16, 1941—noon.

[Received 4:23 p. m.]

101. The substance of the Department's telegram No. 73 of May 16, 11 a. m. has been orally discussed with the Foreign Minister and at his request placed in a note which has now been delivered to him. He informs me that he will this afternoon reply in writing setting forth his understanding of the arrangement, the status of the seamen during their presence in the Canal Zone and their privilege to embark on the first available Japanese steamer. Upon receipt of his written understanding it will be communicated immediately to the Department for its comment and further instructions.

The Foreign Minister will this afternoon endeavor to obtain the approval of the German and Italian diplomatic representatives in order that the expenses involved may be covered by those Governments. In case of failure to obtain their approval, the Minister states the plan will have to be carried out at the expense of the Costa Rican Government.

DWYRE

862.85/2105 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, May 28, 1941—3 p. m.

[Received 7:50 p. m.]

124. In compliance with Department's telegram No. 87 of May 27, 6 p. m.¹⁵ I called on the President and made inquiry in the sense indicated. He informed me that he himself did not give any assurance to the German and Italian diplomatic representatives but that the Foreign Minister gave them the assurances of his Government that the

¹⁵ Not printed.

United States Government would place no obstacle in the way of the men being permitted to embark for Japan by the first available Japanese vessel calling in the Zone. He explained that the assurance given by the executive branch to the Axis diplomats was to avoid difficulties with the judicial branch of the Government because Costa Rica could not legally turn over these men to another Government.

President Calderón Guardia referred to the decree issued on May 20 which grants general amnesty to the crews under the condition that they abandon Costa Rican territory immediately and not remain in any neighboring republic through which they must pass en route to Japan, and that they defray their expenses for their return to their homelands.

The President added that of course if the German and/or the Italian Governments make no efforts to have the seamen embark for Japan within a reasonable time, either by Japanese vessel or by a ship of another nationality, the assurances given by the Costa Rican Government would naturally no longer be applicable.

I have no information as to what arrangements the Minister for Foreign Affairs may have made with the German and Italian diplomats concerning the steps to be taken by their Governments to have the men transported to Japan, but the decree of amnesty mentioned above would indicate that Italy and/or Germany agreed to have the seamen repatriated at the expense of their Governments and without cost to the Costa Rican Government.

DWYRE

862.85/2113 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, May 31, 1941—1 p. m.

[Received 4:26 p. m.]

128. Referring to my telegram No. 124 of May 28, 3 p. m. Luis Anderson called on me this morning and showed me a note received by the Minister for Foreign Affairs from the German Minister in Guatemala City, which had been given to Señor Anderson by Foreign Minister Echandi for study, comment and assistance in drafting a reply.

A free translation of the pertinent part of Minister Reinebeck's note is as follows:

"In the name of and by special orders of the Government of the Reich, I protest in every form and in the most emphatic manner against the expulsion of the German seamen. At the same time I have received instructions to make known to Your Excellency that the Government of the Reich shall hold the Costa Rican Government responsible for all the consequences arising from this act. In view of the attitude shown by the Government of Costa Rica in this matter

the Government of the Reich reserves, for the future, such action as might be opportune."

I am having luncheon with the Foreign Minister today and shall bring up the subject and endeavor to obtain his reaction.

DWYRE

862.85/2113 : Telegram

The Secretary of State to the Chargé in Costa Rica (Dwyre)

WASHINGTON, June 5, 1941—midnight.

96. Your 128, May 31, 1 p. m. You are instructed to state to the Minister for Foreign Affairs that in the opinion of the Department Costa Rica was within its legal rights in deporting the seamen in question and that careful consideration was given to the legality of every step taken both by Costa Rica and by the United States in this connection. You should add that in accordance with the position taken by the Costa Rican Government vis-à-vis the German and Italian Ministers the seamen were not only given the chance to depart on the first Japanese vessel calling in the Canal Zone but also when it was ascertained that such Japanese vessel would be unable to accommodate the seamen, arrangements were made for their transportation from the Canal Zone to San Francisco where they will be given another chance to sail on the first Japanese ship calling at that port. The seamen are at this moment en route from the Canal Zone to San Francisco.

Please make it clear that this Government will of course continue to support the position taken by the Government of Costa Rica in this matter.

HULL

862.85/2121 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, June 6, 1941—4 p. m.

[Received 10:17 p. m.]

135. Department's telegram number 96 dated June 5, midnight. I called on the Foreign Minister this morning to inform him of the contents of the Department's above-cited telegram. I found him with Anderson and was asked if Don Anderson might remain to discuss the matter, to which I consented.

Prior to my interview with the Minister for Foreign Affairs he had already spoken with the President on the subject. Also, the President had asked the Legation if it had any information concerning the transfer of the seamen from the Canal Zone, since it appears

that he had heard the news last night by radio from Panama and had read it in this morning's newspapers. At the time of the President's inquiry this morning the Department's message had not yet been completely decoded and he was informed that while the Legation had received a telegram from the Department on the subject, its contents were as yet not known. The President appeared worried and remarked that he was at a loss to know what to tell his critics and the Costa Rican courts.

Minister Echandi, after being informed of the contents of the Department's telegram, reviewed our negotiations leading up to the departure of the seamen for the Canal Zone. He stressed the fact that it was his understanding and the understanding of the Costa Rican Government that the seamen would be permitted to leave the Canal Zone under the terms set forth in the Department's number 73, May 16, 11 a. m. (see also the penultimate paragraph of my telegram No. 104 of May 17, 11 a. m.¹⁷) and that he had so promised the German and Italian diplomatic representatives. He added that he was on the verge of so informing the German Minister today in reply to the protest from that diplomat (see my telegram number 128, May 31, 1 p. m.) but that he is now unable to find a basis on which to refute the German Minister's allegations. (Text of the German protest was transmitted to Department under cover of my despatch No. 3266, June 4, 1941 ¹⁷.)

Señor Echandi feels that in view of the fact that his promise to the Axis diplomats, to the effect that the seamen would be permitted to leave the Canal Zone for Japan on the first Japanese vessel, has been broken by the transportation of the men from the Canal Zone on an American vessel bound for the United States, apparently without waiting for the arrival of a Japanese ship, his only alternative is to resign and take the blame for the Costa Rican Government's broken [promise?]. The Foreign Minister seemed much perturbed by the fact that the seamen were taken from the Canal Zone by the United States authorities without prior consultation with or advice to the Costa Rican Government.

I feel that the resignation of Foreign Minister Echandi might have other undesirable repercussions in the Costa Rican Government, and might, if he decided to justify his stand in the press, cause an unfavorable reaction toward the United States throughout Latin America.

This could be avoided in my opinion by a statement from the Department, which I might be authorized to communicate to the Costa Rican Government in writing and which it in turn might publish, to wit: (a)

¹⁷ Not printed.

that the crews were transported from the Canal Zone to San Francisco because the United States Government had reliable information to the effect that their stay in the Zone might be indefinite due to the non-availability of space on Japanese ships touching the Zone; (b) that these men are to remain in the United States under the surveillance of the American authorities and that the Government of the United States guarantees that their status while in the United States will be the same as it was while they were in the Canal Zone; (c) that they will be at liberty to take any ship whatsoever, individually or collectively, Japanese or otherwise, which is most desirable for them, to proceed to Japan within a reasonable period, say, 60 days.

I shall see the President this evening and will be in a position to give the Department his views in the matter tomorrow morning. In the meantime I respectfully recommend that the Department give favorable consideration to the above proposed statement and advise me by triple priority telegram of its decision.

DWYRE

862.85/2121 : Telegram

The Secretary of State to the Chargé in Costa Rica (Dwyre)

WASHINGTON, June 7, 1941—7 p. m.

98. Referring to your 135, June 6, 4 p. m. and confirming Mr. Bonsal's¹⁸ telephone conversation with you of June 7. The assurances given to the German and Italian diplomatic representatives by the Foreign Minister (as reported in your 124, May 28, 3 p. m.) have been complied with. The American Government has not placed obstacles in the way of the seamen being permitted to embark in the Canal Zone for Japan by the first Japanese steamer calling in the Zone. However, as the American Government was reliably informed that due to the non-availability of space on Japanese ships calling in the Zone their stay there might be indefinitely prolonged, the seamen are being transported from the Canal Zone to San Francisco; while en route and in the United States, the seamen will remain under the surveillance of the American authorities in the same manner as when they were in the Canal Zone, and they will be given the opportunity to sail from San Francisco for Japan. The German Embassy in Washington has been so informed.

You are authorized to communicate the foregoing (with the exception of the above reference in parentheses to your telegram) to the Costa Rican Government in writing and you should orally inform it that it is at liberty to publish your note.

¹⁸ Philip W. Bonsal, Chief of the Division of the American Republics.

You may state orally to the Foreign Minister that the Government of the United States has assisted the Government of Costa Rica in fulfilling its desire to deport these seamen and repeat that the promises of the Foreign Minister as reported by you have not been broken.

HULL

862.85/2126 : Telegram

The Chargé in Costa Rica (Dwyre) to the Secretary of State

SAN JOSÉ, June 9, 1941—5 p. m.

[Received 9:20 p. m.]

139. Referring to Department's telegram No. 98, June 7, 7 p. m., immediately after my conversation with Mr. Bonsal I visited the Foreign Minister and handed him the text of the Department's statement as read to me by Mr. Bonsal and confirmed in the second paragraph of the telegram cited above.

Minister Echandi seemed satisfied but after discussing the matter with him he did not fully express his reaction. At that time I requested another interview with him today, after which I am pleased to advise the Department that the Minister for Foreign Affairs expressed himself as entirely satisfied and appreciative of the Department's cooperation which has removed entirely the possibility of his resignation.

He stated his intention of calling this evening on the German and Italian diplomatic representatives here and informing them that the procedure followed does not violate his promise to them, and that he will answer the German Minister's note of protest in a manner to terminate the incident.

The Foreign Minister also stated his intention of informing the Axis diplomats that so far as Costa Rica is concerned, the Italian and German Governments will have to embark the seamen from San Francisco within a reasonable length of time to be determined—not yet decided but thought to be about 30 days—after which Costa Rica's responsibility in their welfare will cease.

He stated that he expects the publication of the text of my note containing the Department's declaration in tomorrow's San José newspapers.

DWYRE

AGREEMENT BETWEEN THE UNITED STATES AND COSTA RICA RESPECTING A MILITARY MISSION, SIGNED JULY 14, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 212, or 55 Stat. (pt. 2) 1286.]

**AGREEMENT BETWEEN THE UNITED STATES AND COSTA RICA RE-
SPECTING COOPERATIVE RUBBER INVESTIGATIONS IN COSTA
RICA**

[For text of agreement effected by exchange of notes signed April 19 and June 16, 1941, effective June 16, 1941, and additional note signed June 18, 1941, see Department of State Executive Agreement Series No. 222, or 55 Stat. (pt. 2) 1368.]

CUBA

DISCUSSION BETWEEN THE UNITED STATES AND CUBA REGARDING CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

837.20/173

*The Ambassador in Cuba (Messersmith) to the Under Secretary
of State (Welles)*

HABANA, May 20, 1941.

DEAR SUMNER: You will recall that while I was home recently, I brought to the attention of the Department orally the interest which the Cuban Government, through Dr. Cortina,² had expressed to me in establishing some closer relationship with the United States in matters of defense. This took the concrete form of indicating that the Cuban Government would be prepared to receive a military mission from the United States composed of three high-ranking officers, and the natural assumption is that one of these should be from the Army, one from the Navy, and the third man one more particularly interested in aviation. The other concrete idea advanced was that Cuba was prepared to enter into a complete arrangement for defense between the United States and Cuba which could take the form of a military alliance.

So far as the military mission is concerned, you said that you felt that our Government would be prepared to send such a mission whenever the Cuban Government asked for it. The President,³ Dr. Cortina, and I have been so occupied in our conversations since my return over matters connected with the financing that, I am glad to say, this question of the military mission and the military alliance have not been raised. I feel that the military mission and the military alliance are in some respects bound up with each other, although not absolutely so. I can see that we could send a military mission here at the request of the Cubans without necessarily the matter of a military alliance being under discussion.

On the other hand, I am not sufficiently clear as to what such a mission could do, or what the Cubans would expect it to do, to feel that I am able to talk about the matter with that precision which I

¹ For previous correspondence on consultations between the United States and Cuba regarding defense measures, see *Foreign Relations*, 1940, vol. v, pp. 94-100.

² José Manuel Cortina, Cuban Minister of State.

³ Fulgencio Batista.

should be able to use when the Cubans approach me again. I think the only attitude I can take when this comes up is to say we are in principle prepared to send such a mission if the Cubans desire it, but that it might be well to explore, before the Cubans make a formal request, what the mission would do and what the Cubans have in mind. It would be well for this purpose, too, for me to know what our own Army and Navy have in mind as to what the mission could do.

I am sure that what the Cuban Government had in mind in raising this question of a mission was that they felt that the psychological effect in Cuba would be good, and that it would be responsive to Cuban public opinion, and give Cuba the feeling that she was beginning to participate in defense matters—in other words I think that what they had in mind was the psychological effect in Cuba and the satisfaction which would be felt here over the presence of a military mission. I do not believe, however, that they have thought this thing through and it might be undesirable to have a mission here with all the attendant publicity without it being clear that there is something for these men to do, and something that they can do.

When the President or Dr. Cortina raise the matter of the mission with me, I will endeavor to explore their ideas further. If in the meantime, and without much delay, our own people at home could give me an idea, through the Department, as to what in their opinion such a mission could do. It would be very helpful to me here.

With respect to the military alliance, I find myself in a still more difficult position to discuss this adequately with the President and with Dr. Cortina if they raise the question again—which they have not done since my return. There is no question but what the Government of Cuba, from the President down, and the overwhelming majority of the Cuban people, feel that their interests in the present struggle going on in the world are identic with ours. It is interesting that there is such general comprehension of the situation throughout the whole Island and among all classes. It may safely be said that outside of the Communist group, and outside of the more ignorant part of the Spanish element in Cuba, there is almost complete understanding of the international problem and its implications for us and Cuba. A good part of the Spanish group, in spite of the sentimental attachment to Spain, realizes that a German victory in Europe would be to their disadvantage—even though this Hemisphere for the present were not attacked. There is a desire on the part of the Cubans to do something and to feel that they are doing something. The Government knows that its whole future is bound up with us, and, even those in the Government who may not love us very much, are for such a military alliance. In other words, the idea of a military alliance with the United States is popular and there are the beginnings of a popular demand here for it.

The question of a military mission, as far as I know, has only been raised in this informal way by the Cuban Government with us. The question of a military alliance, however, is one which is being raised increasingly in the press, in patriotic organizations throughout the Island and increasingly discussed by thoughtful Cubans. In the Senate and in the House of Representatives there is much discussion of this and a bill has been presented, or is about to be presented in the Congress, authorizing the Government to enter into such a military alliance. I am convinced that this initiative does not come from the Government. In other words I am sure that the President and his Cabinet are not stimulating or initiating in any way such legislation at this time. I do not believe that they have even encouraged the discussion of a military alliance in the Congress. The President and Cortina and Saladrigas⁴ and others realize that this is a matter first for discussion between the two Governments. . . .

When I raised this question at home, you indicated to me that it would be desirable for the present to try to keep this matter of a military alliance in the background, and I gathered that there were reasons of general policy for this. Unfortunately we were not able to discuss this because of the pressures at the moment, and I was not able to learn what some of these reasons of general policy might be. I have given this matter very careful thought and I can appreciate, without knowing them, that there may be such considerations of general policy which may make undesirable our entering into a military alliance with Cuba at this moment. Fortunately I have not been required to discuss this matter further with the Cubans since my return, but it is a matter which is bound to come up very shortly. I feel myself unable to adequately handle the situation on the basis of the information I have.

The situation is that the Cuban Government is prepared to enter into a far-reaching military alliance with us for an indefinite period. The Cuban people undoubtedly would wholeheartedly be behind such an alliance and would welcome it. Popular opinion, which may find its expression in an act of the Cuban Congress shortly, is making itself felt. Under these circumstances, for us to discourage the Cubans is exceedingly difficult, for it may give rise to all sorts of unfortunate misunderstandings in the Cuban Government and among the Cuban people. We are approaching the position where something very important is being offered to us on a platter and where our refusal or discouragement may be most unfortunate.

I think we must keep in mind that what the Cubans seem to be prepared to offer us now is something which a few months hence we may be asking for. For us to be in the position of having refused now, or

⁴ Carlos Saladrigas, Cuban Prime Minister.

having shown lack of interest in, would of course not be good nor helpful. As a matter of fact, while I am not familiar with what we may have in mind in connection with this matter, I am wondering whether we must not be prepared to go ahead in spite of what these considerations may be.

What I have thought it important the Department should know, is that this question of a military alliance is something in which popular opinion and opinion in the Cuban Congress has gone even farther and has expressed itself more concretely than has the Cuban Government in this altogether informal exploratory approach it has made with us.

It is obvious that the pressure of popular opinion and the action of the Congress may push the Cuban Government forward in this matter even though the Government would wish to keep this in the background for the present on its own initiative, or at our desire. I think I should tell you that I see a position approaching very rapidly in which this matter will be raised rather definitely, and if it is, I think there is only one answer that we can make—and that is to go ahead with the most complete military alliance.

I should add, too, that I believe that the Cuban Government has been acting in complete good faith in this exploratory approach. Cortina is an intelligent man who has a very thorough comprehension of what is going on in the world. He has increasingly the ear and the confidence of the President who places great value on his counsel. It is therefore interesting that Cortina has approached this question of a military alliance with the idea that it is all the more desirable that such an alliance be completed between the United States and Cuba as soon as possible, as it will not only consolidate a situation which must exist in the interests of the two countries, but that between Cuba and the United States it will be possible to make an alliance or arrangement of so broad and definite a character that it will serve as a model for similar arrangements which we may make with others of the American Republics. In other words, he sincerely believes, in my opinion, that by entering into such an alliance Cuba is not only doing the proper thing so far as Cuba and the United States is concerned, but that she is playing a helpful role in promoting the defense arrangements in the Americas and helping us in the great task before us. I know that Cortina has acquired a great deal of authority with his colleagues and his views, therefore, in this particular matter carry great weight.

We have therefore a situation with respect to these matters of cooperation and defense which could not be better. I think you will agree that we must not cast away any opportunity now which we may be seeking later, and will have made our task more difficult by the discouraging attitude which we have taken. This matter is giving me a good deal of preoccupation for I see the time coming when

such an alliance will be of vital importance to us, unless we should simply wish to occupy Cuba. You have a so much broader picture than I have, and I regret that I did not have an opportunity to explore this position with the Secretary and you while I was home. I have written you at this length because I believe this question is of primary importance in our whole inter-American problem, but I feel that I am lacking in adequate information to take care of this particular situation without discouraging our Cuban friends and without giving rise to misapprehensions and misunderstandings. I would be very happy if you could give me your thoughts on this matter in the very near future. Needless to say, the question of a military mission is settled as soon as we reach any decision on the question of military alliance, for if a military alliance is in prospect then a mission should come without delay.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

837.2311/80

The Cuban Ambassador (Conchoso) to the Secretary of State

[Translation]

No. 575

WASHINGTON, May 26, 1941.

EXCELLENCY: In its note of June 13, 1940,⁶ this Embassy addressed Your Excellency and requested, in the name of its Government, the extension for another year of the reciprocal privilege for the military and naval aircraft of Cuba to fly over the territory of the United States and for the military and naval aircraft of the United States to fly over Cuban territory, in both cases without there being need of prior authorization, although each Government advises the other of the flights that are to be effected. Your Excellency was good enough to advise, in a note of June 18, 1940,⁶ that the Government of the United States acceded to the request with pleasure, also that, if it was satisfactory to the Government of Cuba, the note of this Embassy and Your Excellency's reply would be considered sufficient for renewal, for the year ending on June 30, 1941, which proposal was accepted.

The said period being about to expire, I have the honor to address Your Excellency, in the name of my Government, to request that the agreement previously referred to be extended for another year, if Your Excellency's Government has no objection thereto.

I avail myself [etc.]

AURELIO F. CONCHOSO

⁶ Not printed.

837.2311/80

The Secretary of State to the Cuban Ambassador (Concheso)

WASHINGTON, June 12, 1941.

EXCELLENCY: I have the honor to acknowledge the receipt of your note 575 dated May 26, 1941, requesting in the name of your Government that the blanket arrangement between the United States and Cuba, under the terms of which service aircraft, including lighter-than-air craft, of either country are permitted, under certain conditions, to fly over and, if necessary, to land in the territory of the other, be renewed for the year ending June 30, 1942.

I have the honor to inform you, in response, that the Government of the United States gladly accedes to your Excellency's request. It is accordingly suggested, if agreeable to the Government of Cuba, that your Excellency's note under acknowledgment, together with this reply, be considered as effecting a renewal of the arrangement in question for the year ending June 30, 1942.

Accept [etc.]

For the Secretary of State:
A. A. BERLE, JR.

837.20/173

The Under Secretary of State (Welles) to the Ambassador in Cuba (Messersmith)

WASHINGTON, June 16, 1941.

DEAR GEORGE: I have received your interesting air mail letters of May 20 and 21, 1941,⁷ wherein you comment on the possibility of a military alliance between the United States and Cuba. You also discuss the purpose of the proposed military and naval mission to Cuba.

I understand your misgivings that any efforts made indirectly by President Batista or his Government to suppress talk about an alliance might be misconstrued. I am of the opinion, however, that an alliance of this nature would not materially assist in advancing the defense arrangements of this Hemisphere; on the contrary, in some countries such a move might readily be misunderstood. I still believe, therefore, that this matter should be kept in the background. In view of Dr. Saladrigas' remarks, mentioned in your air mail despatch no. 2061 of May 23,⁸ and of the adjournment of the Cuban Congress, this may not be as difficult as was anticipated.

With regard to the possibility of our furnishing Cuba with a military or naval mission, or both, I agree with the suggestion made in your despatch no. 2132 dated June 5, 1941,⁸ that for the present no action is

⁷ Letter of May 21 not printed.

⁸ Not printed.

necessary and that we should await the action of the Cuban Government before doing anything further.

As to what the duties of the members of these missions would be, that would seem to me to be a matter principally for determination by the Cuban military and naval authorities. The assistance of our military and naval attachés in Cuba in this regard might be of considerable value. In several cases the War Department has sent an officer, at the request of the American republic concerned, to investigate the needs of that country with a view to choosing the personnel of a military or aviation mission. I am told that, were Cuba to request such a preliminary survey, the War Department would be prepared to send a qualified officer to Cuba to carry it out.

Sincerely yours,

SUMNER WELLES

837.20/174

*The Acting Chief of the Division of the American Republics (Bonsal)
to the Ambassador in Cuba (Messersmith)*

WASHINGTON, June 16, 1941.

DEAR MR. AMBASSADOR: I have your letter of June 5, 1941,⁹ with which was enclosed a copy of your letter of the same date to Mr. Welles,⁹ and of your despatch no. 2132⁹ concerning a United States service mission for Cuba and your failure to this date to receive any word from the Navy Department on the supplementary zone around the Guantánamo Naval Station.

I concur with your suggestion in the last paragraph of despatch no. 2132 to the effect that action on the mission may be deferred until the Cuban Government again takes the initiative.

In addition to the suggestions relative to the scope of a mission that might be made by the Cuban authorities, suggestions should be expected from your military and naval attachés as to proper functions. The nature of the training required in Cuba in conjunction with the military material to be furnished under the Lend-Lease program should have an important bearing on your attaché's suggestions.

Orme Wilson¹⁰ informs me that Captain Weyler of the Naval Station at Guantánamo is now in Washington. Mr. Wilson has received word from Navy that the matter of the zone is under consideration by Captain Weyler, Captain Schuirmann and Captain McGuire, and that something definite will be ready by June 17. Should this be the case, I will be glad to communicate with you further in this regard.

With cordial regards,

Sincerely yours,

P[HILIP] W B[ONSAL]

⁹ Not printed.

¹⁰ Liaison Officer of the Department of State, attached to the Office of the Under Secretary of State.

810.20 Defense/883

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

No. 2209

HABANA, June 19, 1941.

[Received June 21.]

SIR: I have the honor to bring to the attention of the Department a matter which I believe is worthy of immediate and serious consideration.

On June 13th during a brief conversation with President Batista in the Palace, he said that he was greatly impressed by the necessities for more active cooperation between Cuba and the United States in the matter of the defense of the United States, of Cuba and of the American Republics. He saw the war coming closer and it seemed almost inevitable that the United States would take an active part in the war. In that case Cuba would, because of her principles, because of her friendship with the United States and because of her definite adherence to the policy of inter-American defense, be in the war immediately after we were. There were many things, President Batista said, which he would like to do without delay in order to increase the power of Cuba to cooperate in a military and naval way.

I knew what the difficulties in the way of the Cuban government were. It was having serious difficulties in meeting its ordinary budgetary expenditures. To endeavor to reduce these budgetary expenditures in any appreciable manner would accentuate an economic situation in Cuba which was already difficult and he could do nothing to interfere with economic stability which was so important to insure political stability. Out of its available resources and current revenues, the Cuban government was not able to undertake defense measures nor to acquire defense material.

In this connection the President of Cuba referred to the cooperation which our government was offering under the lease-lend bill¹¹ in the proposed delivery up to a certain amount of military and naval equipment for the use of the Cuban Army and Navy.¹² When such deliveries could be made, he said it would be possible to increase the efficiency of the Cuban Army and Navy.

Completely aside from this, however, he felt there were other things which Cuba should do without delay. It was not in a position to do them without our active cooperation and assistance. He was hoping to take up these matters with us in a broad way as soon as possible, and was preparing appropriate data for our consideration. He did not wish to raise at this time this general question, but he did wish to raise particularly the question of the establishment of several air fields in Cuba. He believed this to be a measure of immediate

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

¹² See pp. 116 ff.

necessity for Cuba and for ourselves. This would involve certain expenditures which the Cuban government could not meet out of current revenues or available funds, and he asked me whether I would take up this matter with Mr. Warren Pierson, President of the Export-Import Bank, while he was in Habana in order to determine whether any of the funds under the \$25,000,000 credit for public works and agricultural diversification projects¹³ could be used for this purpose, or whether in some other way additional funds could be made available by the Bank or by our government for the construction of such air fields. I told President Batista I would discuss this matter with Mr. Pierson.

I talked this matter over with Mr. Pierson and he agreed as to the desirability of more active measures being taken by Cuba in the defense problem. Mr. Pierson expressed doubt as to whether funds out of the \$25,000,000 credit should be used, or could be used, for this purpose. He believed it would be more desirable to explore the possibility of funds being made available to the Cuban government for this purpose by our government in some other manner. This question arose briefly during a meeting on the afternoon of June 13th between Mr. Pierson and myself and the members of the Cuban Cabinet Committee considering the details in connection with the \$25,000,000 credit. The members of the Cabinet Committee were of the opinion that it would be desirable to seek this assistance from our government for the air fields outside of the \$25,000,000 credit.

During a long conversation with President Batista yesterday afternoon, during which we discussed various matters connected with the defense program as well as other subjects, he again raised in more detail and in the same vein this question of the air fields. He said that if the United States and Cuba got into the war there would be two major ways in which Cuba would figure in the defense problem. The first and most important would be in the use of Cuban soil by American troops, of Cuban ports by American ships, and of Cuban air fields by American air forces; the second would be by patrol of Cuban waters by American or Cuban naval vessels. Of these, he considered that the immediate matter requiring consideration was all possible cooperation between Cuba and the United States in matters which affected aerial warfare and defense. Cuba now had no planes to speak of, and the number at her disposal in the future would remain limited. She was training pilots as rapidly as possible. The major thing Cuba could do in this respect was to provide a base for our air forces. This meant air fields which, while ostensibly built for Cuba, would really be intended for our use. As it took some time to build these fields, we should not wait until war was actually

¹³ See pp. 156 ff.

declared to go ahead because there was no telling when they would be needed.

The President expressed the opinion that it would not be desirable to try to enlarge the present air field at Camp Columbia. It was too much in the city and the cost of enlarging it would be too great. To establish a large air field there would be unduly exposing the city of Habana to attack. The commercial air field at Rancho Boyeros was being expanded by the Pan American, but it was also in many respects too close to the city, although the improvements being made there by the Pan American would make it useful from a military point of view. The Pan American was also expanding its field at Camagüey. It was his thought that there should be at least two additional fields, one between Habana and Piñar del Rio and one between Santa Clara and Camagüey. In his opinion these fields should be quite large and should be able to accommodate a minimum of 500 planes. There should be provision for some aërodromes and repair facilities at these two fields. It might be desirable also to consider the establishment of an emergency landing field at some point in the province of Oriente.

President Batista said that the Cuban government was prepared to go ahead and expropriate the land for such fields and to construct them. He had no definite idea what the cost would be, but he believed the total cost might run to two or three million dollars. While the fields would ostensibly be erected by the Cuban government, they would, of course, be primarily intended for the use of our planes as it was quite obvious that Cuba of her own, or even with our assistance, could not have the planes making necessary such fields. The air fields, however, should be necessary as a part of our defense scheme and as a part of the defense scheme of the other American republics. They would serve not only as the defense of Cuba and of the United States but as bases of operations for our own air fleet and for operations further south.

The President of Cuba emphasized that the Cuban government was not so much interested in the building of these air fields for any immediate purposes of its own or because these air fields would be built on Cuban territory and remain after the present war. The Cuban government, he said, was interested because it was of the opinion we would need such air bases in Cuba and it was, unfortunately, one of the few ways in which Cuba could actively cooperate at this time. He again emphasized what he believed to be the importance of not delaying the beginning of the construction of these fields.

Naturally, I am not able to pass any judgment upon where these fields should be located. I am of the opinion that the additional facilities are of extreme importance. I am sure that the Cuban govern-

ment would be willing to cooperate with us in the most complete manner in the construction thereof. These fields cannot be constructed without the financial assistance of our government. The actual selection of the sites would, I believe, have to be determined by our own people. The actual construction of the fields from certain technical points of view would have to be directed by us. There are, I believe, two immediate matters for our consideration in this connection. The first is whether the appropriate funds are available to our government to extend to the Cuban government the financial assistance for the building of the fields; the second is the determination of the sites. The question of the necessity of the fields, I think, does not require consideration, as that seems to be clearly established if one views the situation realistically.

It may be possible that funds for this purpose can be made available through the Export-Import Bank; it may be possible to do so under the Lease-Lend bill; it may be possible to do so through other funds at the disposal of the President. In view of the financial situation of the Cuban government, the nature of the projects and the fact that they are purely of defense nature, this would, I believe, influence our government in determining whether this obligation by the Cuban government is a reimbursable one. I believe under no circumstances should interest be received for any funds which may be advanced to the Cuban government for this purpose.

The first step after appropriate decisions of a major character have been taken would be for competent officials of our government to proceed to Habana for the purpose of determining where the fields should be built and what sum may be necessary for this purpose.

In view of the fact that this matter was discussed with Mr. Warren Pierson, President of the Export-Import Bank, during his stay in Habana, I would respectfully suggest that the Department may wish to make a copy of this despatch available to him for his confidential background—particularly as it is my understanding that he intends to discuss the matter at my request with the Under Secretary, Mr. Welles.

Respectfully yours,

GEORGE S. MESSERSMITH

810.20 Defense/1022

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

No. 2293

HABANA, July 2, 1941.

[Received July 3.]

SIR: I have the honor to acknowledge the receipt of the Department's strictly confidential instruction no. 736, of June 21, 1941,¹⁴ with regard to the secret contract between the War Department and Pan American

¹⁴ Not printed.

Airways for the improvement of airport and seaplane base facilities in the various countries of the Western Hemisphere.

I have had some knowledge of the nature of these arrangements and I have collaborated with the Pan American Airways in such ways as may have been possible and proper in the work which they are carrying through in Cuba under this arrangement.

The Camagüey Field is the only one in Cuba which is affected by the arrangements between the Pan American Airways and the War Department. The Pan American Airways will also improve their field at Rancho Boyeros, near Habana, but it is my understanding that the work which the Pan American Airways is doing at Rancho Boyeros does not fall within the scope of the agreement under reference.

When the Pan American Airways first started the development of its field at Camagüey under this arrangement with the War Department, the attorney in Cuba for Pan American Airways, Dr. Mario Lazo, got in touch with me. Since that time this Embassy has collaborated with Dr. Lazo in every possible and proper way in facilitating the arrangements for the development of the Camagüey Field. I have discussed the matter in confidence with the President of Cuba, the Minister of State and the Minister of Defense on several occasions, and so far as I am aware, the Pan American Airways and the attorney here, Dr. Lazo, have been more than satisfied with the cooperation which they have received from the Cuban government.

I doubt, therefore, whether the Department's instruction no. 736, under reference, has any application so far as the Pan American Airways having encountered difficulties in negotiations with the government of Cuba in this matter. I shall continue to give to the Pan American Airways such collaboration in this matter as it may be feasible and proper to give.

Respectfully yours,

GEORGE S. MESSERSMITH

810.20 Defense/883

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

HABANA, July 7, 1941.

[Received July 8.]

DEAR SUMNER: I have your letter of June 30th in reply to mine of June 20th ¹⁵ referring to my despatch No. 2209 of June 19, 1941, with respect to the desires expressed by President Batista for the building of several airfields in Cuba. I appreciate very much the attention

¹⁵ Neither printed.

which you have given this matter and note you will be discussing it with General Marshall¹⁶ and Admiral Stark.¹⁷

The more I ponder over this matter of the airfields, the more I am impressed with the necessity of our doing something about it without delay. I think the Cuban Government will not be able to make any financial contribution, as the financial situation in the Government is so difficult that I do not see how they can make any worthwhile contribution. My own feeling is that if we have to bear the whole cost ourselves and even though the fields remain the property of the Cuban Government, we should go ahead with the matter without delay. The Cuban Government will, I am sure, be able to expropriate the land at reasonable cost so that the actual acquisition of the land by the Cuban Government should represent no considerable amount. The places at which the fields should be constructed and the technical details are matters on which I can offer no comment as I do not have adequate competence. I do believe that the erection of the fields without delay is necessary—and this aside from what we are doing to help the Pan American with a field at Camagüey.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

837.20/174

*The Under Secretary of State (Welles) to the Ambassador in Cuba
(Messersmith)*

WASHINGTON, July 14, 1941.

DEAR GEORGE: Upon receipt of your letter of June 5,¹⁸ the attention of the War and Navy Departments was again called to the possibility of sending a joint military-naval mission to Cuba. The Navy Department has just replied that it will not object to such a mission and concurs in your recommendation that, prior to taking any further action, the Cuban Government's views should be obtained in order to determine the scope of the activities and the functions to be performed by the mission.

The War Department also expresses its agreement with your recommendation and has voiced no objection in principle to the plan. I think that we can properly assume, therefore, that if the question of establishing such a mission should be proposed again by the Cubans, you can give consideration to the matter in the knowledge that such a suggestion will not be opposed by the military or naval authorities in Washington.

Believe me [etc.]

SUMNER WELLES

¹⁶ Gen. George C. Marshall, Chief of Staff.

¹⁷ Adm. Harold R. Stark, Chief of Naval Operations.

¹⁸ Not printed.

811.34537/323

*Memorandum of Conversations, by the Assistant Chief of the Division
of the American Republics (Walmsley)*

[WASHINGTON,] July 14, 1941.

Captain Schuirmann met with Messrs. Wilson of U-L¹⁹ and Bonsal and Walmsley of RA²⁰ on July 7 and 10. He discussed a draft agreement between Cuba and the United States for the extension of the area around the Guantánamo Naval Station concession desired by the Navy Department for defense purposes. Mr. Bonsal took some pains to explain to Captain Schuirmann the principles, to which the Department attaches great importance, which we wished to proceed upon in drafting the Guantánamo extension agreement. The cooperative spirit of the Cubans might make it easier for us to obtain the type of agreement from Cuba in which the Navy is granted a great many powers, but such an agreement might well arouse suspicions, doubts and misgivings in other countries, such as Mexico, where we are anxious to have defense facilities established for Hemisphere defense on a joint basis. The principle of leased areas over which the United States forces exercise unquestioned jurisdiction could not be applied to other countries of the Hemisphere and, in fact, in Cuba, while in practice we might obtain greater jurisdictional powers than elsewhere, the constitution itself prohibits further alienation of jurisdiction over Cuban territory. For these reasons, the Department felt that the Navy Department's draft agreement, contained in Acting Secretary Forrestal's letter of June 17,²¹ would not be satisfactory, especially in the light of the program for other countries.

Captain Schuirmann, who appeared to understand the Department's viewpoint perfectly, nevertheless let it be understood that there are others in the Navy Department who, if they are unable to obtain jurisdiction over defense facilities abroad on an exclusive basis, are ready to abandon the Guantánamo extension project in favor of Jamaica. Captain Schuirmann added that some elements of the Navy Department felt that the conditions under which we are establishing bases in British territories where we do not question British sovereignty are a strong argument in favor of similar arrangements in the American republics, including Cuba. Mr. Bonsal questioned the parallelism between the bases in British territories and those in the American republics. In concluding the July 7 meeting, Captain Schuirmann referred to Navy's legal handicap in spending money on land which is not under its jurisdiction.

¹⁹ Office of the Under Secretary of State—Liaison.

²⁰ Division of the American Republics.

²¹ Not printed.

It was agreed at the July 7 meeting that Mr. Walmsley would prepare a draft incorporating the Department's views for discussion on July 10.

Rough copies of the Department's proposed agreement were distributed on July 10 to those present and to LE.²² The question of the Navy's legal handicap in spending money on defense installations on land not under its jurisdiction was brought up. The question was that as the installations in the extended Guantánamo area would be made under specific appropriations, a suitable provision could be included in the appropriation bill to take care of the legal handicap.

Captain Schuirmann, with regard to the matter of jurisdiction, emphasized that it was essential that United States forces be permitted to guard and patrol the installations it builds or establishes. It was suggested that this could be taken care of without raising the question of jurisdiction by assigning specific functions to the United States and Cuban forces in the area under a joint board which is provided for in the Department's draft agreement. Captain Schuirmann agreed to pass copies of the draft around the Navy Department but threw out the hint again that it might be difficult to convince the Navy Department that the cooperative principle was workable or desirable and that the possibility of abandoning the Guantánamo extension in favor of Jamaica had by no means been dissipated. In this connection the Department's view was made clear that even though the Navy Department might never decide to carry through the Guantánamo extension project, a cooperative defense agreement with the Cubans is nevertheless essential for its effect on United States relations with Cuba and the other American republics. Such an agreement, even though no action were taken under it, would give the Cubans a sense of participation in Hemisphere defense.

811.34537/335

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

No. 793

WASHINGTON, July 25, 1941.

SIR: With reference to the proposed establishment of a complementary joint military zone adjacent to the United States Naval Station at Guantánamo, there is transmitted for your confidential information only, pending notification of the views of the Navy Department, a copy of a draft agreement²³ which embodies the principles which the Department considers essential to the success of cooperative hemisphere defense measures of this kind.

²² Office of the Legal Adviser.

²³ Not printed.

These principles are for your convenience summarized below :

1. The establishment by the Cuban Government of a joint defense area.
2. The formation of a board composed of Cuban and United States officers to administer defense activities in the area.
3. A pledge by the Cuban Government to acquire by condemnation or lease the lands which may be necessary for defense purposes within the area.
4. A commitment by the United States to reimburse the Cuban Government for all reasonable expenses incurred by the Cuban Government in connection with lands occupied by United States defense installations approved by the joint board.
5. Provisions designed to give the United States the necessary police powers to protect its installations. So far as possible policing should be on a cooperative basis.
6. The term of the agreement might be for ten years or for the duration of the jointly recognized emergency.

It has been the Department's purpose in drafting the proposed agreement to avoid such undesirable features as lease provisions, sole United States jurisdiction, alienation of foreign territorial sovereignty, and the like. It is hoped that this type of agreement may serve as a model for any similar agreements with any other American republics which the requirements of continental defense may necessitate.

Very truly yours,

SUMNER WELLES

837.20/195

The Ambassador in Cuba (Messersmith) to the Under Secretary of State (Welles)

HABANA, December 17, 1941.

[Received December 19.]

DEAR SUMNER: You will not have time to read the appended despatch,²⁴ but you will wish someone to give you the gist of it without delay. To this end, I am sending a copy to Orme Wilson and to Walmsley.

The Cubans declared war on Japan, Germany and Italy without fear and without reserves, but naturally they realize they have opened themselves to attack more than if they had remained quiescent or had merely broken relations. There is, of course, the possibility of attack. The Government realizes the need of some action. I have explained their attitude, which is very good, in the appended despatch. The best way of meeting the situation will be by sending a mission here composed of an Army, Navy, and Marine Corps officer. For many reasons, this should be done without delay. I am sure our people in the Army,

²⁴ No. 3136, December 17, 1941, not printed.

Navy and Marine Corps will be prepared to do this. Whether the Cubans will ask us to do it through Concheso, or through me, we will know in a day or two. I suggested to Cortina that in some ways it would be better for them to ask Concheso to take it up with us at home. The purpose of the appended despatch is to give the adequate background and my own suggestions and observations for such help as they may be. My own hope is that the mission will be on its way within ten days and the sooner the better, I believe.

With all good wishes,

Cordially and faithfully yours,

GEORGE S. MESSERSMITH

811.34537/335

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

No. 1131

WASHINGTON, December 24, 1941.

SIR: Reference is made to the Department's instruction No. 793 of July 25, 1941 forwarding a draft agreement for the proposed Guantánamo extension and to your despatch no. 2919 of November 12²⁵ returning Draft F consisting of the Cuban counter-proposal which would establish "A Cuban military zone for joint defense" adjacent to the present United States Naval Station at Guantánamo.

There is now enclosed what may be designated as Draft H.²⁶ This draft has been developed from the Cuban draft by a representative of the Navy Department and officers of the several Divisions of the Department concerned, including the Legal Adviser, the Liaison Officer, the Division of the American Republics and the Treaty Division. The translation from the Spanish of Draft F apparently resulted in inconsistencies in the English versions of Drafts D and F. These have been corrected and the phraseology usual in such agreements has been formalized.

You may find the accompanying memorandum of December 19 from the Treaty Division²⁷ of some use in understanding the reasons for formalizing and increasing the precision of the English draft. The following additional observations may also be of interest.

1. It appears to the Department that the fact of mentioning in the first paragraph of Article I of the Cuban Draft G that the zone will be "commanded, occupied and administered by the armed forces of the Republic of Cuba" et cetera, creates a doubt as to sovereignty. It should be taken for granted that the zone is Cuban, as clearly indicated by the title and that it will be so commanded, et cetera, by Cuban forces.

²⁵ Despatch not printed.

²⁶ Not printed.

²⁷ Not found in Department files.

2. The more general language of Article II of Draft H as to the powers of the Joint Commission, as compared with the text in Draft F appears to both the Navy Department and this Department to be far preferable. The English translation of this portion of Draft F has been thoroughly overhauled for clarity without, in the Department's opinion, affecting its intent.

3. With regard to the insertion in Article VII of the clause "who may be hired locally", the Navy Department points out that the engagement of certain skilled workmen and foremen in the United States for temporary employment in connection, for example, with installations of delicate apparatus, should be retained within the Navy's jurisdiction. The Department sees no reason for objection to this clause.

4. The Navy Department in connection with the second sentence of Article VIII of Draft F feels that for it to obligate itself to install "the instrumentalities which may be indispensable" is an invitation to misunderstanding or misinterpretation. The reservation of the right to make such installations as now provided in the second sentence appears to obviate this danger. In the next paragraph the Navy Department has considered it advisable to insert the word "remaining", which would permit the replacement of equipment during the life of the agreement, the removal of equipment to other zones of action as military necessities may dictate, and would yet assure that property of the United States Government in the zone upon termination of the agreement would become Cuban property as desired by the Cuban Government.

You are authorized to sign the agreement on the basis of the attached draft if it meets with the approval of the Cuban Government. The Navy Department concurs.

While there is no need for you to submit to the Department for final approval the Spanish version of this agreement, you are requested to satisfy yourself of the accuracy of the Spanish text. Any minor modifications desired by the Cuban Government in the English text should however be cleared by telegraph with the Department.

Yours very truly,

For the Secretary of State:

SUMNER WELLES

810.20 Defense/1781

Memorandum by the Liaison Officer of the Department of State (Wilson) to the Representative of the War Plans Division of the War Department (Barber)

[Extract]

[WASHINGTON,] December 30, 1941.

The American Ambassador to Cuba telephoned the other day to state that the Cuban Government had informed him that it agreed in prin-

ciple to according to the United States the privileges requested by the War Department. In view of this, Ambassador Messersmith has stated that your Department could proceed with the necessary plans, and he requested that the Embassy be advised in advance of the dispatch of any of the service units.²⁸

I understand that the above information was telephoned by Mr. Duggan, of this Department, to Major Silverthorne. Hence, this memorandum is merely confirming the information already received by your Department.

ORME WILSON

811.34537/352

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

No. 1144

WASHINGTON, December 31, 1941.

SIR: Reference is made to the Department's instruction 1131 of December 24, 1941 to Ambassador Messersmith authorizing him to sign an agreement with the Cuban Government regarding a Cuban military zone for joint defense adjacent to the United States Naval Station at Guantánamo on the basis of Draft H enclosed with that instruction.

If this draft meets with the approval of the Cuban Government and if the Cuban Government desires to sign the agreement based on it without awaiting the return of the Ambassador to Habana, the Department herewith authorizes you to sign in behalf of the United States Government.²⁹

You may exhibit this instruction to the appropriate Cuban authorities as your full powers, which however expire upon the return of Ambassador Messersmith to his post.

Yours very truly,

For the Secretary of State:
SUMNER WELLES

²⁸ The service units appear to refer to those for maintaining aircraft. The stationing of such detachments together with the use of airports, unrestricted flying over Cuban territory, and unrestricted circulation of military personnel in connection with servicing aircraft were points of agreement sought by the War Department. See telegram No. 228, December 13, 1941, to the Minister in Guatemala, and footnote 1, vol. VI, p. 56.

²⁹ The agreement was not signed, and the discussions concerning it were indefinitely suspended in April 1942 and supplanted by negotiations concerning emergency landing fields, mobile coast artillery, stationing of troop detachments, etc.

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
CUBA, SIGNED NOVEMBER 7, 1941³⁰

837.24/606

*The Cuban Minister of State (Cortina) to the American Ambassador
in Cuba (Messersmith)*³¹

[Translation]

HABANA, April 14, 1941.

MR. AMBASSADOR: We beg to state that the Government of Cuba is agreeable to the provisional agreements³² signed by the military representatives of both Governments, and without prejudice to the final agreement that is to be negotiated and concluded with regard to these important matters.

In consideration of these agreements and conferences, in which it was agreed, among other particulars, to determine the needs of the Cuban Army and Navy to improve their equipment and their preparation for defense, in the purposes of military cooperation with the United States of America in the event that this might be necessary, this Government has requested the respective Chiefs of the Army and Navy to prepare a note as to their most urgent needs, without prejudice to setting forth, in subsequent notes, the less urgent needs and those of evident convenience.

To this end we have received from said military organizations the attached note which we proceed to explain.

Annex No. 1.³³ This Annex contains the most urgent needs of the Cuban Navy, with regard to which immediate cooperation is desired.

Annex No. 2.³³ Annex No. 2 contains the most urgent and immediate needs of the Cuban Army, which we would also desire be attended to as soon as possible, without prejudice to later suggestions of greater importance, less urgent or of evident convenience, as may be required by the growing needs of military defense and cooperation between Cuba and the United States of America.

This Ministry transmits these requests to the Government of the United States with the purpose that they be given the best possible attention and consideration.

I avail myself [etc.]

J. M. CORTINA

³⁰ See also section entitled "General policy of the United States for the negotiation of the basic agreements relating to Lend-Lease to other American Republics," vol. VI, pp. 133 ff.

³¹ Copy transmitted to the Department by the Ambassador in his despatch No. 1911, April 20; received April 22.

³² Agreements of September 2, 1940, not printed.

³³ Not printed.

810.20 Defense/1152c : Telegram

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

WASHINGTON, July 18, 1941—7 p. m.

192. The Department on July 17 handed to the Cuban Ambassador a draft ³⁴ of basic agreement for the lend-lease program of transferring military matériel to Cuba. The principal financial provisions are as follows: Cuba is to receive a total of \$3,700,000 of war and navy matériel of which it is expected \$1,000,000 of army matériel and \$100,000 of navy matériel will be transferred during the fiscal year ending June 30, 1942. This delivery date is subject to change if broad defense considerations so require.

With respect to repayment, Cuba is expected to pay \$400,000 in each fiscal year until 1947, making a total of \$2,400,000 to be repaid prior to June 30, 1947. In consideration of the broad objectives of the program and of certain very general economic concepts, the entire obligation of Cuba to the United States would be considered discharged by such payments.

WELLES

837.24/615

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

[WASHINGTON,] August 9, 1941.

The Ambassador ³⁵ told me with some agitation that the previous evening a special messenger had arrived from Cuba with an instruction from the President. The President and his cabinet were very disturbed not only by the total quantity of military and naval matériel allocated to Cuba under the Lend Lease program but also by the amounts to be delivered during the first year. These figures are \$1,000,000 for military equipment and \$100,000 for naval matériel. The Ambassador was instructed to take up immediately with this Government the possibility of augmenting both the total figures and the amounts to be furnished in the first year.

The Ambassador stated that the President and his cabinet were profoundly disturbed by the allocations for Cuba since the amounts for Cuba were only a fraction of the requests submitted. The President could only suppose that the thought of our military and naval officials was that the United States would take care of the defense of Cuba. The President thought that this was not only not in keeping with the dignity of Cuba but that it would certainly prove much more

³⁴ Not found in Department files.

³⁵ Aurelio F. Concheso, the Cuban Ambassador.

expensive for the United States to assume the total burden for the defense of Cuba than were Cuba to do so itself.

I informed the Ambassador that the request of the President for a reconsideration of the allocation for Cuba would, of course, immediately be studied and given the most sympathetic consideration. I said that the allocations for Cuba and for all other countries had been made by the Army and Navy so that it would be necessary to take the subject up with them. I said that there were certain difficulties in view of the limitation on the total amount available for the other American Republics. I hoped, however, that some readjustments might be made.

On August 12 the Ambassador returned to leave with me the memorandum which is attached.³⁷ I thanked him for the memorandum stating that it would be useful in the discussions with the appropriate officers in the War and Navy Departments. I told the Ambassador that, upon the return of Mr. Welles,³⁸ I was going to recommend to him that he personally take up the question with the Chief of Staff and the Chief of Naval Operations.

The Ambassador expressed appreciation for the sympathetic reception that had been accorded to him and said that he would like to be advised promptly upon the outcome of the reconsideration of the figures by the War and Navy Departments.

837.24/613

Memorandum From the Cuban Embassy

[Translation]

1. It is appropriate to state that the draft of the basic agreement, in pursuance of which Cuba has been loaned the sum of \$3,700,000 (of which our country must pay only \$2,500,000) differs from the request made by the Minister of State of Cuba in his note of the 14th of April, 1941, which was delivered, together with two memoranda, to the American Ambassador at Habana and in which Cuba made known the minimum of material and implements of war needed most urgently to provide for our defense.

2. In view of the intimate collaboration and good will prevailing between our two Governments with respect to all problems of the war and hemisphere defense, we believe it most advantageous to include a concrete account of the immediate and unpostponable needs of the Cuban Army and Navy, relating to the material and armament for defense and for cooperation with the United States of America.

3. The Cuban Government proposes to follow the plan of submitting the list of urgent material which it needs to assure the adequate ful-

³⁷ *Infra.*

³⁸ Sumner Welles, Under Secretary of State.

fillment of our definite intention of collaborating with all our energy in the defense of the American hemisphere, together with the United States of America. If we do not follow the plan of indicating specifically which are the materials which we need and should receive a sum of money which would prove subsequently to be insufficient and not permit us to acquire those means of defense necessary to meet the emergency of war, and if Cuba's work were not as efficient as my Government would desire, we might be blamed for not indicating in a precise manner what are the materials and articles of defense which we shall need in order that our role may be fulfilled with the necessary efficiency.

4. In the event that technical differences of opinion should arise concerning the matériel requested by the Cuban Army and Navy, with the officers entrusted with these problems by the Government of the United States, our Government suggests that in order to expedite matters, the Government of the United States designate and send one or more officers to negotiate directly with the commanding officers of the Cuban Army and Navy in order to arrive at a definite decision as to which are the indispensable and immediately required articles of defense that should be offered now to the Cuban Government.

5. It is appropriate to state that these requests refer to the most urgent and immediate necessities, but if the war should become serious and a general mobilization, both of the Army and the Navy, should become necessary, it would then become necessary to take further action in order to dispose of the matériel necessary to render such a mobilization effective. The requests accompanying this memorandum are intended solely to prepare and improve the units of the Army and Navy now in existence.

6. Our Government desires to make known the impossibility of taking into consideration the offer of \$100,000 to be spent on the Navy during the first year of the proposed agreement, since the assistance which this money would render this department would be insignificant when one takes into consideration the importance of the control and defense of the coasts and the enormous expense which the acquisition and maintenance of the indispensable ships and matériel will involve.

7. The Government of Cuba desires that the conditions of payment for the matériel set forth in the enclosed lists,³⁹ will comprise ample and convenient terms, including such reductions of prices and advantages such as transferring and lending which the Government of the United States may consider it possible to grant within the limits of the law governing the matter.

WASHINGTON, August 12, 1941.

³⁹ Not attached to file copy.

810.20 Defense/1418

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

WASHINGTON [undated].

[Received September 2, 1941.]

SIR: Reference is made to Department of State Liaison Officer Memorandum U-L 810.20 Defense/1267 of August 23, 1941,⁴⁰ furnishing information regarding the dissatisfaction on the part of Cuba with the offer made by the United States of Military and Naval material under the Lend-Lease Program.

Upon a recommendation of the Joint Army-Navy Advisory Board on American Republics, a total allocation of credit for Cuban Naval material was tentatively set at \$700,000. It was further indicated, as the opinion of the Board, that material not to exceed in value \$100,000 could probably be delivered during the present fiscal year.

Although the Navy Department has not been informed of the details of the basic agreement negotiated by the State Department with the Government of Cuba, or with the Government of any other American Republic, from the tenure of the despatches enclosed in Department of State Liaison Officer Memorandum, it would appear that the Cuban Government has been informed that the extent of their credit during the present fiscal year is limited to \$100,000.

It is thought that the dissatisfaction expressed by the Cuban Government is partly due to the failure to distinguish between the value of material which could be delivered during this fiscal year, and the necessary credit required to make contracts and place on order material which will require twelve months or more to manufacture.

The amount of the Naval allocation of credit was based on recommendations of the staff conversations which took place between representatives of the United States Navy and the Cuban Navy. Since these conversations were held, there has been a change in the administrative head of the Cuban Navy. The new regime has greatly increased the amount of material requested.

There is no objection on the part of the Navy Department to an increase in the allocation of credit to purchase all of the Naval material requested by the Cuban Government as being urgent in character for National Defense. It is estimated that this will require a total sum of \$3,700,000 for Naval credit alone, or an increase of \$3,000,000 over the present allocation. This amount can be taken from the unallocated reserve.

It is desired to point out that in case the basic agreements made with other American Republics have also confused the value of material that

⁴⁰ Not printed.

could probably be delivered during this fiscal year with the amount of credits desired to make contracts for future delivery, there will be other cases of dissatisfaction.

It is the understanding of the Navy Department that, except for a very small sum to procure articles already manufactured, there is no money available under the Lend-Lease appropriation for the procurement of any of the material requested by Latin American Governments. Furthermore, no funds can be made available for this purpose until a new Lend-Lease appropriation has been approved by Congress.⁴¹ It would, therefore, appear to be impracticable to inform the other American Republics what credit they should expect during this fiscal year, until Congress has appropriated the necessary funds.

Representatives of the Navy Department have appeared before the Bureau of the Budget during the consideration of the projects which Congress will be requested to appropriate for a new Lend-Lease appropriation. In discussing the funds required, it was particularly requested that the total allocation of credits allowed to the American Republics should be made available during this fiscal year, in order that contracts could be negotiated for the future delivery of material as well as the delivery of any material that could be made available during this fiscal year. It was stated that, out of the total of \$100,000,000 requested for Naval material, it was not considered possible to deliver more than approximately \$12,000,000 in value during the present fiscal year.

It is suggested that the dissatisfaction of the Cuban Government can be dissipated by simply explaining that their total allocation of credit to procure Naval material will be increased to a total of \$3,700,000, and the credit for this fiscal year will be whatever part of this amount that is allowed by Congress.

Respectfully,

FRANK KNOX

837.24/618b : Telegram

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

WASHINGTON, September 15, 1941—8 p. m.

263. The Navy Department has agreed to increase to \$3,700,000 the amount of naval matériel to be delivered to Cuba under the proposed lend-lease arrangement; of this \$300,000 can be delivered during the next 12 months. The War Department has agreed to increase to \$3,500,000, the amount of military matériel to be delivered; of this \$1,000,000 would be made available during the next 12 months. The Cuban

⁴¹ For the provision of additional funds, see the Act of October 28, 1941, 55 Stat. 745.

Government will be expected to repay a total of \$4,200,000 at the rate of \$700,000 a year for 6 years. The Cuban Ambassador has been informed.

HULL

837.24/626

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

[WASHINGTON,] October 27, 1941.

The Cuban Ambassador, Dr. Concheso, called today at his own request to inform the Department that the President of Cuba had approved the third draft of the Lend Lease contract providing for arms deliveries valued at \$7,200,000 and had authorized him, the Ambassador, to sign.

Will you ⁴² please notify the Treaty Division and have the other details taken care of so that signature may be effected as soon as possible.

W. N. WALMSLEY, JR.

837.24/11-741

Lend-Lease Agreement Between the United States and Cuba, Signed November 7, 1941

WHEREAS the United States of America and the Republic of Cuba declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938,^{42a} they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,⁴³ and the President of the Republic of Cuba have determined that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Cuba are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the

⁴² Apparently Mr. John S. Hooker, Assistant Executive Secretary, Board of Economic Operations.

^{42a} For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

⁴³ 55 Stat. 31.

other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Cuba have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Cuba under the terms of this Agreement armaments and munitions of war to a total value of about \$7,200,000. The United States of America proposes to begin deliveries immediately and to continue deliveries as expeditiously as practicable during the coming twelve months to an approximate total value of \$1,000,000 for use by the Cuban Army and an approximate total value of \$300,000 for use by the Cuban Navy.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Cuba similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Cuba, the defense needs of the Republic of Cuba or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

Thereupon the Republic of Cuba shall pay in dollars into the Treasury of the United States of America the total cost to the United States of America of the defense articles theretofore delivered up to a total of \$4,200,000 less all payments theretofore made, and the Republic of Cuba shall not be required to pay more than a total of

\$700,000 before July 1, 1942, more than a total of
\$1,400,000 before July 1, 1943, more than a total of
\$2,100,000 before July 1, 1944, more than a total of
\$2,800,000 before July 1, 1945, more than a total of
\$3,500,000 before July 1, 1946, or more than a total of
\$4,200,000 before July 1, 1947.

ARTICLE III

The United States of America and the Republic of Cuba, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Cuba hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,^{43a} to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Cuba is in a position to supply, the Republic of Cuba will make such defense articles and defense information available to the United States of America.

ARTICLE V

The Republic of Cuba undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Cuba.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Cuba, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

^{43a} For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

ARTICLE VI

If, as a result of the transfer to the Republic of Cuba of any defense article or defense information, it is necessary for the Republic of Cuba to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Cuba will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Cuba who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Cuba.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in duplicate in the English and Spanish languages at Washington this seventh day of November, 1941.

For the United States of America:

CORDELL HULL

*Secretary of State of the
United States of America*

For the Republic of Cuba:

A. F. CONCHESO

*Ambassador Extraordinary and
Plenipotentiary of the Republic
of Cuba at Washington.*

837.24/714

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] December 15, 1941.

Participants: Cuban Ambassador, Dr. Aurelio Concheso
Major Felipe Munilla, Military and Air Attaché
Lieutenant Commander Rolando Peláez, Naval Attaché
Lieutenant Colonel Henry Barber, War Plans Division, War Department
Mr. Orme Wilson.

The Ambassador stated that a law had just been enacted in Cuba providing for immediate expansion of the army and navy. Under this law about 80,000 men could be inducted into the army and navy. However, the Cuban Government at this time wishes to increase its military and naval establishment by about 25,000. This expansion would require the acquisition by the navy of light cruisers, fast torpedo launches, and a number of airplanes to a total value of over \$20,000,000, as well as arms and equipment for the contemplated increase in the land forces costing an amount of over \$5,000,000. All of the above expenses would be in excess of the credit of \$7,200,000 allocated to Cuba under the provisions of the Lend-Lease Act.

Neither Major Munilla nor Commander Peláez was able to give me more than tentative information concerning this matériel, so I requested them to furnish me as soon as possible with written lists, and assured them that they would receive suitable consideration. The Ambassador stated that although the lists already submitted had absorbed the allotted \$7,200,000, it might be necessary to replace some of the material on those lists by equipment more urgently needed under the new law for the expansion of the army and navy, particularly airplanes.

Commander Peláez referred to the urgent need for the fast patrol boats as those now owned by the Cuban Navy are not only old but antiquated in equipment. He added that it would be necessary if these boats were acquired to establish facilities for these vessels at various points along the coast of Cuba, the only places where such ships can be serviced at present being Habana and Cienfuegos. He expressed the opinion that these fast vessels would be of use in convoying sugar-laden ships from Cuba to the United States.

Colonel Barber explained at some length the critical situation that has arisen during the last week. The United States, he said, instead of merely furnishing arms and munitions to other countries resisting aggression, is now obliged to fight on two fronts and to arm itself in addition to sending large quantities of material to Great Britain, Russia, etc. Consequently, he could not give any assurances to the Cubans that they would obtain this greatly expanded quantity of material at short notice. The Ambassador and the two Attachés expressed interest in his explanation, the Ambassador intimating that he would inform the President.

They promised to send me the additional lists as soon as possible. Commander Peláez, however, said that as far as the Navy is concerned, this might not be done until after his return from Habana where he is going to spend the Christmas holidays.

FINANCIAL ASSISTANCE BY THE UNITED STATES TO CUBA⁴⁴

837.51/2762

*Memorandum by the Ambassador to Cuba (Messersmith)*⁴⁵

[WASHINGTON,] January 8, 1941.

I offer the following comments on the counterproposals submitted by the Minister of State of Cuba, Dr. Cortina,⁴⁶ for the Department's consideration:

The prolonged conversations which the Cuban Delegation had in Washington with respect to the loan for \$50,000,000 requested by the Cuban Government and the failure to arrive at any definite conclusions before the return of the Delegation to Habana have had an undoubted effect in decreasing the prestige and authority of the present Cuban Government. It will be recalled that the Cuban Government passed the authorizing act for a \$50,000,000 loan without previous consultation with our Government and that there had been no preliminary preparation between the two Governments for the negotiation of a loan. I have every reason to believe that the Cuban Government caused this authorizing act to be passed on the basis of misapprehensions which it had concerning the form and the conditions under which a loan could be secured from our Government.

The counterproposals made by the Minister of State, Dr. Cortina, now before the Department for its consideration, have been made, I believe, in good faith and with the desire to present a basis for economic and financial cooperation and assistance acceptable to our Government. The situation in Cuba is such, and our interest in the Cuban situation for economic and defense reasons is such, that I believe the counterproposals should be given as prompt consideration as possible and considered in the light of all the factors involved in our relationships with Cuba.

The situation with which Cuba is faced through the loss of her European markets for sugar and tobacco is a serious one and one which we cannot ignore and must take into account in all consideration which we give to the political and defense factors involved in our relationships. There is not only the loss to the Cuban economy involved in the practical disappearance of these exports to Europe, but also the loss of revenue to the Cuban Government through import duties on goods which formerly were imported from Europe and which now come from the United States, paying under our reciprocal trade treaty lower rates than if they came from Europe. There is, therefore, a

⁴⁴ Continued from *Foreign Relations*, 1940, vol. v, pp. 772-791.

⁴⁵ At the Department of State for consultation.

⁴⁶ Memorandum of December 24, 1940, *Foreign Relations*, 1940, vol. v, p. 788.

definite loss to the Cuban economy through the dropping off of exports and loss in revenue to the Cuban Treasury through lower customs revenue on imports.

Any consideration of the economic situation in Cuba emphasizes the importance of aid first on sugar. The closing of the European market will make it necessary for the Cuban Government to fix the grinding quota for this year at 2,000,000 tons, as this is all that the American and Cuban markets will absorb under present quotas and conditions. If this action has to be taken by the Cuban Government, there will be, within three or four months at the latest, economic distress of a character which will with almost definite certainty bring about social and political unrest of a serious character. A considerable part of the Cuban population earns during the cutting and grinding season the actual money on which they have to exist during the whole of the year. If this grinding season is materially reduced, there will be economic distress which will assume serious proportions first in the rural districts and then in the cities. The Communist elements in Cuba are already exploiting the rural laborers and the poorer people in the cities, and would be the active factor to bring about social and political disorders.

It is my considered opinion that the most effective step we can take to maintain the Cuban economic situation is to make it possible for the grinding quota to be fixed for this year at 2,500,000 tons instead of 2,000,000 tons. This is the Department's attitude and appropriate measures are now in progress to secure the cooperation of the Export-Import Bank in the financing of these 500,000 tons. I will not discuss here the details of this measure, nor its effects, because these are so well known in the Department, but it is sufficient to say here that the money loaned by the Export-Import Bank on this sugar would go almost entirely into the payment of wages. It is the one step which we can take immediately which is certain to avoid economic disaster in Cuba and its inevitable consequences, which we wish to avoid.

This aid on sugar, therefore, is as imperative as it is desirable and I have the conviction that it will prove to have been a desirable transaction for our Government not only from the point of view of maintaining stability in Cuba, but also that the sugars involved can in various ways be disposed of, so that there will be no loss, or at the most no appreciable loss, to our Government through the transaction.

The effect of the sugar transaction will be to strengthen the position of the Cuban Government by increasing its prestige and authority and laying the first basis for measures which it is indispensable that the Cuban Government take. There are, however, in my opinion further measures which must be taken by our Government on the basis of the proposals made by the Minister of State, Dr. Cortina.

In the counterproposals submitted by the Cuban Government, there is a request for the immediate consideration by our Government of the agreement in principle on a credit to the Cuban Government of \$10,000,000 for agricultural diversification projects and a credit for public works in an amount not fixed and left to the determination of our Government. The memorandum of the Minister of State points out that no money would actually pass into the hands of the Cuban Government on the basis of this agreement in principle. He has indicated that the individual projects under the agricultural program and the public works program would be agreed upon between the Cuban Government and the representative or representatives of the Export-Import Bank. No money would be paid out on the basis of any approved project for which an allocation had been made under the credit by agreement, except on the basis of vouchers approved by the representative of the Export-Import Bank. I believe that such an arrangement would offer ample safeguards to both Governments to prevent the passing of money into the hands of improper persons and that the control which would be exercised over the expenditure of funds which we might loan to Cuba would be greater than that envisaged in any proposals which we have made to the Cuban Government.

I believe that it is desirable that we should proceed immediately with the appropriate consultation with the Export-Import Bank and other agencies of our Government to secure agreement by our Government on the opening of a credit to Cuba under the above conditions for \$10,000,000 for agricultural projects and \$20,000,000 for public works projects. As legislation by the Cuban Government will be necessary for the funding and repayment of the debt, et cetera, it will be necessary to fix a maximum amount which we are prepared to give for agricultural diversification and public works projects, and such an amount would have to be included in the Cuban law.

On the basis of the assumption that we will make a loan on 500,000 tons of sugar within a very short period, I believe that this further action of announcing agreement in principle between the American and Cuban Governments for a credit of \$10,000,000 for agricultural diversification projects and \$20,000,000 for public works projects is essential and desirable. The loan on sugar will meet the immediate situation in avoiding economic distress and consequent social and political disorders. The effect of the action on sugar will be immediate and widespread throughout the island. If we agree in principle with the Cuban Government for the agricultural credit and public works credit, there will be a period of six to eight months before the effects will be felt in the Cuban economy through actual work on projects because of the surveys which will have to be made, the decisions which will have to be reached and the actual work on the projects.

The Minister of State has emphasized the importance of the announcement of agreement in principle on agricultural and public works credits. The successful conclusion of action on sugar will give the Government the prestige which it sadly needs, he says. This further action on agricultural and public works credits, he says, is necessary to meet the economic problem of Cuba, et cetera, and also as a further measure to give the Cuban Government the prestige which is necessary among the mass of the people in order to enable it to proceed with the reforms in the Treasury, in the Customs, in the Army, and in the Budget, which the Cuban Government is in agreement are essential and in which our Government is also interested so definitely. He says that, without this prestige which such action by our Government will give, it is quite impossible for the Cuban Government to proceed with a program of reforms in the Treasury, in the Customs, in the Army and in certain other administrative organisms and practices.

The Foreign Minister has stated that these reforms will have to be made by the Cuban Government itself rather than through joint committees of Cuban and American officials. Any action through joint committees, he states, would simply undermine the already too-small prestige of the Cuban Government. This would not exclude, however, the collaboration of experts of our Government, who would be welcomed by the Cuban Government and who could lend their effective assistance as definitely in this way as if they were actually on a joint committee. The procedure would avoid further lowering of the prestige of the Cuban Government.

The Minister of State has indicated that he realizes our interest in certain administrative reforms and procedures. These, he says, the Cuban Government is prepared to carry through. Under present circumstances, they could not carry through such reforms, as the Government is without the necessary prestige. With the action on sugar contemplated and with agreement in principle announced between the two Governments on agricultural and public works credits, the Government would have the necessary prestige among the masses to proceed with the necessary reforms and changes. He emphasized that reforms would have to be made in the Army at the same time that they are made in the civil administration, and it is quite obvious that, if the Government takes these steps without the necessary prestige which comes from the assurance of these agreements and the support of our Government, the Government would be destroying itself.

I am on the whole in agreement with this attitude of the Minister and I believe that we cannot expect performance under any circumstances unless we give the Cuban Government the prestige which it so sadly needs. Unless we take the appropriate steps we will be faced eventually by economic and social disorders, with political consequences.

These would not lead necessarily, and in my opinion would not lead, to a better government to replace the present one, unless we intervened either indirectly or directly in the establishment of the new Government. Such intervention, even indirect, I believe we wish to avoid.

The proposals of the Foreign Minister, I believe, present a sound basis of approach to the problem and for the purpose the only feasible one. We are interested in the maintenance of economic, social and political stability in Cuba not only for economic reasons, but now for compelling political and strategic reasons. This is the first constitutional Government which Cuba has had for seven years and we would, I believe, be placing ourselves in an impossible position if we do not give the present Government the support which it needs.

I believe we must bear in mind certain factors which bear on our attitude during the last year. Cuba bought approximately \$80,000,000 worth of American merchandise, for which we were paid without any assistance on exchange or loans. She has continued to meet the interest on her public debt promptly. She has made the last payment under the Chadbourne Plan. She has in no way interfered, through export or import restrictions, on American goods, et cetera. She has paid promptly and in dollars her current obligations without any assistance on exchange or without loans. The Cuban Congress has approved the funding of the last part of the public works obligations as a measure of reestablishment of credit. Our Government made no promises of aid and, in all my conversations, I refrained from any such promises. I indicated, as I had authorization to do, that we considered the passing of the public works bill⁴⁷ as a necessary action to reestablish Cuban credit. The Cuban Government undoubtedly, however, had in mind our program of financial and economic cooperation with the other American republics and was influenced in its action on the public works bill by obvious considerations of future assistance from us.

There is the further consideration that Cuba has shown the most definite attitude of complete cooperation so far in matters of Cuban, American, and inter-American defense. Probably no other American republic has taken so completely cooperative an attitude as Cuba in matters of defense. So far this cooperation has not been a matter of *quid pro quo* and the President and Foreign Minister have repeatedly assured that it will not be made a question of *quid pro quo*. It is obvious, however, that for political and strategic reasons this complete cooperation in defense with Cuba is in many respects more important to us than that with any of the American republics.

On our side, so far as Cuba is concerned, we have done nothing in the way of assisting her in recent years beyond the maintenance of a quota for sugar and in this we cannot claim too great virtue. It was on our

⁴⁷ See *Foreign Relations*, 1940, vol. v, pp. 743 ff.

initiative and as a measure of cooperation with us in times of stress that Cuba raised her sugar production to high levels. Since then we have been consistently reducing our takings of Cuban sugar and, while we have given the advice that Cuba should resort to greater agricultural diversification in order to meet our own problem of increasing domestic sugar production, we have done nothing of a definite character in the way of financial assistance, or real cooperation on an effective scale in aiding diversification.

There appears to be, therefore, on the whole a fair balance on the side of Cuba and if we wish to maintain the very considerable market we have for American goods, to maintain economic, social and political stability and to keep the way open for the most complete cooperation in defense, there are certain measures which we shall in all prudence have to take.

These measures are :

(1) The completion of a mutually satisfactory arrangement for the financing of 500,000 tons of sugar ;

(2) The announcement of the agreement in principle between American and Cuban Governments of a credit of \$10,000,000 for agricultural projects and \$20,000,000 for public works projects ;

(3) The immediate consideration of the Government of Cuba's request for studies of the establishment of a central bank, et cetera, and the sending of the appropriate experts of our Government to Cuba for the studying of this problem with the Cuban Government.

The Cuban Government on its side, on the agreement on the sugar aid and the announcement of the credits above mentioned would begin a program of administrative reforms in the Treasury, in the Customs and other organisms of the Government. These reforms would involve the dismissal of individuals who have been guilty of improper practices or have sponsored them. It would include the study and progressive carrying through of the administrative reforms and practices. The appropriate action on the reduction in the budget would be carried through and approved by the Congress.

The Minister of State has pointed out that his counterproposals call for a program of mutual fulfilment. He has emphasized that under the proposals no money comes into the hands of the Cuban Government so that our Government is in a position at any time through the Export-Import Bank to stop the approval of projects or the payment of vouchers under projects approved. In case the Cuban Government does not immediately and progressively take action along the lines on which it has indicated its willingness to proceed, we can stop any further action on approval of projects or payments on projects. The Minister states that no Cuban Government could afford not to proceed with such a program of fulfilment on its part as such failure would

destroy the Government itself. If it became known, as it inevitably would, that it had been through failure of the Cuban Government to meet its responsibilities and promises that productive and constructive work in Cuba fostered by our Government was not being carried forward, the Cuban Government could not withstand such a situation and would therefore be forced to follow a policy of fulfilment.

The Cuban Government has expressed its willingness to begin immediately negotiations for a new treaty of navigation and residence on broad lines and also desires to proceed with a revision of the trade agreement or the negotiation of a supplementary trade agreement. It is prepared to begin these negotiations at once and in my opinion immediate steps should be taken on both sides toward the opening of such negotiations.

I realize that, on the basis of past performance in certain aspects of Cuban-American relationships, we cannot place too much dependence on certain Cuban promises and assurances. On the other hand, the performance of the Cuban Government with regard to its obligations, commercial and Government, is on the whole as good as that of any of the other American republics and it has met its debt payments, et cetera, without any assistance through recent loans. The program suggested and proposed in the memorandum of the Minister of State provides, I believe, a quite safe and in many respects sound basis for mutual fulfilment and a program which I believe the Cuban Government will be required to meet. It is, I believe, the only basis on which we can proceed at this time unless we wish to be faced by a situation in which direct or indirect intervention will become necessary for reasons of political security and defense.

GEORGE S. MESSERSMITH

837.51 Cooperation Program/57

*The Secretary of State to the Ambassador to Cuba (Messersmith)*⁴⁸

No. 421

WASHINGTON, January 11, 1941.

SIR: Reference is made to the Memorandum dated December 24, 1940 addressed to you by the Minister of State of the Republic of Cuba⁴⁹ regarding the general economic negotiations now in progress, and to correspondence and conversations between the Governments of the United States and Cuba over a period of time with respect to economic cooperation.

You are instructed to seek separate and private audiences, after your return to Habana and after the conclusion of agreement in prin-

⁴⁸ At the Department of State for consultation.

⁴⁹ *Foreign Relations*, 1940, vol. v, p. 788.

ciple between the Government of Cuba and the Export-Import Bank with respect to the financing of an extraordinary quota of 400,000 Spanish long tons of sugar and the extension of Decree-Law No. 522 ^{49a} regarding the distribution of quotas for the production of sugar, with the President of the Republic, the Minister of State, and the Minister of the Presidency. You will inform each of these officials orally and in strict confidence of the position of the Government of the United States with respect to further economic cooperation between the United States and Cuba, along the following lines:

1. The extension of sugar financing should assist immediately and significantly in meeting the crisis in Cuba's most important industry and in maintaining the Cuban economy. This action evidences the cooperative attitude of the Government of the United States, and should contribute to the prestige of the present Government of Cuba.

2. The United States Government is prepared to enter into the other fields of economic cooperation which have been discussed in the past. Before it does so, it believes that the Cuban Government should by actual accomplishment give evidence of its often expressed intention of settling satisfactorily certain problems outstanding between the two nations and of carrying out certain essential and desirable measures. Among these are:

a) Immediate settlement of the Morris Claim ⁵⁰ by negotiation with the claimants of a definite schedule of payments.

b) Examination and provision for eventual liquidation of other United States claims.

c) No further manipulation of the direct consumption sugar quotas prejudicial to American mills with refineries in Cuba.

d) Reform and reorganization of the fiscal system and administration. The Government of the United States is prepared, on request, to furnish fiscal and taxation experts to assist the Cuban Government in these matters.

e) Net reduction in actual budgetary expenditures by approximately 7,000,000 pesos per annum.

3. When the Cuban Government has by specific acts demonstrated to the satisfaction of the Government of the United States its intention to carry out completely the above program, the latter is prepared to undertake, at the request of the Cuban Government, any or all of the following measures:

a) *Export-Import Bank credits for fiscal assistance and for the development of the Cuban national economy*—The extent of such undertaking is indicated in the following excerpt from a letter of De-

^{49a} Promulgated January 18, 1936. The decree established standards for the production and export of sugar and authorized Government regulations; see *Gaceta Oficial*, Edición Extraordinaria No. 13, January 20, 1936.

⁵⁰ The claim of Fred A. Morris based on a decision of the Cuban Supreme Court providing compensation for land seized by the Cuban Government.

ember 2, 1940 addressed to the Under Secretary by the Federal Loan Administrator :

"On your recommendation, and upon the proper undertakings and fulfillment by Cuba of the conditions outlined in your memorandum, the Trustees of Export-Import Bank will lend the Republic of Cuba up to \$4,000,000 for six months, with renewal privileges for like periods up to but not exceeding two years at an interest rate of 3.6% per annum, satisfactory legislation authorizing such a loan having first been approved by the Cuban Congress.

"The Trustees will give consideration to a loan application for the rehabilitation of the Havana Waterworks if presented on a sound engineering, commercial and legal basis. In addition, applications for other beneficial self-liquidating projects will be considered on their merits and in relation to the funds which we will have for lending.

"Furthermore, the Trustees will give consideration to applications for loans of a total amount not to exceed \$10,000,000 in connection with such self-liquidating projects of agriculture development and diversification as may be recommended by representatives of the Bank, Department of Agriculture, Farm Credit Administration, and the Federal Reserve System, in connection with appropriate Cuban officials."

If the need of fixing in the requisite Congressional authorization of an upper limit to borrowing for development purposes is mentioned, you may point out informally that, as the ceiling on agricultural projects is set at \$10,000,000 while the Habana Waterworks project has been estimated to require as much as \$10,000,000 or \$12,000,000, it would appear to be reasonable to fix a maximum borrowing limit for such purposes, including other beneficial projects which may be developed and approved, of some \$25,000,000.

b) *Technical assistance in connection with the development program*—The Government of the United States is prepared, on request, to furnish the services of competent technicians to assist in carrying out the development program mentioned above. In this connection reference is made to the proposed agricultural survey of Cuba described in instruction no. 420 of January 11, 1941.⁵¹

c) *Technical assistance in connection with monetary, banking, and exchange matters*—The Government of the United States is prepared, if requested, to furnish experts of the Treasury Department, Federal Reserve System, and Farm Credit Administration to assist the Cuban Government in the preparation of a complete plan for the reorganization of the monetary, banking, and exchange systems, including agricultural credit. There would be no financial commitment at this time.

4. No observations have been received from the Cuban Government with regard to the proposal for a Treaty of Residence and Establishment which was submitted in March 1939.⁵² It is the opinion of the Government of the United States that negotiations for such a treaty

⁵¹ Not printed.

⁵² Not printed; preliminary negotiations for a treaty of residence and establishment were suspended in July 1939.

should be carried to speedy conclusion, and it requests a prompt reply setting forth the detailed comments of the Cuban Government.

If the subject of the Memorandum of December 27, 1940⁵³ of the Minister of State with regard to the conclusion of a supplementary Trade Agreement limited to sugar, tobacco, and live cattle is brought up, you should state that the Minister's memorandum is receiving the immediate and careful study and consideration of the United States Government in connection with surveys of related aspects of the entire program of trade agreements, and with particular reference to the bearing of the Minister's proposals upon the problems involved in the expiration of the present general sugar legislation at the end of 1941 and the consequent necessity of considering the general sugar policy to be followed thereafter; you should add that a reply will be made as soon as such consideration is completed.

Very truly yours,

For the Secretary of State:
SUMNER WELLES
Under Secretary

837.61351/2430a

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

No. 463

WASHINGTON, February 1, 1941.

SIR: Reference is made to instruction no. 421 of January 11, 1941 instructing you to proceed, after your return to Habana, and after the conclusion of agreement in principle between the Government of Cuba and the Export-Import Bank with respect to the financing of an extraordinary quota of 400,000 Spanish long tons of sugar, with discussions with the President of the Republic, the Minister of State and the Minister of the Presidency, with respect to further economic cooperation between the United States and Cuba.

You are instructed, in your discretion, to discuss the sugar financing situation with the Minister of State informing him that the decision of the Export-Import Bank to extend such sugar financing was taken on the urgent representations of the Government of Cuba and that it is not the intention of the Department and the Export-Import Bank that the acceptance of such financing is a condition precedent to the rest of the cooperative program.

If the Government of Cuba desires not to accept the proposal of the Export-Import Bank with regard to sugar financing, you are instructed to undertake the conversations referred to in instruction no. 421, including the extension of Decree-Law no. 522 regarding the distribution of quotas for the production of sugar among measures

⁵³ Not printed.

to be carried out by the Government of Cuba in accordance with numbered paragraph 2.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.51 Cooperation Program/60

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

No. 1563

HABANA, February 12, 1941.

[Received February 13.]

SIR: I have the honor, with reference to the Department's strictly confidential instructions to me No. 421 of January 11, 1941 and No. 463 of February 1, 1941, to state that I took up with the Minister of State, Dr. Cortina, on Monday afternoon, February 10, the various items in the above-mentioned instructions. Although the Department's instruction No. 463 of February 1 authorized me not to await the conclusion of the sugar financing operation under contemplation of 400,000 Spanish long tons, it did not seem advisable to discuss credits for agricultural diversification, public works, and cooperation along other lines, immediately on receipt of the Department's confidential instruction 463. The Government had been much concerned and preoccupied with recent developments in the internal political situation, which I have separately reported upon, and it was not until Monday, February 10, that I thought it advisable to act on these instructions.

For my own guidance with the Minister of State, I had prepared a memorandum based upon the Department's instructions Nos. 421 and 463, of which memorandum I submit herewith a copy.⁵⁴ I began my conversation with the Minister by conveying to him orally, in Spanish, the contents of this memorandum following the text herewith transmitted.

The Minister expressed his satisfaction that it would be possible to continue the discussions on credits for agricultural diversification and public works and on the possibility of establishing a central bank with facilities for granting credits to agriculture. He said that he had just completed the message which the President would send to the Congress on the legislation necessary by the Cuban Congress in order to carry the sugar arrangement into effect and that he had every hope that this arrangement would soon be satisfactorily carried through. I took occasion at this point to say to him that, in connection with the sugar arrangement, I was sure he would keep in mind that the offer of the Export-Import Bank to carry through this sugar financing was based

⁵⁴ Not printed.

on two fundamental considerations; first, that the crop this year should not exceed 2,400,000 tons, and, second, that the Cuban Government would extend Decree-Law 522 without substantial alteration. I emphasized that, although my Government was prepared to continue the consideration of agricultural and public works credits independently of the action which might be taken on this sugar financing, one of the indispensable preliminaries to such consideration would be the prolongation of Decree-Law 522 without substantial alteration.

The Minister said he understood this situation but that he did not consider, and the Cuban Government did not consider, the sugar financing arrangement as a part of our conversations on economic cooperation in the same sense as the agricultural and public works credits. The sugar arrangement was made at the request of the Cuban Government but was more a purely financial operation on a purely banking basis. It was an arrangement of primary and urgently immediate importance to the Cuban economy, but he hoped that this arrangement which involved the lending by the bank of some \$12,000,000, would not interfere with the granting of agricultural diversification and public works credits by the bank in an adequate amount.

With respect to the conditions which my Government had set forth as being indispensable with respect to the granting of credits for agricultural diversification and public works, the Minister made the following observations which he indicated were of a purely preliminary character. The Cuban Government had, by action of the Cuban Congress, passed the Gold Obligations Law which removed from the relationships between our two countries this longstanding and disturbing question. The provisions of the law were being carried through and the bonds would shortly be issued to the creditors. He remarked that since these instructions, which we were discussing, had been given to me, there had been a very considerable change in the Cuban internal situation which, in his opinion, should go far towards satisfying our Government and in giving it increased assurance. The authority of the civil Government had been reestablished in a definite form. The Fourth of September 1933⁵⁵ had been liquidated. Various administrative functions of the Government, which had been in the hands of the Army and the Navy, had been returned to the appropriate civil administrations. The most definite instructions had been issued to stop the malpractices in the Army and Navy and in the Customs, which had led to the diversion of revenues.

⁵⁵ Overthrow of Cuban Government by non-commissioned men and enlisted men of the army led by Sergeant Batista. See telegram No. 191, September 5, 1933, 1 a. m., from the Ambassador in Cuba, and later documents, *Foreign Relations*, 1933, vol. v, pp. 379 ff. Batista became President of Cuba on October 10, 1940.

With respect to the Morris claim, he stated that there should be no difficulty in reaching a solution. There was a decision of the Supreme Court in this case and there was an obligation of the Cuban Government to settle this matter by negotiation with the creditors without delay. I pointed out to him various reasons indicating the importance of the settlement of the Morris claim without any delay, which considerations the Minister understood and appreciated.

With respect to the examination, and provision for eventual liquidation of other United States claims, he stated that these were matters which would have to be gone into by the Cuban Government, but said that this matter would have to be approached with great care. He said that if it became known that the Cuban Government was examining old and outstanding claims against it by American citizens and interests, it would result in the resurrection and pressing of many claims for which there was no foundation whatever. In this connection, I limited myself to saying that it was the opinion of my Government that these claims, as well as the Morris claim, should receive immediate consideration by the Cuban Government in such a form as to indicate the intention of the Cuban Government to proceed with settlement thereof.

With respect to further manipulation of the direct consumption sugar quotas prejudicial to American mills with refineries in Cuba, the Minister stated that this matter had been receiving his attention since I had left with him a few days before a memorandum calling his attention to two decrees issued by the Cuban Government in the last days of the Presidency of Dr. Laredo Brú. In this memorandum which I had left with the Minister I had brought to his attention the resolution of the Sugar Stabilization Institute requesting the Cuban Government to abrogate these two decrees which had worked out prejudicial to American interests. The Minister said that he saw no difficulty in appropriate action being taken by the Cuban Government to prevent further manipulation of the direct consumption sugar quotas which would be prejudicial to the interests of American mills with refineries in Cuba.

With respect to reform and reorganization of the fiscal system in administration, the Minister stated that I was familiar with the steps which the Cuban Government was already taking. The decree placing certain administrative functions formerly in the Army and Navy and Customs was an important step. A committee had been set up which was studying economic problems and reform of the fiscal and tax system. The Secretary of the Treasury was a man of unimpeachable honesty. The Government was determined to carry through the necessary fiscal and administrative reforms.

With respect to the net reduction in actual budgetary expenditures by approximately 7,000,000 pesos, the Minister said that the Government was giving this matter of the budget and reductions therein its earnest attention. It had already been decided to change the Cuban fiscal year from the calendar year to a fiscal year beginning July 1 every year. There were certain reductions in the budget which would have to be made in view of the financial situation of the Government. There were increases in items of the budget which would have to be made because of constitutional prescriptions which would have to be carried through. The Government realized that it would have to fix its budget in a manner which would involve payment of expenditures through receipts and without dependence on internal or external loans. It was now studying proposals for tax increases which had been made by committees set up for this purpose. It was too early to state just what could be done, but he hoped that we would not insist on any arbitrary figure or reductions.

The Minister expressed his belief that it was desirable to begin as soon as possible studies with the collaboration of our Government, and on the basis of the offer made, which would form the basis for the establishment of a central bank and facilities for extending agricultural credits. No aid to Cuba, he said, in his opinion, would be properly effective and adequately fruitful unless such banking facilities were provided for. I said in this connection that I did not believe that it was the intention of my Government that its collaboration in the making of such studies was dependent upon the fulfillment of the conditions which had been set forth with respect to the granting of credits for agricultural diversification and public works. I believed that I could assure him that we would be prepared at any time, on the request of the Cuban Government, to make available experts of the Treasury, the Federal Reserve System, and the Farm Credit Administration, to assist the Cuban Government in the preparation of a complete plan for the reorganization of the monetary banking and exchange systems including agricultural credits.

With respect to the treaty of residence and establishment, I emphasized to the Minister that my Government had received no reply or comment on the proposal for such a treaty which we had submitted to the Cuban Government in March 1939.⁵⁶ I did not believe that my Government would make the beginning of negotiations for such a treaty dependent upon the fulfillment of the considerations which had been set forth. I expressed the opinion that my Government would be prepared to begin the negotiation of such a treaty immediately. As the first step, I suggested that it would be desirable for the Cuban Government to address a note to my Government, either

⁵⁶ See footnote 52, p. 135.

through this Embassy or through the Cuban Embassy in Washington, acknowledging this proposal of my Government made in March 1939, and stating that the matter was being considered by the Cuban Government which hoped very shortly to submit its detailed comment. The Minister said that he saw no reason for not proceeding with urgency on the negotiation of such a treaty and could foresee no reason why a mutually satisfactory treaty should not be completed rapidly.

With respect to the negotiation of a limited supplementary trade agreement, the Minister expressed his desire that something be done in this direction without delay. I told him that the matter could be initiated by his addressing a note to the Embassy, or through the Cuban Embassy with the Department, requesting on behalf of the Cuban Government the negotiation of a supplementary trade agreement. I said that in this connection the Cuban Government could mention its memorandum of December 27, 1940.⁵⁷

I said that so far as I knew, I did not believe that the opening of the negotiations for a supplementary trade agreement was dependent upon the fulfillment of the conditions which had been set forth for the granting of credits for agricultural diversification and public works.

The foregoing conversation lasted several hours and the Minister expressed a desire, before I saw the President on the basis of my instructions, that I would have a further conversation with him. He said that he wished to consider the substance of the statements which I had been good enough to convey on behalf of my Government and to discuss the various items further with me before I saw the President. I said that I saw no inconvenience in this and that I was prepared to resume the conversation at any time he desired.

The foregoing observations on the conversation with the Minister should I believe, therefore, be considered by the Department as preliminary in character. In my next conversation with him, I will be able to enter into greater detail on various items under my instructions.

I may say that I considered the conversation, on which I am reporting in this despatch, as of a satisfactory character.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/63

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

No. 563

WASHINGTON, March 25, 1941.

SIR: The Department has read with interest your despatches nos. 1563 and 1625 of February 12 and 21, 1941⁵⁸ enclosing memoranda of

⁵⁷ Not printed.

⁵⁸ Despatch No. 1625, February 21, not printed.

conversations with Foreign Minister Cortina and President Batista, respectively, which you have had in accordance with the Department's instruction no. 421 of January 11, 1941.

In the foregoing connection there is enclosed, for information purposes, copy of a memorandum on the "Status of the Cooperative Economic Program with Cuba"⁵⁹ recently prepared for the Deputy Federal Loan Administrator⁶⁰ on the basis of your reports.

The Department regards with sympathy the views of the President and of the Foreign Minister as to the desirability of a global commitment for financing individual projects as they are approved by the Export-Import Bank, and is prepared, provided agreement can be reached with the Cuban Government on the general categories under the global commitment, to recommend to the Federal Loan Agency public announcement of a commitment of \$30,000,000. The Department would of course expect inclusion within this amount of the cost of the rehabilitation of the Habana water works. As you are aware, the Export-Import Bank will require the Cuban Government's guarantee of the credit to the Municipality.

In this connection and with reference to your despatches nos. 1692 and 1714 of March 8 and 11⁶¹ there is enclosed a letter from the Deputy Federal Loan Administrator to the Mayor of Habana,⁵⁹ together with office copies, on the subject of a credit for the Habana water works project. You should deliver this letter to the Foreign Minister for transmittal to the Alcalde as soon as an agreement upon the settlement of the Morris claim is reached.

It is therefore requested that you submit if you are in agreement with the above course the following information to assist the Department in formulating its recommendations:

(1) The steps contemplated by the Cuban Government to reach a settlement of the Morris Claim.

(2) Does the Cuban Government desire to obtain the \$4,000,000 budgetary loan offered by the Federal Loan Administrator in his letter of December 20, 1940?⁶²

(3) An estimate of the increased revenues expected from the new tax legislation presented to the Cuban Congress.

(4) A breakdown by amounts of the \$30,000,000 maximum commitment which the Department is ready to recommend, somewhat as follows:

a. Budget loan (maximum, \$4,000,000. If not desired, this amount may be allocated to *b.* and *c.*).

⁵⁹ Not printed.

⁶⁰ W. L. Clayton.

⁶¹ Neither printed.

⁶² Not found in Department files.

- b. Agricultural diversification and development loans.
- c. Public works projects.
- d. Habana water works.

You may inform the Foreign Minister that the Department has been gratified by the efforts of the Cuban Government to bring about desired reforms and improvements in administrative and fiscal procedures, and that it is also prepared to take up with the appropriate agencies, upon the receipt of your further report, the question of the extension of the other assistance included in the outline program of economic cooperation.

Very truly yours,

SUMNER WELLES

837.51 Cooperation Program/65

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

No. 1831

HABANA, April 4, 1941.

[Received April 5.]

SIR: I have the honor to acknowledge the receipt of the Department's strictly confidential instruction No. 563 of March 25, 1941, and have noted carefully the directives given therein for my guidance in further conversations with the Cuban Government in the matter of financial and economic cooperation. I am in agreement with the Department that the time has arrived when these conversations may be renewed on a definite basis.

With respect to the Habana waterworks, the Department transmits a letter from the Deputy Federal Loan Administrator to the Mayor of Habana on the subject of a credit for the Habana waterworks project, and I am instructed to deliver this letter to the Minister of State, for transmission to the Mayor of Habana, as soon as an agreement upon the settlement of the Morris Claim is reached. I shall, therefore, not deliver this letter to the Minister of State for the present, and not until there is information with regard to adequate progress on the settlement of the Morris Claim.

As I interpret the Department's instruction, our Government is prepared, provided agreement can be reached with the Cuban Government on the general categories under the global commitment, to recommend to the Federal Loan Agency public announcement of a commitment of \$30,000,000, and that the Department would, of course, expect inclusion within this amount of the cost of the rehabilitation of the Habana waterworks. I note that the Export-Import Bank will require the Cuban Government's guarantee of the credit to the Municipality for the waterworks rehabilitation. It is further my understanding that a preliminary condition to this action by the Depart-

ment would be an agreement upon the settlement of the Morris Claim, as it is believed by our Government that in other respects adequate progress has been made in the matters which I brought to the attention of the President of Cuba and the Minister of State in accord with the Department's instruction No. 421 of January 11, 1941.

With specific reference to the Morris Claim, I have reported to the Department that I have on several occasions discussed this with the President and the Minister of State, and both of them have indicated their full agreement that this matter should be settled without delay. The Minister of State informed me the other day that while the Cuban Ambassador, Dr. Concheso, was here, he would instruct him immediately on his return to Washington to take up the Morris Claim with the claimants or their representatives in order to arrive at a settlement. During his brief stay here, the Cuban Ambassador came in to see me and informed me that the President and the Minister of State had instructed him to take up this matter of the settlement of the Morris Claim immediately on his return to Washington and to bring it to a satisfactory conclusion.

The Department is aware that I have in an informal manner during the past few months been in constant contact with the Minister of State on these matters of financial and economic cooperation. He has on several occasions recently informed me that he is preparing a memorandum for submission to our Government, through this Embassy, covering the various points in the program. There have been many matters of a purely internal, but pressing, character which have required the immediate attention of the Minister of State, in spite of the importance and pressing nature of the financial and economic assistance which Cuba needs. I think this delay in the delivery of this communication by the Minister of State must be attributed to the unusual pressure under which he has been working. He informed me on several occasions during the last week that he was working on this memorandum and hoped any day to discuss it with me prior to putting it into final form.

In view of the foregoing, I have not raised with the Minister of State the concrete questions set forth in the Department's instruction No. 563 of March 25, 1941. I believe that I can more effectively do so when he renews these conversations. I shall, when we take up this matter together, secure the information desired under points 2, 3 and 4 in the Department's instruction No. 563.

There is one point on which I would desire to make the following comment at this time. The Department states that it is prepared to recommend to the Federal Loan Agency public announcement of a commitment of \$30,000,000, which would include the cost of the rehabilitation of the Habana waterworks. As the cost of the water-

works project is estimated variously as from \$8,000,000 to \$12,000,000, and as the cost would undoubtedly be nearer the latter figure, this would leave only \$18,000,000 for agricultural diversification and public works projects in which the Government of Cuba is primarily interested. If the Government should desire the budget loan in the amount of \$4,000,000, this would reduce the amount available for agricultural diversification and public works to \$14,000,000. This, I believe, would be a source of considerable disappointment to the Cuban Government and to the Cuban public, and I would strongly recommend to the Department its consideration of making a recommendation to the Export-Import Bank of a global commitment of \$30,000,000, exclusive of the amount needed for the rehabilitation of the Habana waterworks. The Cuban Government has consistently, in its conversations with me, taken the attitude that it desires the Habana waterworks project to be considered as a separate one. It is noted that the Bank will require the guarantee of the Cuban Government of any credit to the Municipality for this project. This is a guarantee which the Cuban Government, I believe, would prefer not to give in view of the autonomy of the Municipality, but I have always considered that the Bank would, in any arrangement with the Municipality, insist upon the guarantee of the Cuban Government of the credit, and I believe this to be a quite proper requirement of the Bank. This, of course, will require legislation by the Cuban Congress. On the other hand, there is some basis for the attitude of the Cuban Government that the credit for the waterworks project should be considered separately and apart from the global credits which may be announced to the Cuban Government for agricultural diversification, public works, etc. Whatever arrangement the Bank reaches with the Municipality with regard to the waterworks project, it will undoubtedly be on a purely commercial basis with very definite requirements such as any private bank would require for amortization of principal and payment of interest.

If the approximately \$12,000,000, which is needed for the Habana waterworks, is included in the global commitment of \$30,000,000, it will, I believe, cause considerable concern to the Cuban Government and the loan will not have the effect on public confidence which it is desired by both Governments it should have.

There is the further consideration that the specific commitments and expenditures thereunder, under any credit which we may give to the Cuban Government, will be for important projects to be agreed upon between the two Governments. Although some basic study has been made of these projects, and active steps could be taken with regard to some of them without delay, in the case of others further study would be necessary. Whatever global commitments we may

therefore make in the way of a credit to the Cuban Government, the actual expenditures thereunder would be made only very gradually. This, I believe, should be considered by our Government and the Bank in the consideration of the amount of the global commitment.

I therefore respectfully urge the Department to consider the advisability of recommending to the Bank the global commitment of \$30,000,000 exclusive of the amount which the Bank may be willing to advance for the Habana waterworks project. This action by our Government, I believe, is necessary in order to give the adequate effect to the loan which we wish it to have and which the Cuban Government has consistently pointed out is essential to it. It is obvious that only a part of such global commitment could be immediately used, but the effect would be to strengthen our position here and to strengthen the position of the Cuban Government and to give to the Cuban economy the confidence and impulse which it so definitely needs. It is my hope, therefore, that when we take this important step in our relationships with Cuba, which are progressing so satisfactorily, that we may do so in an adequate and fully effective form in order to reach the ends desired by both Governments. The record of the past few months shows, I believe, conclusively the real desire of the Cuban Government to clean its house as rapidly and as completely as possible, and to cooperate with us fully in other respects, including that of defense.

I will particularly appreciate the Department's immediate consideration of the foregoing recommendation and any observations or instructions which it may be able to give me for my further guidance.

With respect to the specific points on which the Department has requested further information, I shall write as soon as I have been able to discuss these matters with the Minister of State.

Respectfully yours,

GEORGE S. MESSERSMITH

837.516/366

The Cuban Minister of State (Cortina) to the American Ambassador in Cuba (Messersmith) ⁶³

[Translation]

[HABANA,] April 15, 1941.

MEMORANDUM

1.—With regard to the good disposition of the Government of the United States to cooperate with the Government of Cuba in the es-

⁶³ Copy transmitted to the Department by the Ambassador in his despatch No. 1910, April 20; received April 22.

establishment of a central bank of rediscount, with its associate banks for agricultural and industrial development, the Government of Cuba accepts with pleasure the promises of cooperation that have been made to it, and in this connection proposes to submit to the consideration of the technicians of the Government of the United States, at an early date, a project of banking legislation and of financing for this bank, to the end that in said project there may be found bases of an understanding between both Governments with the object of giving to that institution the firmness and strength necessary for its very important economic purposes.

J. M. CORTINA

837.51 Cooperation Program/66

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

No. 1914

HABANA, April 20, 1941.

[Received April 22.]

SIR: I have the honor to refer to the series of despatches in which I have reported on the conversations of an informal and exploratory character which I have had with President Batista, and with the Minister of State, Dr. Cortina, with reference to possible economic and financial cooperation between the United States and Cuba, and to transmit herewith a copy of a Memorandum, dated April 15, 1941, together with a translation thereof, which the Minister of State handed to me yesterday, in which the Cuban Government makes a request that as immediate consideration as possible should be given by our Government to the opening of credits for public works and agricultural diversification projects in Cuba. In delivering this Memorandum, which has the specific approval of President Batista and the members of the Cabinet, Dr. Cortina made certain observations with respect to these credits which will be of interest to the Department, but which time does not permit me to convey in this despatch. I am leaving for Washington this evening for consultation and I shall, on my arrival in the Department, give further appropriate background with respect to the observations made by the Minister and with respect to the informal conversations during the past three months.

I confine myself at this moment to saying that it is my considered opinion that the Cuban Government has made adequate progress in the fulfilment of the observations which, under the Department's instructions, I made to President Batista and to the Minister of State, to warrant our proceeding without delay with a determination of the amounts of the credits to be extended. It would not, in my opinion,

be wise to delay concrete and formal action with regard to these credits.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure—Translation]

*The Cuban Minister of State (Cortina) to the American Ambassador
(Messersmith)*

[HABANA,] April 15, 1941.

MEMORANDUM

1.—The opinion of the Government of Cuba with regard to a possible economic agreement with the Government of the United States of America, through the Export-Import Bank, was expressed in the note from this Ministry dated December 24, 1940.⁶⁴

2.—We consider that these conversations are held on the basis of the repeated expression of good will and economic cooperation offered by the Government of the United States of America, in an explicit manner; and therefore we believe that the time has come to concrete the real and practical possibility of said cooperation.

3.—To this end, we reiterate the necessity and convenience of not discussing prior questions, of a nature distinct from the financing, so that this may be brought about. Any other method, in addition to being complicated of itself, would lead us to extended delays and to an evident confusion of problems.

4.—We are desirous of negotiating and discussing the possibility of a loan, a financing or a credit, to be used for agricultural development and public works. We believe the essential point of this operation is to agree on the form of payment and the security which the Government of Cuba should give in order that the Export-Import Bank may grant it the said credits. This is the method that has always been followed in negotiations between Cuba and the United States, and we see no special reason for the abandonment of this method, through which, up to the present time it has been possible to agree satisfactorily, between the Government of Cuba and that of the United States of America, upon all matters of this nature.

5.—However, we see no objection in declaring that we are willing to have the Cuban Ambassador to the United States proceed to get in contact with the representatives of the so called Morris claim, in order to reach with them an agreement as to payment that may be satisfactory to both parties. We do this because it is the criterion of this Government at all times to liquidate such obligations as have

⁶⁴ *Foreign Relations*, 1940, vol. v, p. 788.

been properly clarified and fixed by the Courts of Justice, and there is no doubt that this is the case with regard to the Morris claim.

6.—We believe that the matter of the reduction of budgetary expenditures is a very complex problem which the Government of the United States cannot fail to appreciate is closely connected with the European war, with deep social problems and with local circumstances and special conditions of each country, that cannot be judged hastily and easily through the negotiation of a loan, but that these matters should be left to the initiative of each Government itself according to a better knowledge of its interests and with the upright intention, which every honest Government should have, of properly administering its affairs. Naturally, the Government of Cuba, as is the case with the Government of the United States itself, has the intention of eliminating every expense that it may be possible to eliminate or which may be unnecessary, and to reduce the amount of the budget in the measure and form that the national needs may permit.

7.—To this end the Government of Cuba has already taken and will continue to take every action of a fiscal nature or administrative character which it might consider necessary for its purpose of good administration. The recent activities of the President, Colonel Fulgencio Batista are well known, whose energetic action to eliminate high officials and correct deficiencies in the administration of the State have received international cognizance and have merited the warm congratulation of the Government of the United States of America. We believe that in this respect there is absolute proof of the firm purpose of the Government of maintaining and carrying forward an efficient, upright and competent administration.

8.—With respect to the possibility of appointing a commission to convoke all the possible claimants of the Government of Cuba that there might be among American citizens, we believe this to be absolutely unnecessary, because we have no information with regard to any appreciable or important claim made upon the Government of Cuba by any American citizen, that has not been settled, with the exception of the Morris claim.

9.—The Government of Cuba can take pride in saying that it figures among the first of Spanish-America, in so far as regards the satisfactory solution with the Government of the United States of all pending claims, and it cannot be possible to forget that Cuba was the first nation to pay the total of its war debt to the United States of America; as well as that the so called Public Works bonds and obligations have already been the subject of full and satisfactory liquidation, that they are earning their respective interest and are in a completely normal state.

10.—This Commission would be the basis for the creation of difficulties and its international effect would place Cuba in a position of inferiority, making it appear as a constant field of claims which do not exist; a situation that is not reasonable, due to the foregoing arguments.

11.—At any time that a concrete and just claim, properly recognized by the courts, is presented to the Government of Cuba by an American citizen, this Government will give it immediate consideration. We believe, therefore, that any project calling for special commissions for the purpose of convoking claimants, should be abandoned.

12.—With respect to the treaty of residence and navigation the negotiation of which was started some time ago, the Cuban Government will, in turn shortly, formulate the remarks that it deems proper, within the spirit of good friendship that exists between both countries. It is our intention to handle the discussion of this negotiation in a relatively rapid and effective manner.

13.—With respect to the problem of the quotas of the American mills, with regard to the so called refined or direct consumption sugar, the Government of Cuba has no inconvenience in assuring that it will maintain the American mills in the same proportion in which they have been enjoying this advantage. And with reference to the other sugar problems, in the Law for the financing of the 400,000 tons, the Government and Congress of Cuba, heeding the wishes of the Government of the United States, has indefinitely extended the life of Decree-Law No. 522 which regulates the quota system and the Sugar Institute. This has been done to the complete satisfaction of the American and Cuban sugar producers and of the Government of the United States, and we are pleased to advise that this extension and provision has been requested on repeated occasions by the Government of the United States, which has given extraordinary importance to the same and has expressed, that once these were in force, the pending economic problems would find an easy and rapid solution. This has been done by the Government of Cuba in strict fulfilment of the promises exchanged by the Foreign Offices.

14.—*General consideration.* From the above statements the position which the Government of Cuba adopts and maintains with regard to the possible financing may be very clearly observed, and the evidence that there exists no problem which due to its magnitude should be considered a prior requisite for something as important as is the definition and fixing of the limits, the manner and form in which the Government of the United States will fulfil the promise that it has repeatedly made to this Government, of economic cooperation.

15.—It is our purpose, in accord with the reasons expressed above, to carry forward all the intentions that have been heretofore stated, and the acts of the Government, up to this time, are evidence of the

fact that our words are confirmed by our deeds. For this reason we believe that the negotiation with the Export-Import Bank should be made, in a concrete and direct manner, with regard to the financing and its payment, and with regard to the works and constructions that should be carried out.

16.—Before making our definite proposition, after the statement of ideas we have just made, we cannot fail to express to the Government of the United States the appreciation of the Government of Cuba for its friendly and valued cooperation in making possible the financing of 400,000 tons of sugar, as was requested by the Government of Cuba, which cooperation we appreciate greatly because it has very specially benefited the working classes of Cuba in view of the serious crisis caused by the reduction of the exports of sugar from this country to Europe.

17.—*Proposition.* Having made the above points clear, we are ready to repeat the propositions which we formulated with regard to the financing in our memorandum of December 24, 1940. These propositions are the following :

a) The Export-Import Bank will open a credit for the Republic of Cuba up to ten million dollars, to be used for the payment of the execution of projects of agricultural development.

b) The Export-Import Bank will open another credit of twenty million dollars, to be used for the payment of general public works not included within the item of agricultural development.

c) In connection with the Habana Waterworks, the Government of Cuba repeats that said aqueduct belongs to the Municipality of this capital and that, in accord with the Constitution of the Republic, the Government of Cuba has no authority, intervention nor direct action as regards said Waterworks or its financing, but the Government of Cuba, greatly appreciating the good will of the Government of the United States, has no objection to lend its good offices to the end that the Habana City Council carry out, within adequate legal methods, a negotiation with the Export-Import Bank, leading to the financing of that important and necessary sanitary work, although it does not wish that the credit granted therefor be charged to the general amount of the financing, since these being different matters and responsibilities foreign to the Government, it is not logical to have the payment for this work, which is amply secured, be deducted from the credit that is directly granted to the Government of Cuba.

18.—*Method of carrying out the work.* The Government of Cuba believes that once the Export-Import Bank has definitely accepted the opening of the credits for the financing of works of agricultural development and of public works of the kind mentioned in our above mentioned memorandum of December 24, 1940, the method of execution of these works and of using said credits shall be regulated on the basis that the technicians of the Export-Import Bank, together with the technicians of the Government of Cuba, shall select on the ground

the works of agricultural development and the public works of a general nature that are considered most advantageous and useful to the economy, the development of the country, the sanitary improvement and strategic preparation.

19.—The Government of Cuba accepts this prior requisite in order that use may be made of the respective credits that may have been opened by the Export-Import Bank, to be used for those purposes. In this way, all the difficulties and objections which might arise in practice and in the execution of said works, are met.

20.—*Method of payment.* It is difficult to understand, in connection with the payment of the credits requested from the Export-Import Bank, that any other method should be followed than that of the creation of a general amortization fund, to which shall be charged the payments which, with respect to each one of the works executed, shall be made.

21.—Mention has been made of works of different kinds, those of a general nature as well as those known as of agricultural development, and they have been classified, some as self liquidating and others, as of a general character. This, as an explanatory denomination, is a good method, but which can have no direct relation with the payments.

22.—It is not possible to establish a good financial system of liquidation if each work, separately, is to have a separate loan, with its own maturity. This would lead us to an economic confusion absolutely beyond every financial rule in this kind of operation.

23.—The way or method which we consider feasible is to establish or devote a series of sufficient taxes, properly guaranteed, for the formation of an adequate fund for the payment of amortization and interest, of the securities that may be issued.

24.—Through the use of this method, the contracting of the financial operation of credit would be simplified. The problem consists in fixing the interest and the periods of amortization within the proportion and the estimate of the fund created for this purpose.

25.—The Republic of Cuba has at no time failed to fulfil its obligations of an international character and its loans. The public securities of the Republic of Cuba have at the present time the highest quotations in the market of Spanish-American securities, and their issues are freely accepted in the Exchanges and by investors of all countries. They enjoy, therefore, a guaranteed credit, which permits us to undertake a new loan negotiation in the assurance that we will have the necessary funds and the due and constant will of paying the same off.

26.—With respect to the special credit of \$4,000,000 which has been referred to in notes and conversations, the Government of Cuba believes that it is best not to treat it as an isolated negotiation, but to

include it as part of the general financing, in the form and under the terms that may be agreed upon.

27.—Having expressed our viewpoint with regard to the method that we consider most practical and rapid to bring about the payment of the obligations that may be contracted by the Government of Cuba, this Government is willing, in turn, to hear the suggestions which, in the same sense and as counterproposals to our ideas, the Export-Import Bank may consider it convenient to make.

28.—We have summarized in this exposition the viewpoint of the President of the Republic and of this Ministry, with regard to the best method for reaching a practical conclusion in the negotiations which we have been carrying on already for some time. Naturally, due to the urgency of the matter and to the serious problems with which the country is faced, we desire to know, with all the possible haste, the good disposition which the Government of the United States may definitely have, through the Export-Import Bank, in connection with these negotiations, and we have no objection in ratifying that all matters foreign to the financing, which have been discussed incidentally, shall be properly attended to by the Government, within a program of good administration.

J. M. CORTINA

837.51 Cooperation Program/123a

The Secretary of State to the Secretary of Commerce (Jones)

WASHINGTON, April 28, 1941.

MY DEAR MR. SECRETARY: Reference is made to your letter of December 2, 1940⁶⁵ and numerous conversations between officers of the Department and of the Federal Loan Agency with respect to the requests of the Government of Cuba for the financial cooperation of the Export-Import Bank in carrying out a program of agricultural development and diversification and of useful and necessary public works in Cuba.

The whole subject of economic cooperation between the United States and Cuba has been the subject of extended discussions between the United States Ambassador and the Government of Cuba, and officers of the Federal Loan Agency have been kept posted as to the progress of such discussions. The Government of Cuba has now submitted memoranda requesting credits for the financing of agricultural and public works projects and indicating its interest in the estab-

⁶⁵ Not printed; pertinent paragraphs are included in the memorandum from the Under Secretary of State to the Cuban Ambassador, December 4, 1940, *Foreign Relations*, 1940, vol. v, p. 784, and instruction No. 421, January 11, 1941, to the Ambassador in Cuba, *ante*, p. 133.

lishment of a central bank and other appropriate banking facilities. There are enclosed copies of despatches of April 20, 1941 from the Ambassador at Habana⁶⁶ transmitting these memoranda.⁶⁷

You will note that the Government of Cuba requests the opening of credits in the amount of \$30,000,000, \$10,000,000 for agricultural diversification, and \$20,000,000 for essential public works not including the Habana Waterworks which, in view of the special autonomy of the Municipality of Habana, are not directly within the scope of the activities of the national government. These credits would, of course, be utilized only after specific examination and approval of individual projects, and would be expended in accordance with arrangements agreed upon by the Government of Cuba and the Export-Import Bank.

The Department has given the most thoughtful attention to the requests of the Government of Cuba and to all phases of the Cuban situation and especially its relation to the United States. It believes that the following points are significant:

1. Cuba is a very important market for United States goods and supplier of essential imports. In 1940 Cuba was the eleventh best customer of the United States, importing from us \$79,600,000 of goods out of total Cuban imports of \$103,900,000. In the same year Cuba was the sixth most important supplier of our own imports, exporting to the United States \$104,900,000 out of total Cuban exports of \$127,300,000. All of this trade is carried on freely; there is no restriction of exchange transfers, or delay in payment.

2. Cuba is the most important field for United States investment in the other American Republics. The Commerce Department has estimated United States investments in Cuba at \$733,000,000, or 19% of total investments in Latin America. These investments are not subject to any unusual forms of control by the Government of Cuba, and remittance of interest dividends, and other services is entirely free.

3. The public debt record of Cuba is good. A large portion of the dollar obligations of the national government have been regularly serviced throughout the last twelve years, while all of the rest have been settled by agreements with the bondholders which are currently being kept scrupulously.

4. Other claims of American citizens are being handled in a satisfactory manner. The Cuban Government last fall settled the so-called gold obligations held by Warren Brothers and other public works contractors. It has given orders that a settlement be reached with the claimants in regard to the so-called Morris Claim. It has indicated a willingness to receive and discuss any other claims of Americans which may be brought forward.

5. The Government of Cuba has in a number of other respects recently given indication of its friendly and cooperative feeling towards

⁶⁶ Despatch No. 1910, not printed; and despatch No. 1914, *ante*, p. 147.

⁶⁷ Memoranda of April 15, pp. 146 and 148.

the United States and United States citizens and enterprises. Among these may be mentioned :

a. The renewal of Decree Law No. 522 regarding the distribution of sugar production quotas to the various mills in Cuba.

b. The derogation of three decrees with respect to quotas for refined sugar which have been considered prejudicial to American mills.

c. The entirely satisfactory solution of the controversy regarding the Havana Electric Company.

6. The Government of Cuba has demonstrated a firm determination to reorganize and reform the administrative machinery. It is returning to the civil authorities the powers exercised by the military following the Revolution of 1933; it is emphasizing full democratic processes of law; and it has ousted the unsatisfactory superior officers of the Army and Navy replacing them with competent respected individuals.

7. The Government of Cuba is attacking the fiscal problem, studying methods to improve tax collections and accounting, and has introduced in the Congress a bill calling for new taxes which would raise, it is estimated, over \$7,000,000 in additional revenues.

8. The Government of Cuba is in all ways cooperating fully with the United States in matters of the military defense of the hemisphere.

In view of all of these and other considerations, and after careful study of the Cuban requests and the individual projects of development and diversification which have been proposed, the Department believes that the time is now opportune for a broad program of economic cooperation with Cuba, and recommends that the Export-Import Bank immediately open a line of credit to the Government of Cuba totaling \$30,000,000. Feeling strongly that this Government should do everything in its power to assist in the long range development of the economic resources of Cuba, it suggests that up to \$15,000,000 of this amount be allocated to projects of agricultural development and diversification including irrigation works and agricultural roads. In this connection, attention is called to the recently completed study and detailed recommendations regarding Cuban agriculture made by a survey party of the Department of Agriculture. Copies of this report have been made available to the Export-Import Bank and Mr. W. L. Clayton, Deputy Federal Loan Administrator.

The Department further suggests that up to \$10,000,000 be allocated to other types of public works—water supply systems, sanitation projects, highways, et cetera—to be carried out by the national government. All of these would, of course, be subject to the specific examination and approval of the Export-Import Bank.

Finally, the Department agrees with the Government of Cuba that the amplification of agricultural credit facilities is of the greatest importance in a program of agricultural development and diversification.

The report of the Department of Agriculture survey party mentioned above devotes a full section to this subject. The Department does not wish to put forward at this time a specific plan for agricultural credit, but suggests that the remaining \$5,000,000 be set aside for this purpose, to be utilized only with the full approval of the Export-Import Bank for a system for agricultural credit established by the Government of Cuba with the advice and assistance of technical experts of this Government.

The Department believes that it is most desirable that public announcement of cooperative arrangements between the United States and Cuba be made at the earliest possible date, and hopes that the Export-Import Bank will give prompt consideration to the economic program suggested above.

Sincerely yours,

For the Secretary of State:
SUMNER WELLES
Under Secretary

837.51 Cooperation Program/85

Memorandum of Conversation, by Mr. Walter N. Walmsley, Jr., of the Division of the American Republics

[WASHINGTON,] April 28, 1941.

Participants: Mr. Welles
Ambassador Messersmith
Mr. Bonsal⁶⁸
Mr. Collado⁶⁹
Mr. Walmsley

A meeting was held to discuss the type and amount of financial assistance to Cuba which the Department would request of the Export-Import Bank. Ambassador Messersmith appeared satisfied with the recommendation of the Division that the Bank be requested to make a commitment up to \$25,000,000 for agricultural development and diversification and public works and a tentative commitment of \$5,000,000 for eventual establishment of a central bank. The question of the Habana water works which the bank is known to consider as a very much worth while project was left for later consideration, Ambassador Messersmith having stated that the letter from the Bank to the Mayor of Habana approving the project in principle had not been delivered because of the undesirability of giving preference to the municipal government's request over the request of the central government.

⁶⁸ Philip W. Bonsal, Acting Chief of the Division of the American Republics.

⁶⁹ Emilio G. Collado of the Division of the American Republics.

In going over the problem of financial assistance the question was brought up of amortization terms. Ambassador Messersmith pointed out that the advances for long-term projects such as water works must be given amortization terms considerably longer than the bank has been giving up to now. A letter from the Under Secretary to Mr. Jones recommending the credits along the lines indicated above was approved by the meeting and immediately signed by the Under Secretary. Ambassador Messersmith planned to deliver the letter personally that afternoon.

In the course of the discussion the Under Secretary stressed the importance of keeping out hare-brained "turismo" projects from among those which the Cuban Government might endeavor to present. Thought should however be given, the Under Secretary added, to the desirability of eventually building a first-class hotel at Varadero Beach.

837.51/2783

Memorandum Handed to the Cuban Ambassador (Concheso) by the Under Secretary of State (Welles)

[WASHINGTON, May 5, 1941.]

Following conversations over the past several months between Cuban authorities and officials of the United States Government, the Export-Import Bank has established a credit of \$25,000,000 to be availed of by the Cuban Government to finance the purchase of materials, equipment and services required in the Republic of Cuba for agricultural development and diversification and public or other useful works projects, including irrigation systems, highways, and sanitation works throughout the Island of Cuba.

This commitment, which was made by the Executive Committee of the Export-Import Bank on May 1, is a further step forward in the development of a program of economic collaboration between Cuba and the United States.

Funds will be advanced under this credit as individual projects are studied and approved by the appropriate authorities of the two Governments. The precise terms of the arrangement will be worked out by representatives of the Cuban Government and the Bank.

837.51 Cooperation Program/70

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

No. 2000

HABANA, May 8, 1941.

[Received May 10.]

SIR: I have the honor to refer to previous correspondence with the Department relating to the desire of the Cuban Government to secure

a credit from the Export-Import Bank for agricultural diversification and public works projects, and particularly to my despatch No. 1914 of April 20, 1941, with which was transmitted a copy of a note from the Cuban Government, dated April 15, 1941, requesting a credit of \$30,000,000 for public works and agricultural diversification projects and requesting favorable consideration by the Export-Import Bank of the financing of the rehabilitation of the Habana waterworks. In this connection, I also have to refer to my despatches, No. 1910 of April 20, 1941,⁷⁰ requesting consideration by our Government of the establishment of a central bank in Cuba with agricultural facilities, No. 1912 of April 20, 1941,⁷¹ requesting consideration of more favorable treatment for Cuba in the matter of cigars, cattle and sugar, and No. 1913 of April 20, 1941,⁷² requesting consideration by our Government of a reduction of fifteen points in the customs duties paid by Cuban sugar on entry into the United States.

During my recent stay in Washington on consultation, under instructions of the Department, I was able to discuss the notes and memoranda, referred to in the above-mentioned despatches, with officers of the Department and of the Export-Import Bank. It will be recalled that after appropriate discussion in the Department, a letter was addressed by the Department to the Federal Loan Administrator strongly recommending that the Bank open a credit of \$30,000,000 in favor of the Cuban Government of which \$25,000,000 would be devoted to agricultural diversification and public works projects and \$5,000,000 for the purpose of aiding in the establishment of a central bank in Cuba with agricultural credit facilities. The Department also in this letter strongly recommended to the Bank for its favorable consideration the opening of a credit for the rehabilitation of the Habana waterworks, this being in addition to the recommendation made for agricultural diversification, public works, and the central bank.

After thorough discussion of these recommendations with the officials of the Export-Import Bank, the Bank at a meeting of its Executive Board last week decided to extend a credit of \$25,000,000 to the Cuban Government for agricultural diversification and public works projects, an announcement of which credit was to be made at a time in the near future to be agreed upon between the Bank and the Cuban Government. The Bank did not deem it advisable at that time to make a definite commitment with regard to the assistance which it could render in the establishment of a central bank with agricultural credit facilities, in so far as the amount involved was concerned. It did, however, go on record as expressing itself sympathetic to this

⁷⁰ Despatch not printed; for enclosure, see p. 146.

⁷¹ Not printed.

⁷² Despatch not printed; for enclosure, see p. 196.

project and willing to aid therein to the amount of \$5,000,000 when and if proper and acceptable plans for the organization of such a bank had been made. The Bank expressed its approval that its attitude in this respect be communicated confidentially to the Cuban Government, but it did not wish any public announcement of any kind to be made with respect to its willingness to consider and to aid in the establishment of such a bank.

With respect to the rehabilitation of the Habana waterworks, the Bank stated its willingness to consider sympathetically and favorably an application from the Mayor and Municipality of Habana for a credit to the Municipality for this purpose. The Bank stated that it had not received as yet a formal application from the Municipality of Habana for the consideration of this matter and stated that the Cuban Government and the Mayor of Habana could be informed that a formal application would receive consideration.

The Cuban Government, in the communications above referred to, had also requested consideration by our Government of a reduction of fifteen points in the customs duties paid by Cuban sugar on admission into the United States; more favorable treatment for Cuban sugar in general; and more favorable consideration of importations of tobacco, cigars and cattle. These matters had already been under consideration by the Department of State and I had conversations with the Secretary, the Undersecretary, and with the officers of the Division of American Republics, and of the Division of Commercial Agreements in the Department with respect thereto. In these conversations I emphasized the importance and immediate necessity, in the opinion of this Embassy, of as favorable consideration as possible being given to the requests of the Cuban Government. I found these views shared in the Department, and the steps which were being taken in the Department were indicated to me. These steps took the form of the preliminaries for the negotiation of a supplementary trade agreement in which the Cuban desires would be met as far as possible. The Division of Commercial Agreements indicated that the Inter-Departmental Committee on Commercial Policy had approved ^{72a} a reduction of fifteen points in the duty on Cuban sugar, after going into the matter both from the political and economic factors involved. With respect to tobacco, it was hoped that some concession favorable to Cuba could be worked out. It was indicated that the Cuban request for the stabilization of the sugar quota, which is so highly desirable in the best interests of both Cuba and the United States, could not receive consideration now as this would involve action by the Congress. With respect to cattle, it was pointed out that there was no hindrance to

^{72a} Properly should read "had recommended", since only the President could approve.

the importation of fresh and frozen meats from Cuba and that the question of the importation of live cattle would be gone into, and would be largely resolved by the action taken by the Cuban Government in establishing tick-free zones.

The opportunity which I had while in the Department to discuss these matters was of great value to me and I appreciate particularly the considerable time which the officers of the Department were able to give to these matters in spite of the many heavy burdens resting upon them.

In order that there should be no misunderstandings with respect to what I could say to the Cuban Government on my return to Cuba, a meeting was held in the office of Mr. Bonsal, the Chief of the Division of American Republics, at which were present—in addition to Mr. Bonsal—Mr. Duggan,⁷³ Mr. Collado and Mr. Walmsley.

It was agreed that on my return I could say to the Cuban Government the following:

1. The Export-Import Bank has agreed to give to the Cuban Government a credit of \$25,000,000 for the purpose of financing agricultural diversification and public works projects. There is no division in this amount as to the portion to be devoted to public works and to agricultural diversification. It is believed by the Department and by the Bank that it is in the interests of both Governments that there should be no arbitrary division as to the amount to be devoted to the one or to the other purpose.

The projects to be embarked upon are to be approved by the Cuban Government and by the Bank. No part of the credit shall be issued for a project which has not been approved by both the Bank and the Cuban Government. For this purpose, the Bank will use the cooperation of the Department of Agriculture and of such other Departments of our Government as it will see fit, both in the study and selection, as well as in the approval, of projects, and in certain supervisory measures which it may deem desirable and necessary.

In view of the practice of the Bank not to extend credits for more than ten years, the credit shall be for a period of ten years and the sums advanced shall bear interest at the rate of four percent. Interest and amortization periods of ten years shall begin in each case with the amount or amounts actually advanced to the Cuban Government for the inauguration and carrying through of approved projects. The credit shall be amortized in such a manner that each advance shall be repayable in nineteen semi-annual instalments, each in the amount of two-and-one-half percent of the advance, the first instalment to become due and payable not later than six months from the date of the advance.

⁷³ Laurence Duggan, Adviser on Political Relations.

In view of the fact that this arrangement contemplates the amortization of one-half of the loan in equal semi-annual payments over a period of ten years and a final payment at the end of ten years of 52½ percent, the Bank recognizes that for so considerable a loan the period of amortization is short and a heavy burden on the Cuban economy and budget. The Bank has therefore written me a letter, dated May 2, 1941, of which a copy is hereto attached,⁷⁴ stating that if when payment of the last half becomes due at the end of ten years, it is not convenient for the Cuban Government to pay this considerable sum, consideration will be given to an extension provided all maturities have been met.

An appropriate bill for presentation to the Cuban Congress guaranteeing the loan, etc., must be drawn up and enacted before any advance can be made under this credit. Announcement of the credit of \$25,000,000 is to be made by the Bank and by the Cuban Government simultaneously not later than Wednesday, May 7th, and it is understood that after I have returned to Habana on Tuesday, May 6th, and appropriately informed the Cuban Government of the foregoing, I will telephone the Department of State to indicate the hour, on May 7th, when the simultaneous announcement may be made. To this end a press release to serve as the basis of such announcement was agreed upon by the Department and by the Bank, and of which a copy is to be carried by me to Habana.

2. With respect to the memorandum of the Cuban Government requesting our favorable consideration of assistance in the organization and capital of a central bank with agricultural credit facilities, I am to say to the Cuban Government that our Government in principle views the establishment of such a bank with sympathy. I may say specifically that the Export-Import Bank views with sympathy the establishment of such a bank and is prepared to collaborate eventually in the organization of such a bank and in furnishing a part of the necessary capital therefor. The Bank, however, wishes this information to be kept in confidence by the Cuban Government and does not wish any publicity whatever given at this time to its sympathetic attitude. Although the Bank has indicated that in principle it would be prepared to participate in the capital structure of a central bank in the amount of \$5,000,000, I will not mention this sum to the Cuban Government. I will say further that when the plans of the Cuban Government for such a bank are submitted to my Government, the project will receive consideration. I will also say that the need for this bank with agricultural credit facilities is not so immediately urgent as its usefulness will become more evident and immediate as

⁷⁴ Not printed.

the various projects authorized under the credit of the \$25,000,000 are actually in process of being carried through.

3. With respect to the Habana waterworks, I will say that the Bank is prepared to look with sympathy and favor on this project which it considers to be one of the most useful which can be carried through in Cuba. I will say that the Bank is prepared to consider this project in addition to the credit of \$25,000,000 above mentioned. The Bank has before it no formal application of the Mayor and Municipality of Habana for the consideration of the rehabilitation of the waterworks and that it is prepared to receive such an application. It is to be clear that the Bank has not committed itself to any particular project, but is merely prepared to view with favor and to consider seriously the application of the Municipality of Habana. I am to convey this information to the Cuban Government and to the Mayor of Habana.

4. With respect to the desire of the Cuban Government for a reduction of fifteen points in the duty on Cuban sugar, and for consideration of more favorable treatment for certain Cuban products, I may say that our Government is giving serious consideration to the possibility of opening negotiations for a supplementary trade agreement in which these matters can be considered.

5. With respect to the request of the Cuban Government for stabilization of the Cuban sugar quota permitted entry into the United States, I am to state that this is a matter requiring legislation by the Congress and cannot therefore receive immediate attention.

On my return to Habana on Tuesday morning, May 6th, I got in touch with the Minister of State, Dr. Cortina, and conveyed to him the foregoing listed under points 1 to 5. I had a very long conversation with him particularly with respect to the amortization and budgetary problems involved in the \$25,000,000 credit.

Later in the day I had a very long conversation with President Batista and Dr. Cortina in which I again went over the statements I was authorized to make and above set forth. The Department will be interested to note as an evidence of good faith of the Cuban Government that the question of amortization and budgetary problems was gone into very carefully by the President and the Minister of State. They were particularly interested in these details and the measures which would be necessary by the Cuban Government in order to properly meet the payments as set forth in the Bank's offer. In this connection I should state that just before I left Washington I was furnished through the courtesy of the Bank a copy of the Resolution of the Bank authorizing the \$25,000,000 credit. I was told at the time, however, that this was not yet an official copy of the Resolution and that there might be some changes therein. A copy thereof would be transmitted to me by the Bank through the Department in due

course. I was therefore able to use this preliminary copy of the Resolution only for my informal guidance in the conversations above mentioned, and I could not make direct reference to it. I will appreciate the receipt of a copy of the Resolution of the Bank authorizing the credit as soon as possible.

During the conversations with the Minister of State and, later, with the President and the Minister of State, on Tuesday, May 6th, I gave them a copy of the press release which the Bank intended to give out on Wednesday, May 7th. It was agreed that I would call on President Batista at the Palace at 11:30 a. m. on May 7th and after this call he would give out a press release at 12 o'clock. As I did not finish the conversation with the President and the Minister of State until after 8 o'clock in the evening of May 6th, it was too late to telephone to the Department to fix the hour of the release for the next day, as had been agreed upon prior to my departure from Washington. On the morning of May 7th I noticed in the morning papers an Associated Press despatch from Washington to the effect that the Bank had made its announcement of the credit on May 6th. When I called on the President at 11:30 on May 7th he was considerably disturbed that the announcement had been made in Washington prior to the Cuban Government being able to make a simultaneous announcement here. I explained to the President that as a result of telephone conversations with the Department that morning I was able to say that this premature statement had been made due to a regrettable and inadvertent misunderstanding.

This incident was somewhat unfortunate as the Cuban Government has been refraining most meticulously from any mention of these negotiations with the understanding that we would follow the same course. After the unsuccessful negotiations during the latter part of 1940, which had a very considerable disillusioning effect in Cuba, the Cuban Government and the Cuban press have been silent on the negotiations. It was the particular desire of the Cuban Government, as I had indicated in Washington, that, if the present negotiations were successful, a simultaneous announcement should be made in Washington and in Habana because of the psychological effect. I am merely making reference to this matter to make it clear that the Cuban Government kept full faith in this matter.

In my conversation with the President on Wednesday, May 7th, at which no other official of the Cuban Government was present, I touched on the considerable pressure which would be brought on him and on the Cuban Government for all kinds of projects—some good and some bad. He said that he appreciated that he and the Government would have a very real problem. There was so much to be done in various parts of Cuba that there would be all kinds of pressures.

He expressed particular gratification that the Bank had expressed a willingness to consider, in addition to the credit of \$25,000,000, the rehabilitation of the Habana waterworks. This would make it possible, he said, for really useful and productive projects to be carried through in all the Provinces, and it was his desire and hope that projects would be approved in all of the Provinces. I took this opportunity again to emphasize not only the importance of the careful selection of the projects by the two Governments, but also the carrying through of the individual projects in such a manner that no criticism could attach thereto. The President said that he was adequately cognizant of this and realized that the success of the program depended thereon.

The President expressed the desire that actual progress be made as soon as possible, and he therefore authorized me to discuss directly with the Minister of State a project of law to be approved by the Congress guaranteeing the loan. The preparation of such a draft-law and its approval by the Cuban Congress would take at the best a certain time, particularly as the law would have to be passed in a form satisfactory to the Bank. He expressed the hope, therefore, that while this process was going on, actual work on the study and preliminary selection of projects might be made so that with the approval of the law by the Congress definite approval could immediately be given to certain projects and work thereon started. Unless this were done, he said, there would be a very considerable time which would elapse before the credit could become effective. In this connection I said that, of course, the Bank would not advance any money for particular projects under this credit until after the actual approval of the law by the Cuban Congress. I said that I did not see any reason, however, why certain preliminary studies could not be made by the appropriate officials of both Governments of certain projects without delay. I believed that my Government and the Bank would take this view, but it was a matter which I would have to explore and on which I would have to seek instructions. I am strongly of the opinion that it would be desirable to arrange to begin the study of certain projects without delay. The Minister of State will undoubtedly raise this question with me in the near future and I will then take up this matter with the Department.

With respect to the rehabilitation of the Habana waterworks, the President said that he would ask the Mayor of Habana to come to see him today and thereafter ask him to see me ⁷⁵ in order that the

⁷⁵ In despatch No. 2002, May 9, the Ambassador reported a conversation with Dr. Menocal, Mayor of Habana. The Ambassador presented to the Mayor a letter from the Deputy Federal Loan Administrator saying that the Export-Import Bank would be ready to receive a formal application for credit for the rehabilitation of the waterworks of Habana. (837.51 Cooperation Program/71.)

necessary steps might be taken for a formal application by the Municipality of Habana for a credit for the rehabilitation of the Habana waterworks.

The President and the Minister of State have asked me to convey to the Department and to the Bank their deep appreciation and that of the Cuban Government and people for the sympathetic and understanding consideration which they have given to the needs of Cuba. The Prime Minister and other Ministers of the Cuban Government have spoken to me in the same sense. The reaction of the press, which will be more apparent in editorial comment in a few days, is already such as to show that this action on the part of our Government in extending this credit is deeply appreciated by this friendly people who feel themselves bound to us by unseverable ties.

I believe that I should take this occasion to again bring to the attention of the Department how helpful has been the attitude of the Minister of State, Dr. Cortina, during the conversations which we have had with the Cuban Government since the beginning of this year in the matter of these credits. It was to a large extent due to his indefatigable labors and complete understanding that it was possible to bring about developments in the internal situation of Cuba which made feasible the granting of these credits.

I shall not fail to keep the Department promptly informed of further developments.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/66

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

No. 642

WASHINGTON, May 10, 1941.

SIR: Reference is made to your despatch no. 1914 of April 20, 1941 transmitting a copy of the Cuban Government's memorandum of April 15 with regard to Export-Import Bank credits for agricultural diversification and development and for public works.

The Department is pleased with the tenor of the Cuban note and with the numerous steps which the Cuban Government has taken in the line of administrative and other reforms.

With regard to items 5, 8, 10 and 11 of the Cuban note, it is particularly gratifying to receive the assurances of the Cuban Government that it is its criterion "to liquidate such obligations as have been properly clarified and fixed by the courts" and that "at any time that a concrete and just claim . . .⁷⁶ is presented to the Government of Cuba by an American citizen, (that) Government will

⁷⁶ Omission indicated in the original.

give it immediate consideration". The Department furthermore appreciates the arguments advanced by the Cuban Government against the establishment of a special commission to examine claims. The Department, however, is unable to reconcile with the facts in its possession the statement in item 8 that the Cuban Government has "no information with regard to any appreciable or important claim made upon the Government of Cuba by any American citizen, that has not been settled, with the exception of the Morris claim". In this connection, reference is made to the three lists of claims of American nationals against the Cuban Government which were enclosed with instruction no. 401 of December 30, 1940.⁷ Claims in the first list, "which have been acknowledged by the Cuban authorities", total \$458,557.81, not including the Morris claim nor that of J. Livingston and Company (no. 16) which, it is understood, has recently been settled. (No. 7 on list 2, the Drix Duryea, Incorporated, claim, may also now be removed.) Furthermore, on list 3 there appears the claim of \$798,000 in which the United States Treasury has a three-fourths interest.

You are requested to discuss these points with Dr. Cortina at an opportune moment for the purpose of indicating to the Foreign Minister our satisfaction with the many cooperative measures which the Cuban Government has taken and to reiterate our expectation that the Cuban Government will give consideration to satisfactory settlements of legitimate claims of American nationals.

In the meantime, while the Department does not desire to place unnecessary additional burdens upon your staff, it desires to receive your comments on instruction no. 401, to which it appears no reply has yet been received.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.51 Cooperation Program/76

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

No. 2027

HABANA, May 15, 1941.
[Received May 17.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 642, May 10, 1941, in which reference is made to my despatch No. 1914, of April 20, 1941, and to its enclosure, a copy of the Cuban Government's memorandum of April 15 with regard to Export-Import Bank credits for agricultural diversification

⁷ Not printed.

and development and for public works. The Department refers in particular to the statement in Item 8 of the Cuban Government's memorandum to the effect that the Cuban Government has "no information in regard to any appreciable or important claim made upon the Government of Cuba by any American citizen, that has not been settled, with the exception of the Morris claim." The Department, in this connection, requests the Embassy's comments on its instruction No. 401, of December 30, 1940,⁷⁸ transmitting three lists of claims of American nationals against Cuba.

I have given instruction No. 401 considerable thought, and submit the following recommendations concerning the three lists of claims of American nationals against the Cuban Government transmitted with that instruction :

(1) I consider that the Morris claim, which involves a judgment of the Cuban Supreme Court, which has been actively pressed by the Embassy during the last several years, and the payment of which has been discussed with the Cuban Government in connection with possible financial assistance by the United States, should continue to be pressed, and that the financial assistance which the Export-Import Bank is prepared to extend to Cuba should be predicated on an arrangement concerning this claim satisfactory to both parties. Such arrangement need not, however, contemplate immediate payment in full.

(2) I do not believe that the Government of the United States should, in general, act as a collection agency or otherwise become involved in the collection of current accounts against the Cuban Government by public service corporations or by other suppliers of commodities. Such public service companies and other suppliers customarily have their own methods of settling their differences with the Cuban Government, and I believe that the responsibility for maintaining their current business with the Government on a satisfactory basis should be left entirely to the officials of those companies. This is without prejudice to the possible desirability of the Embassy's giving such informal assistance to these persons or interests as may appear to be advisable in particular circumstances.

(3) I do not believe that the United States Government should revive any claim which is not at present being actively pressed by the claimants and make the payment of that claim a condition precedent to the granting of financial assistance to the Government of Cuba. The financial situation of the Cuban Government is not good. I believe that the Government is making an honest effort to improve that situation, and the financial help that we are able to give Cuba will be

⁷⁸ Not printed.

of material aid in this connection. It is as much in the general interest of the United States as it is in the interest of Cuba that such financial help should be given, and it is not in the general interest of the United States that the granting of such general help should be predicated on the Cuban Government's action in the case of a particular claim which might or might not turn out to be meritorious. I am not excluding in this connection claims in connection with which the claimant may have been able to get certificates or other evidence from the Cuban Government acknowledging the particular debt involved.

I particularly recommend that the Department take no action in connection with the claim of the United States Treasury Department in the amount of \$798,055.27. This claim, it will be recalled, represents two judgments rendered by the Cuban Supreme Court in favor of the Cuba Cane Sugar Corporation which were assigned in part to the United States Treasury Department, to be applied against income taxes owed by the Cuba Cane Sugar Corporation to the United States Government.

It will be recalled in this connection that the Department of State was opposed to the Treasury Department's accepting this claim in lieu of income taxes owed to the United States Government. It is not believed that the Cuban Government gave its consent to the procedure, and the Embassy perceives no moral basis on which it could approach the Cuban Government with the request that the judgments in favor of the Cuba Cane Sugar Corporation be paid to the Treasury of the United States. For the Department to try to collect this debt, incurred by the United States Treasury Department gratuitously and without the consent of the Cuban Government, would tend seriously to prejudice our moral position in Cuba.

(4) I recommend that under no circumstance should any claim included in List 3 be brought to the Cuban Government's attention at this time or in any way connected with the proposed financing by the Export-Import Bank. Many of these alleged claims should have a statute of limitation applied to them. Others obviously are in the category of claims which the Department formerly did not hesitate to sponsor, but which it would not agree to sponsor today.

If the Department approves the foregoing, which I consider eminently reasonable and just, the Embassy will not be under the necessity of raising with the Cuban Government, in connection with the proposed financing by the Export-Import Bank, any claim other than the Morris Claim.

Unless I receive instructions to the contrary, I shall act on the foregoing basis. I shall, of course, at an appropriate opportunity in the near future, in accord with the last paragraph on page two of the Department's instruction, inform the Minister of State of our

satisfaction with the many cooperative measures which the Cuban Government has taken, and reiterate our expectation that the Cuban Government will give consideration to the satisfactory settlement of the legitimate claims of American nationals.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/79a : Telegram

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

WASHINGTON, May 20, 1941—6 p. m.

127. The Export-Import Bank requests that you make it clear to the Cuban authorities that the old \$4,000,000 credit ⁷⁹ has been superseded by the new \$25,000,000 arrangement, and has been canceled.

HULL

837.51 Cooperation Program/96

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

[WASHINGTON,] May 23, 1941.

Ambassador Messersmith called from Habana to inquire what progress was being made in furnishing technicians to make the preliminary arrangements for carrying out the \$25,000,000 credit program. I replied that Mr. Warren Pierson ^{79a} had just returned from Brazil, that he was prepared to send a lawyer to Cuba in the very near future to work on the contract, that he advised that the Cuban Government prepare a draft of a very simple law and submit it to this Government for its comments, and that he would like to bring his lawyer to Habana on the occasion of his own visit for the signing of the sugar financing arrangement. In addition, Mr. Pierson and Mr. Wheeler of the Department of Agriculture were completing arrangements to send one or two agricultural experts with the Agriculture Department's report. (I informed the Ambassador that this report was being mimeographed and that copies would be made available to him within a very few days.) With respect to a public works expert, I informed the Ambassador that Mr. West, the engineer of the Bank, would return next week from Brazil and that a few days later he could go to Habana to begin the work. The Bank will find it necessary to employ additional engineers to supervise the entire project.

⁷⁹ This refers to the conditional offer of \$4,000,000 credit contained in note to the Cuban Ambassador, December 4, 1940, *Foreign Relations*, 1940, vol. v, p. 784.

^{79a} President of the Export-Import Bank.

The Ambassador indicated that he hoped that the Export-Import Bank would not be difficult on the remaining terms of the sugar financing agreement. I informed the Ambassador that all of the Bank's comments were in the hands of Dr. Mañas in Habana and that I believed there was no reason why the Cubans could not complete the matter at once. The Ambassador stated that the Cubans were questioning a provision whereby the Export-Import Bank could place Cuban obligations which it acquires with other institutions. I stated that this was a usual provision in all contracts and the Ambassador replied that the Cubans admitted that the Bank had the right but did not feel that it should appear in the contract.

837.51 Cooperation Program/89

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

No. 702

WASHINGTON, June 11, 1941.

SIR: Reference is made to your despatch no. 2086 of May 29 [28], 1941⁸⁰ stating that the Cuban Government desires to include in the legislation authorizing the \$25,000,000 Export-Import Bank credit an authorization to contract a further credit of \$5,000,000 for the establishment of Cuban banking facilities.

It would appear to the Department that for the Cuban Government to include in the law covering agricultural and public works credit a provision to permit the Government to contract as well for an additional loan to fulfill a banking project might constitute a repetition of the serious mistake of September 1940 in passing the so-called \$50,000,000 loan law without previous consultation with this Government. It is to be feared that the inclusion of the proposed banking provisions may lead to the undesired conclusion by Cuban public opinion that details of the bank have been worked out and that this Government is committed for the \$5,000,000 specified for the bank (when such commitment has not yet been made as to either amount or purpose).

It would accordingly be, in the Department's opinion, prudent to remind the Cuban authorities to whom you have mentioned the Federal Loan Agency's attitude toward the bank project that you did so confidentially and in the frank spirit which has characterized your relations with them, and that to publicize the matter at this time may jeopardize the project's success. You may repeat that this Government continues ready to lend the necessary experts to assist in formulating a definite banking project and the corresponding basic legisla-

⁸⁰ Not printed.

tion, both of which are prerequisites to the careful examination of any request the Cuban Government may eventually make for the bank credit.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.51 Cooperation Program/76

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

No. 711

WASHINGTON, June 13, 1941.

SIR: Reference is made to your air mail despatch no. 2027 of May 15, 1941, containing your recommendations with reference to claims, other than the Morris claim, of American nationals against the Cuban Government.

The Department was gratified to confirm on the occasion of your recent visit to the United States that you shared its view of the unsatisfactory nature of statements in item 8 of the Cuban memorandum of April 15, 1941, relating to claims. The Department agrees with you that settlement of outstanding claims other than the Morris claim need not stand in the way of action on other parts of the program of cooperation. However, you should make it of record with the Cuban Government that the Department is not able to reconcile with the facts in its possession the statement in item 8 that the Cuban Government has "no information with regard to any appreciable or important claim made upon the Government of Cuba by any American citizen, that has not been settled, with the exception of the Morris claim".

As an example of a claim which appears to deserve consideration without delay, mention is made of the case of the H. C. Nutting Company of Cincinnati, Ohio, which holds certificates of indebtedness of the Cuban Government. A study of this case is being conducted preparatory to determining what action on the part of the Department may now be indicated.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

837.51 Cooperation Program/95

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

[Extract]

No. 2187

HABANA, June 16, 1941.

[Received June 18.]

SIR: [Here follows report by the Ambassador of conversation with Cuban officials pursuant to Department's instruction No. 702, June 11, printed on page 170.]

The Minister of State replied that he quite understood the situation and appreciated the point of view of our Government, and that he could assure me that in the authorizing legislation for the \$25,000,000 credit there would be no provisions with respect to a further credit for a central bank. The Cuban Government was preparing such a preliminary project for submission to our Government and he quite understood that there could be no action until such a project had been given full consideration.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/101

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

No. 2188

HABANA, June 17, 1941.

[Received June 19.]

SIR: I have the honor to refer to my despatch No. 2030 of May 17, 1941,⁸¹ referring to previous correspondence with respect to the desire expressed by the Municipality of Habana for a credit from the Export-Import Bank for the purpose of carrying through the rehabilitation of the Habana waterworks. It will be recalled that when I was in Washington during the latter part of April, the Export-Import Bank informed me that I could state to the Mayor of Habana that if the Municipality transmitted a formal request to the Bank for the consideration of a credit for the rehabilitation of the Habana waterworks, the Bank would be disposed to consider this matter sympathetically. There was transmitted with my despatch No. 2030 the formal request of the Municipality of Habana for the consideration of such a credit by the Export-Import Bank, the Mayor of the City having been authorized by the City Council to make such a formal request. No reply to this request from the Municipality of Habana has yet been received so far as I know—unless a formal acknowledgment of the Mayor's letter may have been sent directly to him.

During the visit of Mr. Warren Pierson, the President of the Export-Import Bank, to Habana last week for the purpose of signing the contract in the sugar loan, and for the purpose of discussing with the Cuban Government certain major matters connected with the credit of \$25,000,000 extended to the Cuban Government for the carrying through of public works and agricultural diversification projects, I thought it would be desirable for Mr. Pierson to see Mayor Menocal, as the Mayor had expressed to me a very strong desire that he have an opportunity to see Mr. Pierson during his stay. I therefore arranged

⁸¹ Not printed.

for a conversation between Mr. Pierson and Mayor Menocal on Friday, June 13.

Prior to seeing the Mayor, Mr. Pierson and I had had an opportunity to discuss briefly the Bank's attitude in this matter. I gathered from what Mr. Pierson said that, while the Bank had over a period of years given some consideration to the Habana waterworks project and considered it one of the most effective and sound projects which could be carried through in Cuba, and while the Bank had always considered the project with sympathy, he believed that the present was, in some respects, not an opportune time for carrying through this project. It involved a considerable amount of material which it would be increasingly difficult to get from the United States because of the demands of the defense program upon our industry. The Bank, too, had limited personnel and it had been giving a great deal of time in recent months to Cuban matters, particularly the sugar arrangement and the \$25,000,000 credit for public works and agricultural diversification projects. He was hoping, therefore, that action on the waterworks project might be somewhat delayed.

With this background in mind, Mr. Pierson and I met Mayor Menocal on June 13. The Mayor emphasized the desirability of the project and of as rapid action as possible in carrying it through. He said that there was great expectancy on the part of the Habana population which had appreciated tremendously the indication given by the Bank that it would be prepared to receive a formal application from the Municipality. He was daily approached by many responsible people who did not understand all that was involved and who were reproaching him because work had not actually been started.

Mr. Pierson informed the Mayor that the Bank had in the past and still viewed this project with sympathy and favor. He felt that the present moment was in many ways inopportune for the beginning of the project as there would be extraordinary difficulties in getting the necessary machinery and materials for the carrying through of the project and of which the United States was the only source. He called attention to the fact that the project was one which required considerable further study and that this would take time. He emphasized the manner in which the Bank was overburdened with the many things which were before it.

The Mayor said that these very factors he had in mind and he understood them but that, in his opinion, the question of materials should not be so great an impediment. There was preliminary work to be done and at the outset of the actual work on the project a relatively small amount of material would be needed. The project was one which would take some years to carry through, and even if work were started today it would be a year before certain types of material would

be required. He thought there was much reason to believe that by the time certain materials were needed the situation in the United States would have sufficiently improved in the way of industrial supplies to make it feasible for the necessary materials to be secured.

With respect to the great volume of the work the Bank had to handle, he quite understood this situation and for that reason particularly appreciated the attention which the Bank had and was giving this matter.

With respect to the preliminary work to be done, the Mayor stated that this was just what preoccupied him the most. There had been various studies made of the waterworks project but perhaps none of them could be considered complete. Several years ago, the City of Habana had had a study made of a preliminary character, but it could not be considered complete. This study was its own property and the engineers who had prepared it had no financial interest therein. The Mayor also called attention to a more recent and more complete study which had been made by a group of Cuban engineers on their own initiative. So far as he could judge and knew, this was the best study which had been made. He understood also that there were studies which had been made by some American firms, but how complete they were he was unable to say. He was of the opinion that some action should be taken to get a study which would give an adequate basis for the Bank to make its decisions. He was extremely anxious that something in this direction should be done.

I took the liberty of suggesting that the best procedure might be for the Mayor to submit to the Bank this preliminary study to which he had referred as being the property of the City. Although it was not complete, it would give the Bank something concrete on which to work. If he submitted such a study to the Bank, the Bank would be able to give it its consideration and make its observations to the City. Thereafter, on the basis of the observations which the Bank might make on this preliminary study, and on the basis of further observations which the City might make, it might be found desirable for the City to have an independent study made on its behalf and for its account by competent engineers. I emphasized that, in my opinion, such a further study, if made, should be made independently of any contracting firms in the United States or in Cuba. The Mayor agreed that this procedure seemed to be the only one to follow at this time and he said that he would forward to the Bank in the very near future the preliminary study of the project which was the property of the City and in transmitting it he would make any further observations which he considered useful.

The discussion then turned to the pressures which were being brought on the Municipality here and on the Export-Import Bank

at home by American and Cuban firms and individuals interested in the contract for the project. Mr. Pierson said that the Bank was constantly being importuned by American firms interested in the contract and had also been approached by Cuban firms. Mayor Menocal said that the pressure on him here was enormous by both American and Cuban firms. It was brought out that there are Cuban and American firms which are endeavoring to give the impression both in Habana and in Washington that they have an "inside track" and that certain formal and informal commitments have been made to them. Mr. Pierson said that he wished Mayor Menocal to know that the Bank had made no commitment whatever to any contracting firm. Mayor Menocal assured Mr. Pierson that, irrespective of what might be said, he had made no such commitment to any firm—American or Cuban.

I took this opportunity to say that, in my opinion, it was obviously undesirable to make any such commitment to any Cuban firm or to any American firm. I said that whatever further studies were undertaken should be undertaken in such a way that they involved not the slightest obligation to any contracting firm whether Cuban or American. The Bank and the Mayor of Habana had both expressed the absolute necessity of the project being carried through in the most effective manner and in a way which assured that every cent went into actual construction. Some of those interested in securing the contract were obviously more interested in what they could make out of it than in seeing the best job done. The Mayor took this occasion to emphasize again that, while he wanted this project to be carried through while he was Mayor of Habana, he had made it abundantly clear that it would have to be carried through in an entirely honest and effective manner. I may say in this connection that I believe the Mayor is sincere in his expressions.

Mr. Pierson raised the point that there was some scepticism as to whether it would be possible to carry through this project in such a sound manner in view of the attitude which the City Council might take. The Mayor in this connection said that the need for the Habana waterworks renovation was so great that the City Council could not stand in the way of any arrangement for carrying out the project which meant complete honesty. Pressure of public opinion was so great that in this particular matter any sound arrangement which the Bank might desire could be carried through. I ventured the opinion in this connection that I believed that the City Council would have to take all appropriate measures to carry through the project in a sound manner as it could not oppose itself to public opinion which would support even the most severe measures which the Bank might feel necessary to impose for the proper carrying through of

the project and for the future administration of the waterworks in order to assure amortization and interest of the debt involved.

Mr. Pierson raised the question as to whether it would not be desirable to consolidate the Marianao waterworks with the Habana waterworks in connection with the carrying through of this project. The Mayor did not feel that this would be feasible. I am not sure whether his considerations were mainly political or not, but so far as I have given this matter study, I do not believe that the amalgamation of the two, which is desirable, is impossible. The American waterworks which are the owners of the Marianao plant have shown a disposition to sell, and I believe it is largely a question as to how reasonable this company would be in disposing of its interests.

The Mayor made a very strong plea for early consideration of this matter by the Bank and showed obvious disappointment that the matter was not developing more rapidly. He said that he would in the very near future send to the Bank the preliminary study referred to in this despatch, with further observations of the City, and would await with the keenest interest any comment by the Export-Import Bank.

May I suggest that a copy of this despatch be transmitted to the Export-Import Bank?

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/100

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

No. 2196

HABANA, June 17, 1941.

[Received June 19.]

SIR: I have the honor to inform the Department that Mr. Warren Pierson, President of the Export-Import Bank, arrived in Habana on Thursday, June 12th, towards midday. The majority of the members of the Executive Committee of the Sugar Stabilization Institute were at the airport to meet him.

It had been planned that the contract for the Export-Import Bank loan, to make possible the production of an extra quota of 400,000 long tons of sugar, was to be signed by President Batista and Mr. Pierson at noon, June 12th, at the Palace. President Batista was confined to his bed on account of a sudden illness, and was unable to sign that day, hence the ceremony was postponed until June 13th at the same hour. In a separate despatch ⁸² the Embassy has reported that the sugar loan

⁸² No separate despatch found in Department files; however, there is a letter dated June 14, 1941, from the Ambassador to Under Secretary Welles commenting on the signing of the contract (837.51 Cooperation Program/119).

contract was signed on June 13th, 1941, at 12 o'clock by Mr. Pierson, by President Batista and other appropriate officials of the Cuban government.

Mr. Pierson was accompanied by Mr. Mersereau, of the Bank; Mr. West, a Public Works expert of the Bank, and Mr. Laguardia, of the Department of Agriculture, had arrived the day before. During the afternoon of June 12th, Mr. Pierson and I were able to go into a number of matters connected with the \$25,000,000 credit and later to go over these with the experts who accompanied him.

In order to arrange for the first contact between the Cabinet Committee of the Cuban government and Mr. Pierson and his associates, I invited them to dinner at the Embassy. After dinner there was the opportunity for at least three hours discussion on some of the basic questions which had to be considered in connection with the \$25,000,000 credit. There were present for the Cuban government the complete Cabinet Committee composed of the Prime Minister, Dr. Saladrigas; the Minister of State, Dr. Cortina; the Minister of the Presidency, Dr. López Castro; the Minister of the Treasury, Dr. Morales del Castillo, and Dr. Oscar García Montes. There was present as interpreter of the Cuban Committee Mr. Arango, the son-in-law of the Minister of State. For us there participated Messrs. Pierson, West, Mersereau and Laguardia. Mr. Nufer, the Commercial Attaché, and Mr. O'Donoghue, of the Embassy, were present.

I opened the conversation by saying that I thought this meeting was an ideal opportunity to bring the Cuban officials in direct contact with Mr. Pierson and his associates for an informal and exploratory [ex]change of views on various major factors connected with the \$25,000,000 credit for public works and agricultural diversification. I asked Mr. Pierson to open the discussion.

Mr. Pierson stated that so far as the Bank was concerned the credit had been authorized and now it was the Bank's desire that the machinery be set up for as rapid utilization of the credit as may be feasible and possible. He said that the Bank wished to see this money expended in work which would redound to the benefit of Cuba, of the Cuban people and to the Bank's interest. He said that the Bank was not interested in providing money for the support of the Cuban government, nor for political purposes and ends, but rather the Bank desired that such arrangements be made so that every penny of the credit went into actual work. The Bank was not interested in creating new jobs in the Cuban government but in getting constructive projects carried through in a sound and clean way.

Mr. Pierson went on to say that the Bank was not interested in seeing money spent in maintaining old projects but rather desired to see the money spent on new works. Merely as a suggestion, and not as an

idea to which he was completely wedded, it was his opinion that it would greatly simplify matters if a Corporation were set up by the Cuban government, or a well defined committee composed of appropriate members of the Cuban government (indicating that those present would be very acceptable). This committee would have sole and responsible charge of the selection of the projects and of carrying them through for the Cuban government. This would facilitate the work of the Bank and of the Cuban government. It would be quite impossible, Mr. Pierson said, to endeavor to carry through these projects by individual departments of the Cuban government—this would result in confusion and lack of efficiency.

This committee could very well be aided by a sort of General Manager, as it was obvious that the members of the Cabinet Committee or corporation would not have the time to devote themselves fully to this work. Such an executive was needed. He could be an American or a Cuban. There should also be a controller, and in this position an American could serve very well, but he had no set views on this subject. Mr. Pierson strongly brought out the necessity for a businesslike and well set up and organized body to carry through these projects. He emphasized that the corporation or committee should have charge not only of the selection of the projects but of carrying them through from beginning to end.

Mr. Pierson stated that the recommendations made by the corporation or committee for projects should be, of course, submitted to the Bank for its approval and he could assure them that the Bank would not be long in giving its opinion. It was a desire of the Bank to facilitate the carrying through of the projects.

At first Dr. Cortina and Mr. López Castro appeared to be opposed to the idea of a corporation or a committee to be charged with the work and the selection of the projects. Mr. López Castro particularly did not seem to take to the idea and I could readily see that he did not understand what Mr. Pierson had in mind. I explained, therefore, very fully what Mr. Pierson had in mind, and that it would be quite impossible, from our point of view, to select these projects in the public interest and to carry them through in a sound and effective way as the individual Ministries under which they ordinarily fell had no direct responsibility. I said that what Mr. Pierson had in mind was that there must be a corporation or committee especially set up for this purpose and with sole control. It, of course, would call upon the existing organisms of the Cuban government for help in the work, but they would be acting for and under the corporation or committee. When Dr. Cortina and Mr. López Castro more thoroughly understood Mr. Pierson's suggestion, they warmed up to it and towards the end of the meeting on several occasions expressed the opinion that Mr.

Pierson's suggestion should prove a practical one, greatly facilitate the work and eliminate a good deal of detail.

There was then some general discussion with respect to the authorization act for the credit. Dr. Cortina said that the Prime Minister and Mr. García Montes had been giving this attention. It was their thought that the law should be sufficiently general but at the same time should contain sufficiently specific provisions to give power to control the work so that it would be properly carried through. Dr. Cortina went on to say that President Batista had only a few more years to serve as President. Under the constitution, which President Batista himself helped to establish, an interval of eight years would have to pass before he could serve as president again. He emphasized that President Batista had as his principal ambition the desire to do something useful for his country and to secure prestige for himself during his term of office. The President, therefore, was interested in the rapid, sound, clean and efficient carrying through of the projects under this credit.

Dr. Cortina said that he believed the Cuban government would be prepared to carry through the suggestion for a corporation or committee made by Mr. Pierson. He was sure we would find that the Cuban government would be prepared to accept any suggestions which will provide for a proper selection and execution of the projects. He emphasized again that the Cuban government is as much interested as is the Bank that these works be carried through in a clean and constructive manner.

Dr. Cortina said that he was not sure whether it would be advisable to put the provision for the corporation or committee in the authorization act or not. It might make difficulty in getting the bill through Congress if this provision is in the act. He said, however, if the provision for the corporation or committee was not in the authorization act, there would have to be a well defined confidential agreement between the President and the Cuban government and the Bank that the President would by decree set up the corporation or the committee. Mr. Pierson and I said that it seemed immaterial, so far as our government was concerned, as to whether the committee or corporation was set up in the authorization act or by decree. This was a matter to be decided more by the Cuban government than by us.

With respect to the projects to be selected, there was agreement that there should be no announcement of any decision with respect to projects until after the authorization act is approved. It was agreed that this was desirable in order to prevent jockeying in the Congress for votes. Mr. Pierson and I both emphasized the importance of the authorizing act being approved quickly, as it was not possible to do anything concrete until this act was passed and the contract signed.

In other words, there could be no real progress until the law was passed and the contract signed. In this connection, Mr. Pierson emphasized that naturally, in view of the defense program, there would be certain difficulties in securing necessary materials for the carrying through of some of the projects. The sooner the law was passed and the contract signed, the sooner would they be able to determine projects to be realized and to establish what materials would be necessary.

Mr. Pierson said that in certain cases it might be possible to secure priorities for materials. He could make no commitments in this respect but the Bank would be willing to do what it could in order to get necessary materials. Mr. Pierson further made the useful and concrete suggestion that the projects first approved could very properly be such which would not require too much material or material which could be more readily obtained. Mr. López Castro said they had this very much in mind and were making their plans accordingly.

Various members of the Cuban Committee expressed themselves on the necessity of the projects being carried through in a clean and sound manner. They said they realized that if they carried through these projects in an entirely acceptable manner there was a chance of further needs of Cuba being considered. Mr. Pierson said he could make no commitments with regard to further credits, but that he knew of nothing which would create a more favorable atmosphere for further credits than an altogether sound realization of the projects under the present credit.

The conversation then turned again to the general lines which would be followed in the selection of projects. Mr. García Montes, a former Minister of the Treasury and, who, together with Mr. López Castro, has been studying projects said he thought Mr. Pierson's observations respecting new and old public works required further clarification. At this point Mr. López Castro took exception also to Mr. Pierson's remarks respecting new and old works. He said there could be no general rules laid down which could be followed explicitly. He said in general he agreed that the projects should be new projects but that there were certain projects which would have to be considered and which were really old projects. In his opinion one of the principal projects would be the repair and actual reconstruction of certain sections of the central highway.

[Here follows discussion regarding the need for repairs on the central highway.]

Mr. Pierson said that his remarks with regard to old and new works had been made for the purpose of stressing an important principle rather than for the purpose of opposing the idea of repairs for the central highway. He realized as things were that the central highway would probably have to be repaired from funds out of the \$25,000,000

credit. Mr. Pierson said that he recognized not only the economic but the strategic and defense importance of the central highway.

Mr. West and Mr. Laguardia expressed the view that in spite of the considerations given by Mr. Pierson they were of the opinion that under the actual circumstances which had to control, it would be necessary to make the appropriate repairs to the central highway out of this credit. The central highway was the backbone of the transportation system of Cuba and unless it was in altogether good condition almost any help that could be done under the credit would not be fully realized.

The Minister of State remarked that, being a very systematic and orderly person, he wished to restate what in general he thought was a résumé of the conversation. He said it was his understanding it was the opinion of all present that the projects must be such as to redound to the benefit of Cuba and its people; that the works must be carried through in an orderly, sound and honest way; that it is not controlling in the selection of works as to whether they are old or new projects, the completion of those under way or the maintenance of old ones, provided they tend to improve the general economic situation. So far as the creation of a central committee or corporation for selecting the projects and carrying them through is concerned, he felt that this was a matter which they naturally must take up with the President, but in his opinion, which he repeated several times, there should be no difficulty on this point.

The meeting terminated, I believe, with the general feeling on both sides that it had been a helpful one. There is no doubt that Mr. Pierson had been able to get across to the Cuban officials his two main ideas respecting the creation of a central committee or corporation and that in the future there be provision for maintenance out of current funds rather than depending upon loans for maintenance. The Prime Minister stated at the end of the meeting that the Cabinet Committee would meet with the President the following day and would like to meet with Mr. Pierson and me afterwards.

The Cabinet Committee had a meeting with the President on Friday, June 13th, after the signing of the sugar contract, during which meeting they went over the whole situation with the President, taking up the points raised in the conversation the evening before. Mr. Pierson and I met the full Cabinet Committee at Dr. Cortina's house in the late afternoon on Friday, June 13th, for a conference of several hours. Dr. Cortina explained that the various points raised the evening before had been discussed with the President and that the President was quite in accord with the ideas on which general agreement had been reached. The President had expressed his willingness that a corporation or committee should be set up which would have sole authority in select-

ing and carrying through the works, rather than having this responsibility in the different Ministries. The President was also in accord with the idea of a General Manager. The President had reiterated his desire that the work should be carried through in a sound, honest and constructive manner. He wished during his term of office to do something constructive and lasting for Cuba and did not conceal that his sole personal interest in the matter was the prestige which would accrue to him through the proper carrying through of the work.

Mr. Pierson raised the question of a controller and stated that so far as the Bank was concerned he did not believe it was material whether he was a Cuban or an American citizen. The important thing was that there should be a competent General Manager and Controller to serve as the executives of the corporation or cabinet committee. Mr. Pierson reiterated his opinion that it was for the Cuban government to decide whether the corporation or committee should be set up in the authorizing act or by presidential decree.

Mr. Pierson further said that, of course, the Bank would need to have certain people here in Cuba acting for it and that vouchers for payment for work as completed would have to be approved by the representatives of the Bank. The Cabinet Committee did not offer any objections to this procedure, but it indicated it felt that the Bank's representatives here should be persons with adequate authority. Mr. Pierson assented to this.

There was further discussion of the general types of projects and Mr. Pierson again emphasized that the Bank's one interest was that the projects should be constructive and sound, and that when recommendations reach the Bank for particular projects they would be quickly acted upon.

The Cabinet Committee expressed appreciation of the action by the Bank in having Messrs. Mersereau, West and Laguardia here, and who have stayed after the departure of Mr. Pierson.

The Cabinet Committee agreed to facilitate the work in the preparation of the draft of the authorizing act and of the contract. Mr. Pierson emphasized that no definite step could be taken in actually doing work until the authorizing act has been passed and the contract signed.

After the meeting with the Cabinet Committee on June 13th, Mr. Pierson and I went over the conversations with Mr. Pierson's associates so that they had the full background.

Mr. Mersereau is working with Mr. García Montes on the draft of the authorizing act and on the contract. Messrs. Laguardia and West are working with Mr. López Castro and other members of the Cabinet Committee on the preliminary examination of projects.

It is my opinion that the visit of Mr. Pierson to Habana has been most useful. The signing of the sugar contract in the Palace gave

this action of our government another opportunity for helpful and constructive public and editorial comment. The conversations which Mr. Pierson was able to have with the Cabinet Committee during his stay did much to clarify the position. I had been trying to build up over months a certain situation and the visit of Mr. Pierson helped to accentuate what I had already said to the Cuban government. The agreement of the Cuban government to the setting up of a corporation or cabinet committee, which shall have sole control of the selection and carrying through of the projects, is a great step forward. It will facilitate not only the contact between the Bank and the Cuban government, but it will provide the machinery for the honest and effective carrying through of the projects. It was most important that the projects should not be carried through by individual departments of the Cuban government but through such a central organization. I am sure the Cuban government appreciates very much the action which the Bank took in making it possible for Mr. Pierson to come here, with his associates, at this time.

I fear that under the best circumstances the progress which will be made will not be as rapid as the Cuban government and the Cuban people desire, but we have made it clear that whatever delays there will be will not be any responsibility of the Bank or of our government. While I believe the Cuban government has the desire to facilitate the passage of the act and the signing of the contract, this is bound to be a somewhat slow process, although there is, of course, the possibility that it may be done quickly.

President Batista has indicated that he is prepared to call a special session of Congress before the end of June or in early July—just as soon as the authorizing bill is ready for presentation to the Congress. The message to accompany the authorizing bill is already prepared.

I shall continue to keep the Department informed of developments.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/108

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

No. 2264

HABANA, June 27, 1941.

[Received June 30.]

SIR: I have the honor to acknowledge the receipt of the Department's Instruction no. 711, of June 13, 1941, with reference to my air mail despatch no. 2027, of May 15, 1941, containing certain recommendations of this Embassy with reference to claims, other than the Morris claim, which American nationals may have against the Cuban government. I have noted carefully the Department's instruction.

I had already verbally made observations to the Minister of State, Dr. Cortina, with regard to Paragraph Eight of the memorandum of the Cuban government of April 15, 1941. In view of the Department's instruction under reference, I thought it desirable to take up this matter with him in a more definite way and during the course of a conversation yesterday with Dr. Cortina, I reverted to this matter and left with him an *Aide-Mémoire*,⁸⁸ of which a copy is attached to this despatch.

Dr. Cortina said that in including Paragraph Eight in the memorandum of April 15, 1941 he had not intended to state that there were no other claims of American citizens against the Cuban government; he had meant to state that there were no appreciable claims which were being pressed by American citizens against the Cuban government other than the Morris claim.

I told the Minister that while I did not intend to take up specifically with him at this time other claims than the Morris claim, there were a number of what appeared to be well substantiated claims against the Cuban government by American citizens, which were of long standing and which should have received satisfaction before this. Some of them were in considerable amounts. I called his specific attention to the case of the H. C. Nutting Company, of Cincinnati, Ohio, which is mentioned in the Department's instruction under reply, and said that I would undoubtedly have to revert to this in the near future as the claim appeared to be a well founded one.

Dr. Cortina assured me that established claims of American citizens against the Cuban government would receive attention as rapidly as it was possible for the Cuban government to give it. He spoke of the tremendously difficult situation of the Cuban Treasury at this time and of the fact that the government had just been obliged, much against its will, to make a cut in the salaries of most of the government employees, as well as in other expenditures of the government.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/109

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

[Extracts]

No. 2266

HABANA, June 27, 1941.

[Received June 30.]

SIR: I have the honor to refer to previous correspondence with respect to the credit for \$25,000,000 extended by the Export-Import

⁸⁸ Not printed.

Bank to the Cuban Government for agricultural diversification and public works projects. It will be recalled that in my despatch No. 2196 of June 17, 1941, I reported fully on the conversations which took place between Mr. Pierson of the Bank and his associates who accompanied him, and the Cabinet Committee of the Cuban Government which is handling this matter. Mr. Mersereau, an attorney of the Bank, remained in Habana after the departure of Mr. Pierson in order to collaborate with officials of the Cuban Government, at their request, in the preparation of a draft of the authorizing act which must be voted by the Cuban Congress. Mr. Mersereau worked principally with Dr. Oscar García Montes in the preparation of the draft, but I understand that they were in more or less communication with the Prime Minister, Dr. Saladrigas, and Mr. López Castro.

At about 10 o'clock in the evening on June 24, Mr. Mersereau called me on the telephone to say that he had had a message over the telephone from Dr. García Montes to the effect that President Batista had raised certain objections with respect to the final draft.

I had an appointment to see the Minister of State on June 25 which appointment he could not keep as he was taken ill. I saw him yesterday afternoon and he took up with me the matter of the draft bill for the credit. Dr. Cortina stated that he, Dr. Saladrigas, Mr. López Castro and Dr. García Montes had made excellent progress in going over the draft bill with the President on the afternoon and evening of June 24. The President raised objection to the ten-year amortization period which is provided for in the law on the following basis.

Dr. Cortina said that he thought the attitude of the President was justified and that in the conversations with him and the President I had indicated that one-half of the loan would have to be paid in ten years and the Bank would favorably consider an extension of the second half of the loan if amortization and interest charges had in the meantime been met promptly. I had spoken of this extension as for another ten years. I reminded Dr. Cortina in this connection that he was correct in his recollection of most of what I had said, but that I had not mentioned a period of a further ten years. I had said that at the end of ten years the Bank would be prepared to consider an extension of the second half of the loan but I had not indicated any specific time, but that we had generally spoken of a possibility of a period of ten years for the second half.

I asked Dr. Cortina whether the President and the Committee had any major objections to raise to the draft bill prepared by Mr. Mersereau and Dr. García Montes in other respects. He said that

they had no such objections to raise to his knowledge. They considered that the draft bill on the whole was an excellent piece of work. There were two principal points, Dr. Cortina said, to be cleared up:

1. Whether it was in the opinion of the Bank necessary that the taxes should be sufficient to cover the amortization and interest of the whole credit in ten years;

I told Dr. Cortina I would consult the Bank immediately about this but that I could naturally not give him a responsible answer now. It was my personal opinion, however, that the Bank had in no sense insisted that the taxes cover the amortization and interest charges on the \$25,000,000 during the first ten years. Mr. Mersereau was familiar with the letter dated May 2, 1941,⁸⁴ which Mr. Jesse Jones, the Federal Loan Administrator, had addressed to me. It was my understanding from Mr. Mersereau that it was Dr. García Montes who had insisted in the drafting of the law that the taxes provided should cover full amortization and interest during the ten-year period, including the 52 percent instalment at the end of ten years. Dr. García Montes had stated that this was necessary under the Cuban Constitution even though the twentieth payment would not have to be made in full at the end of ten years. I ventured the personal opinion that so far as the Bank was concerned it would consider the taxes provided in the authorizing act satisfactory if they provided amply and liberally for covering the amortization and interest payments for one-half of the loan during ten years and if the taxes voted would be permanent in the sense that they would apply exclusively to the amortization and interest of the loan until it was fully repaid under any extensions which might be granted by the Bank.

I would very much appreciate a statement from the Bank as to what may be said to the Cuban Government in this respect.

2. Dr. Cortina said that, at the request of the President, he wished me to consult my Government as to whether I could address a Note to the Cuban Government quoting the text of the letter of Mr. Jones to me dated May 2, 1941, and stating that at the end of the ten-year period our Government would recommend to the Bank, or its successor, the extension of the second half of the loan as provided in the letter of Mr. Jones.

Dr. Cortina said that the President was of the opinion that if such a Note were addressed to the Cuban Government, it could be kept in confidence and would not have to be given any publicity whatever, but it would provide the protection which the President felt he must have.

⁸⁴ Not printed.

I told Dr. Cortina yesterday afternoon that I would consult my Government and the Bank immediately with respect to the two points above mentioned. I said that I believed it would be possible to get a favorable answer in both respects. With regard to the question of the taxes, this was a question, according to my understanding, which had been raised by Dr. García Montes and not by Mr. Mersereau. I myself was of the opinion that the taxes provided should liberally cover the repayment of the first half of the loan in ten years and be voted in the law in such a way that they would continue and be reserved for the payment of amortization and interest for the second half during the period of extension which would be granted.

With respect to the desire of the President that there should be a Note from the Embassy, I quite understood his position on this point. I did not see any reason why my Government should not authorize me to address a confidential Note to the Minister of State quoting, or conveying, the contents of the letter of Mr. Jones to me of May 2, 1941, and conveying at the same time the assurance that my Government at the end of ten years would support the request of the Cuban Government for an extension of the second half of the loan provided interest and amortization charges had been met.

Dr. Cortina said that he would take up this matter with the President and get in touch with me. He communicated with me this morning to say that he had had a long talk with the President this morning and he felt quite confident that if we worked out these two points along the lines above mentioned there could be agreement on the draft law very quickly. The President was going out of town today for the week-end, and that he, the Minister of State, Dr. Saladrigas, Mr. López Castro and Dr. García Montes would have a meeting with the President on Monday, June 30, after which he would communicate with me. In the meantime he would ask Dr. García Montes to take the draft law and change it in the sense that the taxes voted would only have to cover one-half of the loan during the first ten years. The taxes voted, however, should be "amply liberal" to provide for adequately meeting of all amortization and interest charges on the first half of the loan during the first ten years. As soon as Dr. García Montes had completed the draft in this sense he would see that copies would be made available to our Government and to the Bank.

On my side, Dr. Cortina said that he would ask that I communicate immediately with my Government to determine whether it will authorize me to address a confidential Note to the Minister of State quoting or giving the text of Mr. Jones' letter, above referred to, and giving the assurance of my Government that it would favorably

support an extension of the second half of the loan at the end of ten years.

As no action with respect to the credit may be undertaken until this authorizing act is completed, and as the President is awaiting calling the Congress into session, after the draft bill has been agreed upon, it will be very much appreciated if action on this despatch can be facilitated. . . .

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperation Program/109 : Telegram

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

WASHINGTON, July 1, 1941—8 p. m.

168. Your despatch no. 2266 of June 27, 1941 and personal letters to the Under Secretary, Bonsal and Pierson. The Department and the Export-Import Bank do not believe that any confidential notes regarding the period of amortization are desirable. The Department has consequently recommended that the Export-Import Bank fix a definite period, and the Executive Committee of the Export-Import Bank today approved the acceptance of notes payable 15 years from the date of each advance, to be amortized 5 percent annually for 10 years and 10 percent annually for the succeeding 5 years. The Bank will endeavor to work out a formula to provide for an average maturity date which will result in giving Cuba a total of some 17 to 18 years from the inception of the credit to liquidate it. The Export-Import Bank finds it impracticable to extend a straight 20-year credit.

Please inform the appropriate Cuban authorities.

WELLES

837.51/2806

*Memorandum of Telephone Conversations, by the Acting Chief of the
Division of the American Republics (Bonsal)*

[WASHINGTON,] July 18, 1941.

Señor Oscar García Montes, who became Cuban Minister of Finance on about July 17, spent the week ending July 14 in Washington discussing with Mr. Mersereau of the Export-Import Bank the terms of the authorizing legislation to be presented to the Cuban

Congress in connection with the \$25,000,000 Export-Import Bank credit. This document as agreed upon was then referred to the Cuban Government.

Ambassador Messersmith telephoned on the afternoon of July 18 to say that he had just been called by the Cuban Foreign Minister, Dr. Cortina, who stated that he had been authorized by President Batista to inform the Ambassador that the draft of the authorizing act was completely satisfactory with the Cuban Government. The Cuban Government now awaits the formal approval of this Government, presumably to be given through Mr. Pierson of the Export-Import Bank, in order to present the proposed legislation to the Cuban Congress⁸⁵ with an appropriate message. The Cuban Government wishes to proceed rapidly in the matter.

Ambassador Messersmith stated that the Cuban Government planned to add to the draft approved by García Montes and Mersereau a clause derogating the law of last September which authorized the well-known \$50,000,000 loan.

(Both Mr. Mersereau and Mr. Pierson later expressed their complete approval of this additional clause.)

Following my conversation with Ambassador Messersmith I telephoned Mr. Pierson who said that he had only just read the proposed legislation. He stated that it was his general feeling that possibly the legislation gave the Bank and the proposed Commission too much power and that we might wish to propose modifications in this set-up.

On the morning of July 19 Ambassador Messersmith telephoned again. He gave it as his very strong opinion that the various controls to be exercised by the Bank and by the Commission were extremely necessary and that they were heartily accepted by the Cuban Government. He furthermore stated that the opposition in Congress would be much more apt to vote the authorizing legislation if these controls and powers were there. He gave it as his considered opinion that we should accept the authorizing legislation as drawn up by Mersereau and García Montes. I said that the Department would give the matter further thought and endeavor to telephone him on July 21.

On July 21, and as a result of further consideration of the proposed legislation, Mr. Warren Lee Pierson of the Bank, and Mr. Collado and Mr. Bonsal of the Department agreed that some changes should be made which would decrease the extent to which the Bank would become involved in Cuban domestic affairs. This decision was communicated by telephone to Ambassador Messersmith, who was advised that a draft of the proposed new articles would be forwarded to him shortly.

⁸⁵ The Cuban House of Representatives passed the Export-Import Credit Bill on November 20, 1941.

837.51/2805

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

No. 2483

HABANA, August 13, 1941.

[Received August 16.]

SIR: I have the honor to refer to my despatch No. 2350, of July 11, 1941,⁸⁸ and other correspondence concerning the interest of the Cuban Government in obtaining the assistance of our Government in the establishment in Cuba of a central bank with agricultural credit facilities. In this connection I am enclosing a copy and a translation of a note dated August 10, 1941,⁸⁸ received from the Minister of State, in which he requests the loan of the services of a technical expert of our Government who would be instructed to come to Cuba to draft the necessary legislation in cooperation with Cuban officials. It will be observed that the Cuban Government refers to the procedure previously discussed of formulating its own draft legislation for submission to our Government and consideration by it; but has decided that, in view of the urgency of the matter and the rather critical financial situation facing the Government, it would be preferable from the point of view of the Cuban Government to have the assistance of an American expert on the spot.

I am acknowledging the receipt of Dr. Cortina's communication and informing him that I have submitted it to the Department for consideration.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51/2810 : Telegram

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

HABANA, August 25, 1941—11 a. m.

[Received 6:15 p. m.]

111. For the Under Secretary. The Minister of Hacienda asks that you be informed of his submission of a memorandum outlining his financial problem and his suggestion for handling it—this with reference to his conversation with you last month (please see Ambassador Messersmith's letter of August 13,⁸⁸ and despatch no. 2483, August 13).

The memorandum in question was forwarded August 23 with despatch no. 2540.⁸⁸ The Commercial Attaché⁸⁹ and I spent last evening discussing it in detail with García Montes. What he hopes to obtain from us are

⁸⁸ Not printed.⁸⁹ Albert F. Nufer.

(1) The loan of services of an expert on banking legislation (urgently requested by the Minister some days ago, please see despatch no. 2483⁹⁰); García Montes is somewhat impatiently awaiting our reply.

(2) A short-term Export-Import Bank loan of \$9,000,000 to buy gold which Cuba would utilize as coverage for an issue of \$15,000,000 paper pesos 6,000,000 of which would be used to balance the budget in the event the business community turns down the Minister's scheme for an internal short-term loan to meet the deficit.

(3) A bill to increase all taxes 20% for the balance of this calendar year is now before Congress. As this measure reads it would apply to import duties including those on the bound trade agreement items. While recognizing that assent on our part to having the increase apply to these consolidated items doubtless cannot be anticipated García Montes frankly hopes that our objections may be "for the record" and not insistent. I of course gave him no assurances on that score; on the contrary I said that having in mind tariff benefits which Cuba hopes to obtain through the pending trade agreement negotiations I felt this was a particularly inopportune moment for Cuba to try to raise the rates on American products. I stated further that for Cuba to endeavor to do so might in my opinion play directly into the hands of elements in the United States unfriendly to Cuba and finally I thought our protest would be prompt, emphatic and by no means merely "for the record." If the foregoing represents the Department's view I believe it would be helpful for me to be instructed so to inform the Minister as promptly as possible (having in mind that he hopes that this bill may be enacted before the end of this week).

Comment concerning the proposed loan is contained in despatch 2540.

BRIGGS

837.51/2810: Telegram

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

WASHINGTON, August 29, 1941—6 p. m.

246. Your telegram 111 of August 25 and despatch 2540 of August 23.⁹¹ (The numbered points correspond to the numbers in your telegram.)

1. Obviously the Department would not wish to recommend any but a qualified expert; and in view of emergency demands for talent this may take some time.

⁹⁰ *Supra.*

⁹¹ Latter not printed.

2. You may inform García Montes that the Department and the Export-Import Bank will very carefully examine his ably prepared memorandum; but as Collado informed you on the telephone August 26,⁹² the solution García Montes suggests for the budgetary problem recurring this time every year is not apt to be well received by the Export-Import Bank. (For example, only a few months ago the Cuban Government turned down the offer of \$4,000,000 to help the budget and furthermore sugar prospects for the coming year for Cuba are the best in 10 years or more.) See also letter of Under Secretary to Ambassador of July 21, 1941.⁹³

3. The Department fully endorses your reply to García Montes in point 3 of your telegram, and you may so inform him and other appropriate officials. The Department could under no circumstances acquiesce in the clear violation of the Agreement involved by the proposal to increase by 20% the duties on "bound" customs items.

HULL

837.51/2812 : Telegram

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

HABANA, September 3, 1941—6 p. m.

[Received 9:25 p. m.]

122. Embassy's despatch no. 2540 of August 23⁹³ and telegram no. 111 of July 31 [*August 25*]. The Minister of Finance today reiterated his desire to obtain the assistance of the Export-Import Bank in the purchase of 9 million dollars worth of gold to serve as backing for an issue of 15 million peso certificates. He pointed out that the Cuban peso is now virtually at par with the dollar so that the additional peso certificates would affect the exchange market only slightly if at all and that they will in fact be needed to meet the increasing demand for currency during the coming grinding season in view of the anticipated much larger sugar crop. Minister added that due to improving collections the estimated 1941 budgetary deficit is being revised downward and that if the Government can raise the necessary amount through the sale in Cuba of short term treasury notes the seigniorage from the proposed certificates issue would be used as Government's share of the capital of the proposed Central Bank. He is however extremely anxious to have the seigniorage in prospect so he can face "any eventuality".

I am favorably impressed with the Minister's estimate of the present situation and probable future improvement; moreover I be-

⁹² No record of telephone conversation found in Department files.

⁹³ Not printed.

lieve local commerce can now absorb additional pesos and that they might even be urgently required in connection with the next crop. Beyond this however it seems to me desirable as a matter of general policy to extend this cooperation to the Minister who is very helpful in all matters for betterment of Cuban-American relationship and who is making genuine efforts to put Cuba's financial house in order.

BRIGGS

837.51/2817 : Telegram

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

HABANA, September 23, 1941—10 p. m.

[Received September 24—8:20 a. m.]

139. The Minister of Hacienda called this noon to voice considerable criticism of the alleged uncooperativeness of some of the Habana banks with reference to his proposed short term \$3,000,000 credit operation (he has hoped to meet the anticipated deficit by placing 1,000,000 with the banks, 1,000,000 with the insurance companies and the balance with the hacendados).

The heads of the three American banks called this afternoon at my request. I explained that the Embassy was of course making no recommendation but that I hoped an informal discussion of the general situation might be helpful. I pointed out that in my opinion Dr. García Montes is making very creditable efforts in connection with government finances; also that the American Government is shortly to cooperate by furnishing a requested mission to help establish a central bank et cetera.

The Chase Bank is apparently fully willing to participate in the credit operation. The National City Bank seems willing if somewhat unenthusiastic. The Boston Bank takes a legalistic and critical view of the whole proceedings (as apparently does the Royal Bank of Canada).

The Minister now tells me that he is investigating the possibility of carrying out the operation on a smaller scale with certain of the banks separately instead of through the clearing house.

BRIGGS

837.51/2805

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

No. 923

WASHINGTON, September 25, 1941.

SIR: Reference is made to despatch no. 2483 of August 13, 1941 transmitting a formal request of the Cuban Government for technical

experts in connection with monetary and banking questions, and numerous other correspondence relating to the same subject.

The Department has arranged with the Treasury and the Board of Governors of the Federal Reserve System to send to Habana a technical mission made up as follows :

- Mr. Harry D. White, Assistant to the Secretary of the Treasury,—
Chief of Mission.
- Mr. Walter R. Gardner, Division of Research and Statistics,
Board of Governors of the Federal Reserve System.
- Mr. George B. Vest, Assistant General Counsel, Board of Gov-
ernors of the Federal Reserve System.
- Mr. George A. Eddy, Division of Monetary Research, Treasury
Department.
- Mr. Harry Spiegel, Division of Monetary Research, Treasury
Department.

Arrangements are being made to have the mission arrive in Habana about October 7. You will be informed by telegraph as to the exact arrival dates and other details. It is contemplated that the mission may remain some four weeks; Mr. White will remain only a short while at the outset and may return later to Habana.

The Department has considered carefully the suggestion that Mr. Louis S. Rosenthal, Vice President of the Chase National Bank, participate in the work of the mission. The Department does not believe that it would be desirable for the Government of the United States to request Mr. Rosenthal's services for this purpose. It does feel that his advice and assistance would be of undoubted benefit to the technical mission, and suggests that it would be entirely proper for the Minister of Finance to request his services as consultant.

The appropriate agencies of the United States have given careful consideration to the request of the Minister of Finance for the assistance of the Export-Import Bank in facilitating the preparation of 15,000,000 pesos of notes which would be issued against a reserve of \$9,000,000 of gold. It is pointed out that the Government of Cuba could arrange such an operation without the extension of any credit at all, since it would require only the small amount of funds involved in the manufacture of the notes. As such notes were delivered and issued in Cuba the Cuban Government could quite readily acquire gold bars in New York for purposes of reserve. This Government feels that the decision to take such action must lie with the Government of Cuba. It wishes to point out, however, that such action at this point might not be entirely consistent with the projects worked out by

the Government of Cuba with the assistance of the technical mission, and that it would be desirable to postpone such action pending the arrival in Habana of the mission. The mission would be prepared, if requested, to study at once and advise with the Minister of Finance regarding such an operation, and if it were finally determined to go ahead with it, the operation would not have to wait for the completion of all other parts of a general monetary and banking program which might be recommended.

Although the Government of the United States believes that it would be desirable thus to postpone decision in the matter, the Export-Import Bank is prepared to undertake to facilitate the operation on a basis similar to that described above, if such is the determination of the Cuban Government.

Please discuss these matters with the Cuban authorities and inform the Department at once if the plans for the technical mission are satisfactory.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.51 Cooperation Program/126: Telegram

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

HABANA, September 27, 1941—noon.

[Received 1: 18 p. m.]

140. Cortina and García Montes are delighted with the financial mission. Former making official announcement for publication local papers this afternoon.

BRIGGS

[The American Technical Mission to Cuba filed four reports (none printed). The first report (837.51/2852), which was made in November 1941, dealt with some of the more immediate financial problems confronting the Cuban Government. The second report (837.51/2871), issued in April 1942, was concerned with the establishment of a central bank and the reconstituting of a stabilization fund. The third report (837.51A/66) appeared 2 months later. It was a commentary on a draft monetary law and dealt with the gold content of the peso, the purchase, ownership, and coinage of gold, etc. Draft banking legislation was the subject of the fourth report (837.51/2887), which was submitted in July 1942.]

SECOND SUPPLEMENTARY RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES AND CUBA, SIGNED AT HABANA, DECEMBER 23, 1941⁹⁵

611.373 Sugar/604

*The Cuban Minister of State (Cortina) to the American Ambassador in Cuba (Messersmith)*⁹⁶

[Translation]

MEMORANDUM

[HABANA,] April 15, 1941.

1.—The Government of Cuba, with regard to the conventions in force with respect to the entry of Cuban sugar into the United States, ratifies all the viewpoints and petitions made in its Memorandum of December 27, 1940.⁹⁷

2.—However, in view of the urgency of the needs of the sugar economy of Cuba, and without prejudice to the discussion of all the problems stated in the memorandum which we refer to in the preceding paragraph, we hereby formulate before the Government of the United States of America the petition that it provide a supplementary addition to the Reciprocity Treaty in force,⁹⁸ with regard to sugar, to consist in that the Honorable President of the United States of America make use of the right which the laws in force in the United States grant unto him, to reduce by fifteen points the Custom duties paid by Cuban sugar upon its entry in the United States of America.

3.—We are desirous that this petition be discussed and decided upon by the Government of the United States of America, at the earliest possible date. We base our request on the evident disadvantage suffered by Cuban producers by reason of the Customs duties that they are obliged to pay at the present time in the American Custom Houses.

4.—Social legislation of a constitutional nature at present in force in Cuba has considerably increased the wages of laborers. The war freight rates are practically annulling all the increases in prices of sugar for exportation for the Cuban producer; and the Cuban sugar industry which is and always shall be a great economic and war re-

⁹⁵ Much of the correspondence regarding the negotiation of this agreement dealt with minor items or technical details and is omitted. For correspondence regarding supplementary trade agreement between the United States and Cuba, signed December 18, 1939, see *Foreign Relations*, 1939, vol. v, pp. 558 ff.

⁹⁶ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 1913, April 20; received April 22.

⁹⁷ Not printed.

⁹⁸ Trade agreement signed August 24, 1934. For text, see Department of State Executive Agreement Series No. 67, or 49 Stat. (pt. 2) 3559; for correspondence concerning this treaty, see *Foreign Relations*, 1934, vol. v, pp. 108 ff.

serve for the United States, is suffering a depression in a condition that might progressively lead to its disappearance.

5.—On the other hand, our imports from the United States, rather than diminishing by reason of the war, have increased, inasmuch as the Cuban people at the present time purchase in the United States almost all of the products that were formerly purchased in Europe.

6.—The Reciprocity Treaty, in force between Cuba and the United States, operates with a visible inequality for our producers who see no increase in their facilities for exportation, while the American producer has extraordinarily improved his position as compared to previous conventions.

7.—In this respect we cannot hesitate to point to the fact that Cuba has granted, in an indirect but effective manner, special advantages to American rice which was formerly imported in Cuba in insignificant quantities, and that this product at the present time has reached a figure greater than \$7,000,000 per annum, and for this special concession the Government of Cuba has received no compensation by way of reciprocity.

8.—We believe that with these arguments we have proved the justice of our request, which tends simply to have the Honorable President of the United States of America, in use of his legal authority, reduce the custom duties paid by Cuban sugar on its entry in the United States to the rate of 0.75 per pound.

J. M. CORTINA

611.373 Sugar/605

*The Cuban Minister of State (Cortina) to the American Ambassador in Cuba (Messersmith)*⁹⁹

[Translation]

HABANA, April 18, 1941.

MR. AMBASSADOR: With regard to the purpose, repeatedly declared by the Government of the United States, of putting into effect, in an efficacious manner for Cuba, the economic cooperation existing between our two countries, we deem it convenient to discuss some fundamental points foreign to the matters of an eventual and transitory nature which we discuss in other memoranda.

We should also refer to those concessions which, by affecting the economic development of Cuba in a permanent manner, have as a consequence a constant effect upon its economy, to the end that, in the future, the economic crises which at present affect the country may be prevented.

⁹⁹ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 1912, April 20; received April 22.

In this respect we are going to refer to those principal points affecting Cuban production which need a revision with the purpose of affording a permanent balance to the economy of the country.

1.—*Cigars*. For different reasons the importation in the United States of manufactured tobacco has been reduced to insignificant figures, at times not exceeding \$200,000 in value. This violent decrease in our exports of cigars to the United States of America has produced a crisis in this industry, which is the greatest in its history.

We have not the aspiration of improving the situation which it normally had, but to restore in part the position which Cuba occupied in the year 1930.

It is deeply abnormal that, due to the close economic relations existing between both countries, a product of the nature of Cuban manufactured tobacco cannot enter the United States to the extent of finding an appreciable market, and that it has been really eliminated from the market of the United States.

To remedy this serious situation we desire that, under the existing system of quotas, there be granted to Cuban manufactured tobacco a minimum annual import quota in the United States of twenty million cigars, free of duty. Inasmuch as this reduction is made subject to a quota, and due to the insignificant quantity that it means in comparison with the United States consumption, this can in no way affect the interior commerce of this product manufactured by the national industry. We should remember that, as regards the importation of leaf tobacco, the manufacturers of American cigars have always agreed that the custom duty granted the Cuban quota be very low.

It has been admitted that American tobacco needs the Cuban leaf in order to maintain its standard of perfection and of production. The fact that cigars manufactured in Cuba are also found in the United States market, in moderate proportions, maintains the taste of the consumer for this article, and facilitates, propagates and increases national consumption, which is also made with Cuban leaf.

2.—*Cattle*. The area of land that was used for the cultivation of sugar cane has been decreasing progressively due to the restrictions ordered for lack of markets for our chief export product. As a consequence, the unoccupied zones have been converted into new cattle farms. Inasmuch as the internal consumption cannot increase due to the bad economic condition of the country a serious overproduction has resulted with the consequential drop in prices and the threat of actual ruin for the small cattle raisers. After a very careful study the conclusion has been reached that only the exportation of cattle might balance the situation that has arisen. Pursuant to the prior fulfilment, in the strictest manner, of the established quarantine regulations regarding the eradication of ticks for the importation of cattle

on the hoof in the United States, it is requested that the Government of the United States grant Cuba a special annual quota with low duties for the importation of Cuban cattle, giving it for that purpose an individualized share in the general quota which under the title "Other countries" appears in the United States Tariffs.

3.—*Sugar.* With regard to this subject, we aspire to a revision of the existing agreements in order to obtain, through a modification of their terms, a more equitable treatment for Cuban sugar under the American sugar legislation, with the following objectives: *First:* To assure it a higher percentage than it enjoys at the present time in the assignment of the annual quota which it is granted for supplying the market of consumption of the United States; in this respect we consider acceptable, as a minimum, the participation that was granted Cuba under the Costigan-Jones Act¹ which was in force when the Reciprocity Treaty in force between Cuba and the United States was signed, and which logically, since it served as the basis for that Treaty, should not have been changed to the detriment of Cuba, without any reciprocity whatever by reason of these changes; *Second:* To extend the period of duration of this system until it is made permanent, or to extend it to the maximum limit that circumstances may permit; and, *Third:* To reduce the custom duties and the internal taxes at present encumbering Cuban sugar, in such a way, that our sugar industry may subsist under conditions of stability and may afford the country, in a social and labor order, the returns that naturally appertain to it.

I beg Your Excellency to acquaint the Government of the United States of the viewpoints of the Government of Cuba above set forth and I have the assurance that in kindly doing so, Your Excellency will make use of the cordial interest and thorough understanding which distinguish your efforts for the reaching of the best solutions to our economic problems.

I avail myself [etc.]

J. M. CORTINA

611.3731/2333

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

No. 2375

HABANA, July 17, 1941.

[Received July 19.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction no. 755 of July 9, 1941² referring to the several requests which have been made in recent months by the government of Cuba

¹ Act of May 9, 1934; 48 Stat. 670. Its purpose was to "include sugar beets and sugar cane as basic agricultural commodities under the Agricultural Adjustment Act."

² Not printed.

that a further supplementary trade agreement be negotiated between the United States and Cuba and to my despatches on this subject.

The Department authorizes me to inform the Cuban Minister of State through an *Aide-Mémoire* that our government is now prepared, once an accord has been reached with the Cuban government on the proposal set forth in its instruction under reference, to issue public notice of intention to make a further agreement supplementary to the trade agreement concluded on August 24, 1934.

In accord with this instruction I prepared an *Aide-Mémoire* and called on the Minister of State yesterday. I conveyed to him the substance of the information in the Department's instruction no. 755 under reference, and I left with him an *Aide-Mémoire*, of which a copy is transmitted herewith.³

The Minister of State expressed his deep satisfaction with this proposed action of our government and said he would immediately get in touch with the President in order to be able to make an appropriate reply. I discussed with him fully the Department's instruction and the procedure to be followed.

I said the first step would be for the Cuban government to inform us that it was prepared to proceed with negotiations on the basis of the *Aide-Mémoire* which I was leaving with him. Once I could inform my government that the Cuban government was prepared to proceed on this basis, the appropriate arrangements would be made in the Department of State for public notice of intention to make a further agreement supplementary to the trade agreement concluded on August 24, 1934. I emphasized that such notice would have to be given simultaneously by both governments. I made it clear that it was absolutely essential for the normal and successful progress of these negotiations that nothing whatever be said by the Cuban government with regard to this matter until public announcement was made simultaneously. I did not fail to bring to the Minister's attention how important it was that this question of the possibility of negotiations be kept for the present in strict confidence and until both governments were prepared to simultaneously announce the negotiations. The Minister said he thoroughly understood and would see that there would be no premature statement of any kind here and would exercise all the necessary reserves in this matter.

I said to the Minister that the list of articles on which we were prepared to consider concessions must be an interesting one to the Cuban government and indicated that a sympathetic understanding by us of Cuba's problem would be shown. I presented to him various considerations why it would be inadvisable for the Cuban govern-

³ Not printed.

ment to make any suggestions for the addition of further articles to this list on which the Cuban government might desire concessions. I intimated strongly that the articles mentioned in the *Aide-Mémoire* were the only ones on which my government would be prepared to consider concessions and that the inclusion of further articles might prejudice the successful course of the eventual negotiations. The Minister said he clearly understood this and that there would undoubtedly be a desire here to include further articles but he felt he could assure me that the government of Cuba would not request the addition of further articles.

The Minister of State expressed some interest in knowing what would be the articles on which our government might request concessions from the Cuban government. I told him that according to my instructions my government was not prepared at this time to submit such a list but that I could assure him it was not contemplated by us to request an extensive list of concessions, and that the request which we would make will take fully into consideration the existing economic and financial situation in Cuba. The Minister seemed to be satisfied with this and I believe that our failure to indicate the list of articles on which we will ask concessions will not interfere with a favorable response by the Cuban government.

I did not consider it advisable to say anything to the Minister that we might ask for a concession on rice. This question is a delicate one and I think it would be inadvisable to raise it at this time. The Department is aware that American rice pays only one-half the duty on admittance into Cuba which is paid on rice from all other origins, with the exception of Siam. In the case of Siam there is a further penalty duty. American rice, therefore, enjoys an extraordinary exceptional position in the Cuban market. Practically all of the rice imported into Cuba now comes from the United States, and I am informed that the American market has not been recently in a position to meet the full demand so that there have been imports from Ecuador.

As considerable quantities of rice came into Cuba from the Far East until several years ago, and as these imports paid the full duty, there has been a considerable loss of revenue to the Cuban Treasury through this almost complete dependence on the American rice market. I do not have accurate figures at hand, but I am informed that during the last fiscal year the Cuban government lost about a million dollars in custom revenues through the increased imports from the United States, which pay only one-half the duty. I am informed that this fiscal year there will be a loss of an additional million dollars, so that this year the loss in revenue will be approximately two million dollars.

In view of the distressing financial conditions in Cuba and that this loss of revenue is very considerable in its economy and in the government's budget, I am inclined to think that it would not be advisable for us, without going into this matter most carefully, to raise the question of rice. We are already in an exceptional position, which position arouses a certain amount of criticism, and the rice growers here have been recently very vocal in regard to this matter. I have brought out this factor as I believe that we should consider very carefully all aspects in this matter before raising the question of rice.

I informed the Minister of State that once the public announcement had been decided upon and made, there would be a period of a month during which the Department of State through the Division of Trade Agreements would be holding hearings as a result of the public notice.⁴ Actual negotiations, therefore, with the Cuban government could not begin until at least a month after the public notice had been simultaneously made.

The Minister seemed to be agreeable to the suggestion of our government that the negotiations and signature of the agreement which may be reached be carried on in Habana.

I expect to get an early response from the Cuban government and shall immediately communicate with the Department upon the receipt of any reply.

Respectfully yours,

GEORGE S. MESSERSMITH

611.3731/2427a

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

No. 925

WASHINGTON, September 27, 1941.

SIR: With further reference to the proposed supplementary trade agreement with Cuba, public hearings were held on September 8, 9 and 10, 1941 following the issuance on July 26 of a public notice of intention to negotiate such an agreement, the recommendations of the trade-agreements organization regarding the concessions to be proposed to the Cuban Government have now been approved, and there is attached hereto the text of a note which you are authorized to hand to the Minister of State setting forth this Government's proposals.

The utmost importance is attached to the conclusion of the proposed agreement at the earliest possible date. With this in mind, every effort has been made to include in this Government's original offers of concessions on products imported from Cuba, the most favorable possible customs treatment. It is believed that the offers which you

⁴This public notice was given on July 26; see *Department of State Bulletin*, July 26, 1941, pp. 79-81.

are now authorized to present to the Minister of State represent the maximum concessions which this Government is in a position to grant.

With respect to the requests of this Government for concessions by the Cuban Government on products imported from the United States, it may be noted that although the number of items is relatively large as compared with those on which concessions are offered, it is believed that the value of the trade involved in all items on which duty reductions are requested does not exceed, with the exception of rice, more than about 3,500,000 pesos per year. Regarding rice, it will be noted that a request has been made for a reduction in duty from 1.85 to 1.50 pesos per hundred kilograms. It is believed possible that the Cuban Government may present a counter-proposal on this item with a view to limiting the application of the reduced duty to a specified quantity of rice of United States origin. The trade-agreements organization will, for your own information, be prepared to consider such a counter-proposal.

It is hoped, in view of the limited amount of Cuban import trade covered by this Government's requests for concessions, that the Cuban Government may find it possible to grant those requests with a minimum of negotiation.

With respect to the general provisions of the proposed agreement, it is believed that the comment relating thereto which appears in the attached note to the Minister of State, covers the principal points involved in this Government's proposals. In view of the nature of the changes or additions suggested, and the fact that the Government of Cuba would gain definite advantages from the standpoint of ability to secure greater revenues, it is not anticipated that serious difficulty will be encountered in obtaining agreement by the Cuban Government to our proposals. A definitive text covering the proposed changes will be sent to you as soon as possible.

Full powers to sign the proposed agreement on behalf of this Government, once an accord has been reached with the Cuban Government, are being prepared for transmittal to you in the near future.

Very truly yours,

For the Secretary of State :
SUMNER WELLES

[Enclosure]

*Draft Note From the American Chargé in Cuba (Briggs) to the Cuban Minister of State (Cortina)*⁵

EXCELLENCY : I beg to refer to conversations which have taken place with you with respect to the negotiation of a further supplementary

⁵ This note was handed to Dr. Angel Solano, Chief of the Economic Section of the Ministry of State, on September 30.

trade agreement between the United States and Cuba. Agreement having been reached regarding a general basis, a public notice of intention to negotiate a supplementary agreement with Cuba was issued on July 26, 1941, together with a list of the products on which the Government of the United States would consider the possibility of granting concessions in the proposed agreement. A supplementary list of products was issued on August 18, 1941,⁷ both this list and the original list having previously been shown to you and having received your concurrence on behalf of your Government.

The public hearings scheduled by the announcement of July 26 were held in Washington on September 8, 9 and 10, 1941, and the appropriate agencies of my Government have subsequently been engaged in studying the information received orally and in writing as a result of the public notice. I am now instructed to submit to you proposals with respect to the concessions which the Government of the United States is prepared to offer, the concessions desired from the Government of Cuba and the various changes which are suggested in the general provisions of the existing agreement.

In formulating the concessions which the Government of the United States is prepared to grant to Cuba in return for the concessions requested upon United States export products, my Government has been guided by the thought that the negotiations for the proposed agreement should be brought to a successful conclusion as rapidly as possible for reasons which I am sure Your Excellency fully appreciates. In an effort to curtail the length of the negotiations as much as possible, therefore, my Government has included in its first proposals what are believed to be the maximum possible concessions which can be offered to Cuba. These concessions are set forth in detail in Enclosure I to this note.⁸

With respect to sugar, the most important item in the proposed agreement from the viewpoint of Cuba, it will be noted that an offer is made to reduce the duty on standard raw sugar of Cuban origin from 90 cents to 75 cents per hundred pounds. In addition, and of greater importance to Cuba than the reduction in duty which is offered, is the arrangement whereby, through the elimination of the present note following item 501 in the agreement, the rate applicable to imports into the United States of sugar of Cuban origin will remain at 75 cents per hundred pounds even if legislation controlling United States sugar production and imports is no longer in force. If in such an event, however, and as a result of unforeseen developments and of the concession granted, the President of the United States found that sugar were being imported from Cuba in such increased quantities

⁷ See Department of State *Bulletin*, August 23, 1941, pp. 152 ff.

⁸ Not printed.

and under such conditions as to cause or threaten serious injury to domestic producers, he would, if he found that the public interest would be served thereby, impose such restrictions upon the concession, or modify it by the imposition of quantitative regulations or otherwise, to the extent necessary to prevent such injury. A draft text of the provisions to carry out the foregoing proposal will be found in the note following item 501 in Enclosure I.

With respect to tobacco, it will be noted from Enclosure I that concessions are offered in the rates of duty on wrapper, filler and scrap tobacco of Cuban origin which will have the effect of reducing those rates to the maximum extent permitted under the Trade Agreements Act.⁹ My Government is not offering a further reduction in the rate of duty on Cuban cigars or to increase the amount of filler and scrap tobacco which is entitled to entry at the reduced rates of duty.

In addition to the foregoing, my Government is prepared to offer the maximum reductions in duty permitted by the Trade Agreements Act on the following products of Cuban origin: various medicinal products of animal origin, classified under tariff paragraphs 5, 23 and 34; marble chip or granite, under tariff paragraph 214; mangoes, paragraph 746; and fruits in their natural state or prepared or preserved, under paragraph 752.

On the various types of molasses and sugar sirups, under paragraph 502, an offer is made to bind the existing rates of duty against increase. On the first item listed under paragraph 502, an arrangement has been provided in the note following the item whereby imports of products from Cuba classified under this item will be admitted at the present reduced rates of duty up to an amount of 1,500,000 gallons per year, with a higher rate, equal to 20 percent below the statutory rate, applying to imports in excess of that amount. The note also provides that entries of Cuban molasses and sugar sirup under this item shall not be permitted to enter at the reduced rates of duty applying to imports of these products from other countries by virtue of any concession granted in a trade agreement with a foreign country other than Cuba. It is also provided that entries from Cuba under this item shall not be admitted at reduced rates of duty under customs quotas on such products which may be granted in other trade agreements. The effect of the foregoing is to grant Cuba an exclusive concession applicable to 1,500,000 gallons per year, while at the same time preserving for the beneficiary for whom it was originally intended, the concession under item 502 in the trade agreement between the United States and the United Kingdom, effective January 1, 1939.¹⁰ On other edible mo-

⁹ Approved June 12, 1934; 48 Stat. 943.

¹⁰ Agreement signed November 17, 1938. For correspondence concerning this agreement, see *Foreign Relations*, 1938, vol. II, pp. 1 ff.; for text, see Department of State Executive Agreement Series No. 164, or 54 Stat. (pt. 2) 1897.

lasses and sugar sirups under paragraph 502, the rate of duty now applicable to imports from Cuba would be bound against increase; in addition, provision has been made, by a note following the item, whereby no quantitative limitation would be imposed by the United States on imports of products under this item from Cuba which would restrict the importation of such articles to an amount less than the quota for liquid sugar of Cuban origin specified in Section 208 of the Sugar Act of 1937.¹¹ On the third type of molasses, covering so-called blackstrap and high-test molasses, my Government is prepared to bind the existing low rate of duty.

On fresh, chilled or frozen beef and veal, an offer is made to reduce the present rate of 4.8 cents per pound applicable to Cuban products under this item, to 3 cents per pound. On fresh, chilled, frozen, prepared or preserved frog legs, an offer is made to reduce the specific rate of duty by the maximum extent permitted, from 4.8 to 2.4 cents per pound, and to reduce the minimum ad valorem duty from 16 percent to 10 percent.

With respect to grapefruit, a concession is offered consisting of an extension of two weeks, or until October 15, in the present period from August 1 to September 30, inclusive, during which grapefruit of Cuban origin may enter the United States at the reduced rate of duty of 6/10ths of one cent per pound. In connection with this concession, my Government would desire to enter into an understanding with the Cuban Government, through an exchange of notes, on the subject of maturity tests and grade and size standards of grapefruit exported from Cuba to the United States.

With further reference to paragraph 752, my Government would be prepared to expand the existing concession on mango pastes and pulps and guava pastes and pulps, consisting of a 50 percent reduction in duty, to include all fruit pastes and fruit pulps.

With regard to lima beans, paragraph 765, my Government is prepared to modify the language of the existing concession in a manner which it is believed will permit fresh frozen and shelled lima beans to be imported into the United States from Cuba under the same conditions as those applying to lima beans in the pod, on which a concession was granted in the trade agreement in 1934.

In return for the foregoing concessions which my Government is prepared to offer, there are set forth in detail in Enclosure II¹² the concessions which are desired for the benefit of United States export products. The requests cover reductions in duties, bindings against increased rates and certain requests involving special tariff problems affecting exports from the United States.

¹¹ 50 Stat. 903, 908.

¹² Not printed.

Rice is the most important single commodity covered by the requests, and on this item a reduction in duty is sought.

In general, the amount of trade involved in my Government's requests covers but a very modest proportion of total Cuban imports, and it is believed that Your Excellency's Government will find it possible to respond favorably to those requests.

With respect to the form in which the requests made by my Government are presented in Enclosure II, it is believed that the concessions sought will be found to be clearly indicated in the final column in those cases in which duty reductions are desired. The underlined words appearing in certain of the descriptions of articles indicate the new or additional nomenclature which is desired to replace or amend existing language. In the case of the first item, razor blades, under item 53-F, the concession requested consists of a reduction from 10 percent to 3 percent in the Public Works Tax applicable to that product. In the case of item 166-D, wooden crates for packing fruits and vegetable products, the concession sought consists merely of a binding of existing tariff treatment.

With reference to the general provisions of the existing agreement, my Government believes that the occasion of the present negotiations offers an opportunity to effect a number of changes which appear to be desirable. The amendments suggested are for the most part intended to provide greater flexibility in the operation of the agreement and to incorporate improvements in the technical drafting of several provisions; proposals are also included which will have the effect of providing greater freedom of action for the Government of Cuba. Specifically, my Government wishes to propose the following changes in or additions to, the existing general provisions:

It is believed that Article V, on quotas, might be replaced by a more modern text. It is felt that certain of the clauses contained in the present text might more appropriately be included in a general reservations article applicable to the entire agreement. The specific text which will be suggested is that which has been developed by my Government for use in trade agreements.

My Government is prepared to agree to the liberalization of Article VIII, as amended, on internal taxes, for the purpose of making reciprocal the provisions relating to compensating taxes, which are now unilateral, and of releasing the Cuban Government from the existing restrictions against imposing new or increased internal taxes for general revenue purposes on products imported from the United States and included in Schedule I of the agreement.

With respect to Article X, on currency depreciation, my Government believes that this provision as drafted has not served any useful purpose and should be eliminated.

On the question of the exchange control provisions, Article XI, my Government feels that the present draft should be replaced by provisions such as those which have been developed more recently in the light of experience with current exchange problems.

Due to the change which is proposed in the note following item 501, relating to sugar, it is believed that appropriate changes should also be effected in the third paragraph of Article XVII of the agreement, as amended.

I anticipate being able in the immediate future to provide Your Excellency with a definitive text embodying the foregoing proposals of my Government.

Accept, Excellency, the assurances of my most distinguished consideration.

611.3731/2461

*The Secretary of State to President Roosevelt*¹⁴

WASHINGTON, November 3, 1941.

MY DEAR MR. PRESIDENT: In my letter to you of September 24, 1941,¹⁵ having reference to the proposed supplementary trade agreement with Cuba, it was stated that the trade-agreements organization had recommended a reduction in the rate of duty on sugar from \$.90 to \$.75 per 100 pounds, the lower duty to remain in effect whether or not sugar legislation is continued after the end of this year. Also recommended was a proposal that under certain circumstances the Executive could limit the amount of Cuban sugar imported at a reduced rate of duty and fix a rate between \$.75 and \$1.50 on imports above a specified amount.

Certain recent developments make it appear desirable to modify the previous recommendations. In view of this Government's plans to purchase the entire Cuban sugar crop for the coming year, and possibly that for the year following, there would be no need for emergency control of sugar imports from Cuba by executive action, as contemplated in the recommendations above referred to. Also, the Cuban Government has been concerned that an unrestricted right on the part of this Government to curtail imports does not, in appearance at least, adequately safeguard Cuban interests.

In view of the foregoing considerations, therefore, it is now recommended that the provision for the control of sugar imports by executive action during the emergency be dropped and that in order to afford some measure of protection for Cuban interests, the agreement should, in addition to specifying a reduced rate of duty, simply

¹⁴ The original bears the following notation: "CH OK FDR".

¹⁵ Not printed.

provide that no measure shall be made effective in connection with the reenactment of sugar legislation or otherwise, which would adversely affect the position of the Republic of Cuba as a supplier of sugar for the United States market as compared with its position under the provisions of the Sugar Act of 1937.

I should appreciate being informed whether this recommendation meets with your approval.

Faithfully yours,

CORDELL HULL

611.3731/2586a

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

No. 1080

WASHINGTON, December 4, 1941.

SIR: With further reference to the supplementary trade-agreement negotiations, the legislative situation in regard to sugar has become so uncertain as to necessitate a reconsideration by this Government of its proposals concerning item 501 of Schedule II. You are therefore instructed to convey the following information to the Foreign Minister of Cuba.

As you are aware, H. R. 5988 was passed by the House on December 1.¹⁶ This bill, and the companion bill S. 2041, are scheduled for consideration by the Senate Finance Committee next Wednesday, December 10. Although the interested Departments are doing all they can to prevent favorable action on these bills in the Senate, it is impossible to foresee what the outcome will be or what effect the outcome will have on the proposed trade agreement.

However, if pending sugar legislation should be passed by Congress, and if the President, for compelling reasons, should feel constrained to sign it or let it become law, it would of course be necessary to change the text of the proposed agreement to conform to the new legislation rather than to the Sugar Act of 1937.

If pending sugar legislation should not be enacted, the way probably would be cleared for the signature of a trade agreement, otherwise mutually satisfactory, which would contain in addition to the present note to item 501 another note to cover periods when there might be no sugar-quota legislation in effect in the United States. The additional note would avoid the criticism that during such periods this Government would be powerless to deal with the situation.

In the case of the second alternative, there would be inserted in the agreement, immediately following item 501, a note (Note I) the

¹⁶ *Congressional Record*, vol. 87, pt. 9, p. 9298. The Senate approved the House bill with an amendment on December 19 and the House in turn approved the bill as amended by the Senate on the same day; see *ibid.*, pp. 10021 and 10069. The President signed the bill on December 26; see 55 Stat. 872.

English and Spanish texts of which are enclosed.¹⁸ The existing note to item 501 would remain, as Note II.

In connection with the new note to item 501, the Embassy should bring to the attention of the Cuban authorities the following specific points:

1. The note is broadly similar to that which appeared in the draft text of the agreement transmitted with the Department's instruction no. 935 of October 3, 1941,¹⁸ with which the Cuban authorities are familiar.

2. While the note would reserve to the President of the United States the right, subject to the conditions specified, to impose a customs quota on imports of Cuban sugar into the United States, the amount of the customs quota so established could not, under the new note, be less than a quantity equivalent to 28.60 percent of the total sugar consumption requirements of the United States as estimated by the Secretary of Agriculture. The rate of duty for such customs quota could not be higher than \$0.75 per 100 pounds of raw sugar (96° basis), and the rate of duty on imports in excess of the quota could not exceed \$1.50 per 100 pounds of such sugar.

3. The share of 28.60 percent of the total consumption requirements of the United States which is specified as the minimum customs quota would be larger, in certain circumstances, than Cuba's share of this market under the provisions of the Sugar Act of 1937; specifically, whenever such total consumption requirements are less than 6,682,670 short tons, raw value. The Embassy will recall that, under the Sugar Act of 1937, Cuba's share decreases in the latter case by operation of the so-called "minimum provisions" of the Act, which assure to domestic areas a minimum amount of 3,715,000 short tons.

4. The note is of a purely emergency character, applicable only in the absence of sugar-quota legislation, and is designed solely to permit alleviation of possible distress, to the benefit of Cuba as well as of domestic and other suppliers, until such time as appropriate legislative measures could be taken.

With reference to the Embassy's despatch no. 2966 of November 19, 1941,¹⁸ transmitting a copy of a memorandum handed the Cuban authorities on the same date, the Department has observed that the memorandum contains a definitive proposal by this Government to grant the maximum reduction in the rates of duty on molasses and sugar syrups classified under paragraph 2 of Schedule II. When the possibility of such a concession was mentioned in the course of a telephone conversation, it was clearly stated that the proposal was tentative and that it had not yet been approved by the Trade Agreements Committee. Objection was subsequently expressed to granting this concession on the ground that it would be open to criticism as benefiting monopoly interests. In any event the communication of this proposal

¹⁸ Not printed.

to the Cuban Government prior to its approval by the trade-agreements organization is unfortunate. The Embassy is now requested to withdraw this proposal unless, in its opinion, withdrawal would complicate current negotiations for the purchase of the Cuban sugar crop by interjecting a discussion of the tariff on molasses as an element to be taken into account in computing the basic price of the crop.

It is noted from the Embassy's telegram no. 186 of November 28, 1941,¹⁹ that the Cuban authorities continue to press for inclusion in the second indented paragraph of Article VII of the Spanish draft text of the words "taxativamente económico", so as to qualify the manner in which an object of the agreement must be considered by either Government to have been impaired or nullified by a measure adopted by the other Government before the former may take action under the provisions of the paragraph. Although the Department believes that any such qualification would be undesirable, it would be willing, if the Cubans continue to insist on this point, to agree to the insertion of the Spanish equivalent of the adverb "materially" to modify the verbs "anular o menoscabar"; in the English text "materially" would be inserted immediately before "nullifying or impairing". If Cuban insistence on using the words "taxativamente económico" continues, you are authorized to accede, inserting in the English text, between the words "impairing" and "any", the words and punctuation " , in an economic sense,".

With regard to the text of Schedule I of the proposed agreement, the form and substance of the Spanish and English versions transmitted with the Embassy's despatches nos. 3013 and 3016 of November 29 and December 1, 1941, respectively,²⁰ are satisfactory to the Department, subject to the following :

1. The reference to gross weight should be removed from item 108-C in the English text.

2. Effort should be made to extend through November 30 the season specified, in the note to item 260-D, (specified fresh vegetables except tomatoes and cabbage) during which the concession rate will apply.

3. The word "specified" in the English text of the note to item 272-B should be changed to "included" to correspond with "comprendidas" in the Spanish text. The Department approves this note with the understanding that it covers mixtures of preserved fruits composed principally of the fruits included under item 272-B and would not exclude such mixtures when containing relatively small proportions of citrus fruits.

4. The present rate of duty of 0.1625 peso per kilogram for item 120-B should be bound in the agreement, as indicated in point number (5) of the Department's instruction no. 1051 of November 22, 1941.¹⁹

¹⁹ Not printed.

²⁰ Neither printed.

5. Those articles for which a rate of duty is specified in the notes only, and for which no rate appears in Column 2, would not be covered by paragraph 1 of Article IV of the draft text, relating to other charges in connection with importation, and it will therefore be necessary to delete from the fourth line of that paragraph the words "Column 2 of". This deletion has been made in the Department's copies of the English and Spanish texts of the agreement.

With regard to the outstanding items comprising the original Schedule I requests of this Government and on which no concession has yet been received, the Embassy is authorized to make the following proposals to the Cuban authorities:

1. This Government will agree to withdraw its request for concessions on smoking tobacco (item 297-C) and cigarettes (item 297-E) provided the Cuban Government will withdraw its request for a concession on cigars. The Embassy may recede from this position by maintaining an offer to reduce the rate of duty on Cuban cigars to \$1.80 per pound plus 10 percent ad valorem provided the concession on smoking tobacco is obtained as originally requested.

2. With respect to rice (item 253-B) this Government desires that the Embassy make an effort to obtain on a basis of deferred application of the concession following the form indicated in the Department's telegram no. 360 of November 19, 1941,²¹ a rate of duty of 1.65 pesos per 100 kilograms applicable to a customs quota of 220,000,000 pounds (100,000,000 kilograms) of rice imported from the United States in any calendar year, the rate of duty applicable to extra-quota amounts to remain at 1.85 pesos per 100 kilograms and the minimum preference to remain at 50 percent.

In this connection, the proposal on rice advanced by the Commercial Attaché which was communicated by telephone on December 2 has been carefully examined. However, apart from other considerations, it was felt that further delay would be avoided by proceeding on the basis of the latest recommendations of the trade-agreements organization regarding rice and other Schedule I items.

3. At the same time that the foregoing proposal on rice is submitted to the Cuban authorities you should also request further consideration of the following concessions, most of which, it will be noted, have been modified: 95-A and 95-B (salt), rate of duty originally requested; ex-105-E, (shaving soaps and creams), elimination of the ad valorem portion of the present duty; 106-C, (toilet powders, etc.), rate of duty originally requested, the reduced rate to apply, however, only to rouge, face-paint of any color, including cosmetic pencils or crayons, and skin creams; ex-108-A (industrial corn

²¹ Not printed.

starch), rate of duty of 3.64 pesos per 100 kilograms, which rate is the same as the present rate on corn products classified under item 256-C and the concession rate obtained for edible starch and fecula of corn in the note to item 290-B of the draft text of Schedule I; 161-D (Kraftboard), rate of 1.20 pesos per 100 kilograms; 241-B, ("tocineta" or fat pork), rate of 7.50 pesos per 100 kilograms, together with a request for the same rate on item 238-C (pork); 269-G (specified poultry feeds), insertion of a note under this item classifying therein all mixed feeds for poultry; 269-H, (other feeds, not specifically classified), insertion of a note under this item providing for a rate of duty of 1.40 pesos per 100 kilograms on mixed feeds for livestock.

In the event the Cuban authorities refuse to grant the requested concession on rice, you are authorized to drop rice from the negotiations, in which case you should place further emphasis on the concessions (other than that on rice) outlined above, and in addition the following requests should be made: ex-256-C (specified products of white corn), rate of duty as originally requested; 269-E (specified livestock feeds), rate of duty of 0.90 pesos per 100 kilograms; 269-G (specified poultry feeds), rate of duty of 1.05 pesos per 100 kilograms (if this concession is secured, the same rate should be obtained for mixed feeds for livestock in the proposed note to item 269-H, mentioned above); 307-B (rubber heels for shoes), rate of 0.195 peso per kilogram; 307-D and 307-E (canvas rubber footwear), rates of 0.26 and 0.24 per kilogram, respectively; 307-K (articles of rubber not specifically classified), binding of the present rate of 0.1625 peso per kilogram with respect to the entire item.

Of the foregoing proposals, other than that relating to rice, the Embassy should place greatest emphasis, in relative order, on 95-A and 95-B; 241-B and 238-C; ex-256-C; and ex-106-C: of least importance are, in relative order ex-105-E; 307 items; 269-E; 269-G, with respect to rate of duty; and ex-269-H.

In connection with item 314-B (tires) and 314-C (tubes), the Department has reason to believe, from conversations with the Minister of the Presidency of Cuba, Dr. López Castro, that the Cuban Government has decided to grant the concessions requested. The Department feels that concessions on these items are essential, particularly in view of the volume of trade involved.

The only remaining point is the proposed exchange of notes relating to grapefruit standards, on which a definite decision should be obtained from the Cuban authorities as soon as possible.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

611.3731/2601

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

No. 3090

HABANA, December 12, 1941.

[Received December 15.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction no. 1080 of December 4, 1941 with respect to the negotiations in progress for the Supplementary Trade agreement. Although this instruction was dated December 4, 1941 and was, I understand, placed in the airmail that evening, it did not reach this Embassy until Sunday afternoon, December 7, 1941. The instruction was given immediate study that afternoon and evening by Mr. Nufer and Mr. Smith and myself in order that I might talk with the Minister of State and his associates the following morning. The instruction, however, reached my desk just at the moment when we had the news of the Japanese attack on Hawaii and the Philippines. The Cuban Government, in accord with its traditional friendship with us, immediately began the preparations for a declaration of war on Japan and the steps growing out of it, I was therefore in constant touch with the higher Cuban authorities from the afternoon of December 7 until the evening of December 9. The various Ministers engaged in the trade agreement negotiations were under the necessity of being in the Congress and in Cabinet meetings all of December 8 and 9 until late in the night. It was, therefore, not until the morning of December 10 that we were able to meet and that I was able to discuss with them the supplementary trade agreement negotiations on the basis of the Department's instruction of December 4.

I should like to note, however, that in fact no time was lost through this delay, as in view of the nature of the instructions with regard to the sugar note which is dependent upon the progress of legislation in the United States, it would have been impossible to reach any definite conclusions in this respect, and is not now, as we have nothing so far of a definite character which we can place before the Cubans. I am merely making this statement so that it may be clear that any delays which may be occurring now and which may be endangering the conclusion of the trade agreement and of the sugar purchase in time, before the end of this year, are not due to them.

I had a four-hour meeting on the morning of December 10 with the Minister of State, Dr. Cortina, the Prime Minister, Dr. Saladrigas, Dr. López Castro and the Minister of the Treasury, Dr. García Montes. I had suggested to the Minister of State that all these be present so as to facilitate their having all adequate background.

I first presented a memorandum in English and Spanish of which copies are transmitted in a separate despatch covering my instructions on sugar. I explained that legislative positions at home made it impossible for the Department to state that it could maintain the sugar note to Item 501 as we had last presented it. I went thoroughly into our legislative procedure and the background of our trade agreement legislation and explained the difficulties which arose out of our negotiating on sugar at the same time that Congress was considering legislation on the same subject. While I found adequate understanding of our legislative procedure and of the difficult situation created by the presentation of the Fulmer Bill,²² it is quite natural that the Cuban negotiators could not understand any recession from our position and from the note which we had offered them. I found them, however, entirely reasonable and we discussed in detail the two alternative procedures set forth in the Department's instruction of December 4, and which I had given them in the memorandum above referred to. I think the Cubans would have been prepared to accept either of the two alternatives, but of course I was not in a position to present either of them in a final or definite form.

The Cuban negotiators were much disturbed over the uncertainty of the position and the dependency of the completion of the trade agreement and the sugar purchase on the pending legislation in the Congress. They fear that this uncertain legislative position may continue for some days so that it will not be possible to carry through the trade agreement and the purchase so that they will be effective at the end of this year. From the trade agreement viewpoint this is of primary importance as it would mean that otherwise the rate of 1.50 on sugar may become effective on January 1, 1942. This would be as undesirable for us as it would be a disaster for Cuba. Further, the sugar purchase can not be completed until the 15 points provided for in the trade agreement are certain. The completion of the sugar purchase is holding up the many arrangements which the sugar industry and mills must make for the grinding season, the opening of which is rapidly approaching. Now that this sugar purchase has been agreed to by the Cubans they can make no arrangements until they know that this agreement for the sale is accepted by both parties. There is, therefore, the greatest uncertainty here which amounts to anxiety.

Completely aside from the economic and commercial factors involved there is the psychological and political factor which I am sure the Department is keeping in mind. The Cuban Government declared war on Japan within 36 hours after we did. It has declared

²² To amend the Sugar Act of 1937 (50 Stat. 903), 55 Stat. 872.

war on Italy and Germany in about 8 hours after we did. Although Cuba is practically defenseless and open to attack, the Cuban Government and people did not for one moment hesitate to support overwhelmingly these measures of full cooperation with us when larger and stronger of our neighbors have taken half-way measures or so far, none at all. Now that we have offered Cuba the 15 point reduction in the duty, and a minimum participation in our market (which has been the aspiration of Cuba for decades) and we have made arrangements for this sugar purchase, we can not let the Cubans down in any respect when their cooperation has been so complete.

Yesterday the President of Cuba gave instructions to the Cabinet that under no circumstances would Cuba refuse to carry through the sugar purchase on the terms last offered by their negotiators. After the proclamation of war by Japan and the almost certain position of imports from the Philippines and Hawaii that they will be nil, there was a tendency on the part of certain people here to influence the Government to draw back from the purchase and to ask for a higher price. President Batista said that they had made their promises before the war on the sugar purchase and now since the declaration of war by Cuba and the United States, Cuba must carry through her word no matter how disadvantageous the purchase might prove to Cuba. This is an indication of the spirit in which the Cuban Government is working and it is a spirit which must be recognized, I believe, in our negotiations of every character with Cuba, including the trade agreement. Not to do so would fail to take into account major political considerations at this time which are of the most primary and vital importance to us.

In view of the uncertainty in the legislative position and the necessity for arriving at some conclusion so that the trade agreement and the sugar purchase can be completed and effective before the end of the current year, the Cuban negotiators indicated that they would be prepared to have Mr. López Castro go to Washington at a moment's notice with full powers to arrive at some arrangement which would make the signature of the agreement possible within the next few days. I said that I would be prepared to accompany Mr. López Castro, together with Mr. Gerald Smith of the Trade Agreement Division who is now in Habana. In telephone conversations with the Department I have emphasized the desirability of this trip as a measure to avoid possible failure of completion of negotiations and the sugar purchase in time. Mr. López Castro and I are prepared to leave Cuba by the first plane any day and unless legislative position is adequately cleared up today I strongly advise this course of action as the only one which offers hope of completing these important arrangements in time.

I discussed the various items, as instructed by the Department, with the Cuban negotiators.

The Cuban negotiators agreed to give the concession on tires and tubes which we requested if it was considered essential. I informed them that it was, under my instructions, essential and this concession may therefore be considered as granted.

With respect to rice, I submitted the last proposal of the Department informally in writing. The Cuban negotiators said that the rice market was ours any way and would be for years and they wanted it to be ours. On the other hand, if they went to the Congress with the trade agreement giving us the quota for 100,000,000 kilos, the *Autenticos* would offer such strong opposition to the agreement that it might destroy the agreement and they could not take this risk. I agree with them as to the danger and we can not insist on the concession in the form which we have asked. The Cubans have proposed as their final counter-proposal on rice a concession which would provide for a rate of duty to the United States of \$1.50 per hundred kilograms, applicable to a tariff quota of 65,000,000 kilograms per year, with the rate of duty being unbound on excess-quota imports, but with the margin of preference being maintained at 50% on both quota and excess-quota shipments, and the concession to become effective at some future date following the termination of the present hostilities. I would suggest a period of a year. This, I am sure, is the best the Cubans can do and, knowing the situation as I do, I am sure that it is the best and the last offer they can make.

I strongly recommend our acceptance of this proposal. It protects our position adequately for it is extremely unlikely that the Cubans would raise the duty above 1.85 for any rice imports from the United States. If this proposal is not satisfactory to us, which I believe it should be, it would be better to drop rice from the negotiations. All of us here in the Embassy recommend the acceptance of the Cuban proposal as being in our interest.

I informed the Cubans that we were prepared to maintain our concession granted on leaf tobacco but that we would have to have a concession on smoking tobacco if the concession on cigars was to be maintained. I found on this matter a united front on the part of the Cuban negotiators, who stated that Cuba could make no concessions on cigarettes or smoking tobacco at this time. The Minister of State, for the Cuban negotiators, said that at the outset of the negotiations we had agreed to give the maximum concession we could on leaf tobacco and cigars and there was no mention of specific *quid pro quo*. The Cuban Government must insist on the granting of the maximum concession on leaf tobacco and cigars as essential to the completion of the agreement. They could not agree to make any con-

cession on cigarettes or smoking tobacco. The tobacco industry in Cuba was in such a lamentable position that they could not go to Congress, which was considering a subsidy of the industry, with a reduction on either cigarettes or smoking tobacco. It was not a question of the amount of trade involved, it was the psychological factor on the second agricultural industry of Cuba. The Minister of State pointed out that at the outset of the negotiations the Cuban Government had indicated publicly that we were prepared to give the maximum concession on leaf tobacco and cigars without specific *quid pro quo*. It would be suicide for members of the Government to try to defend any other position before the Congress. I therefore strongly recommend that we maintain the maximum concession offered to the Cubans on leaf tobacco and cigars and withdraw our requests for cigarettes and smoking tobacco. It means nothing to us in reality.

In the matter of the seasonal period of concession on fresh United States vegetables except tomatoes and cabbage, I asked for the extension to November 30 in place of September 30 which had been offered previously by the Cubans. I was told that they could not possibly give the extension to November 30 but would do so up to October 31. They pointed out that certain Cuban vegetables came actively into the market during November and that it was impossible for them to extend the concession further than October 31.

I requested further the consideration of the concession on salt and was informed under no circumstances could this be considered or granted. There was excess production of salt in Cuba now and this was one concession which President Batista, for reasons already given the Department, would not grant. This Embassy thoroughly understands the Cuban position and the concession may be considered definitely refused.

I requested the concessions on shaving soaps and creams and toilet powders, as instructed by the Department and these were definitely refused on the ground that they [*there?*] were struggling industries here producing these articles and that no further concession could be made.

I requested the concession on industrial corn starch (Ex 108-A)—that is, a rate of 3.64 pesos per 100 kilograms which was granted.

I presented further the requests, as instructed by the Department, on Kraftboard, "Tocineta", certain specified poultry feeds (269-G) and other feeds, n. s. p. f. (269-H) all of which were refused and in my opinion for good and adequate reason.

Although the Government of Cuba had given us a final offer on rice which I consider satisfactory, I raised further the items which I was instructed to raise in the Department's instruction of December

4, 1941, if the rice concession was refused. That is, I took up the items on specified white corn products (Ex 256-C), specified livestock feeds (269-E), specified poultry feeds (269-G), rubber heels for shoes (307-B), canvas rubber footwear (307-D and 307-E) and articles of rubber, n. s. p. f., all of which were refused for what I believe were adequate and sufficient reason and I do not think we should raise them further.

We discussed the grapefruit notes and the Cuban Government indicated that they would not be able to meet requirements of the notes for the present and they therefore, renounced the concession offered on grapefruit, which may therefore be considered as eliminated from the negotiations.

I wish to emphasize that in granting the concession on tires and tubes the Cuban Government has made a very important concession for this means that one factory, ready to operate and a second almost ready to operate, will not be able to do so. The Cuban negotiators stated that they had verified that there was crude rubber to the value of \$264,000 in warehouses here which had been brought in for these factories. The Cuban Government felt, however, that it should not foster the development of an uneconomic industry. The concession granted is an important one and shows the good faith of the Cuban Government in trying to grant concessions on manufactured articles which it believes should be imported by Cuba, as solely as possible, from the United States, even if it involves sacrifices in revenue.

I have cleared up all the points in the Department's instruction of December 4, 1941, with the exception of the molasses concession which I was requested to withdraw. I did not take this up in the conversation yesterday as I did not wish further to complicate the situation with regard to the sugar purchase. I am giving this further study and hope to clear up this on the basis of the Department's instruction under reference within the next 24 hours.

I know that the Department will be somewhat disappointed with the results which we were able to secure on certain concessions which I was asked to take up again. I wish to emphasize, however, that I believe that keeping in mind all the factors involved, we have the maximum of what we should ask.

This negotiation is one which is governed in many respects by major political factors and by considerations peculiar to American-Cuban relationships. It can not be considered on purely a commercial give-and-take basis and especially under the extraordinary circumstances prevailing at this time. If we consider that the concessions given by the Cubans are few we must bear in mind that, so far as the Cubans are concerned, they consider this supplementary negotiation as one

to correct inequities which had grown out of the original trade agreement and its supplement. As I have indicated to the Department in previous reports, the trade agreement was under severe criticism in Cuba because of the disadvantageous manner, on the whole, in which it was working out for Cuba. There was grave danger that the Cuban Government might be under the necessity of revoking the agreement. The pressures to this end were to my knowledge serious, while the inequities which may have grown out of our trade agreement and its supplement were the result of circumstances over which neither we nor Cuba had any control. There was no doubt, however, that the agreement was working too strongly to our advantage.

I should like to repeat that it is in my opinion essential for the maintenance of American-Cuban relationships on the satisfactory basis they now have that we complete within the next week, so that it may become effective by the end of this year, a trade agreement which gives Cuba these 15 points reduction in the sugar duty and a minimum participation in our sugar market of not less than 28.60% of our consumption needs. Unless we take these major actions now and under the existing circumstances, and which we have led the Cubans to expect, we shall be introducing an element of uncertainty, distrust and complete disillusionment in our relationships with Cuba, which I believe will cause us in the end great trouble and more loss than to Cuba. I have tried to make this considered opinion of mine so clear to the Department that I do not believe it is necessary to reiterate it in more specific detail. I cannot, however, present this controlling factor to the Department with all the clarity possible because of this vital importance to us.

The major points and the details of this despatch were communicated to Mr. Hawkins, the Chief of the Division of Commercial Agreements, yesterday afternoon.

Respectfully yours,

GEORGE S. MESSERSMITH

611.3731/2602

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

[WASHINGTON,] December 15, 1941.

Ambassador Messersmith telephoned at 10:30 to say that he had seen Cortina and López Castro yesterday morning when they handed

him the memorandum, which he telephoned in translation to the Department Sunday afternoon. This memorandum had been drafted by López Castro that night after the Ambassador had spoken to him Saturday on the basis of the Department's telegram 401 of December 12.²³

The Ambassador wished to stress that the *colonos*²⁴ and *hacendados*²⁵ in giving their approval prior to the outbreak of hostilities December 7 had indicated that conclusion of the purchase agreement on those terms must be conditioned upon not only the 75 cent duty but also upon the conclusion of the early "shortnote" under item 501 assuring to Cuban sugar treatment not inferior to that under the Sugar Act of 1937. The delay in the Cuban acceptance of the terms may be traced to the change in the text of the note which apparently was dictated by the House passage of the O'Mahoney-Fulmer bill. The probability now that the note to item 501 may, in view of the action of the other day of the Senate Finance Committee, be worded as originally proposed, makes it possible for the *colonos* and *hacendados* and the Cuban Government to approve the transaction.

Mr. Messersmith wanted to emphasize as well the splendid collaboration of President Batista, who on Monday the 8th thoroughly squelched those Cubans who in view of the war developments urged that Cuba walk out of the agreement.

The Ambassador added that López Castro and Mañas are ready to come to Washington at any moment to work out the details of the purchase arrangement. I suggested to the Ambassador it would be desirable for them to wait until we sent a signal. The Ambassador indicated that López Castro felt it might be unwise to come back to Washington before the legislative situation is entirely cleared up.

The Ambassador proposed to call Mr. Hawkins by noon today with regard to final details of the trade agreement.

I asked Mr. Messersmith whether he felt any concern is justified by item 9e of the Cuban memorandum of December 14.²⁶ He said that no concern need be felt as the Cuban Government was fully ready to conclude the agreement on the terms proposed.

²³ *Post*, p. 244.

²⁴ The planters.

²⁵ The mill owners.

²⁶ *Post*, p. 246.

611.3731/2632

*The Ambassador in Cuba (Messersmith) to the Secretary of State*²⁷

[HABANA,] December 16, 1941.

For the Secretary and Under Secretary. We are running the grave risk of creating a situation in American-Cuban relationships most prejudicial to ourselves in Cuba for the near and for the long range and in our whole inter-American position in these difficult times.

In the current trade-agreement negotiations we offered the Cubans a 75-cent duty rate on sugar and a short sugar note which grants a position for Cuban sugar in our market not inferior to that of the Sugar Act of 1937. We requested the Cubans to sell us their 1942 sugar crop and, under the favorable atmosphere created by the trade-agreement negotiations and the above offers, the Cubans have agreed to sell their 1942 crop at the reasonable price fixed by us although they consider the transaction from a purely commercial point of view a disadvantageous one for them.

I have tried to make clear in my despatches and letters that if we recede from the offers we made in the trade-agreement negotiations of the 75-cent rate and the short sugar note granting a no worse position for Cuban sugar in our market than under the 1937 Act, or under the projected bill as reported from the Senate Committee, both the trade agreement and the sugar deal cannot be signed by the Cubans and will fall through.

The trade-agreement negotiations are complete except for the form of the sugar note on which I am awaiting confirmation. If the trade agreement and the sugar deal are to become effective we must sign the trade agreement not later than December 22.

The Cubans will, I am sure, not sign the trade agreement or close the sugar deal on our offer, which they are prepared to do if we sign the trade agreement, unless the trade agreement carries the 75-cent rate and the short sugar note above referred to.

Our relations with Cuba through our wise policies have never been on a sounder or firmer basis and Cuba is today the American republic in which the good-neighbor policy has borne its most mature fruit. She has declared war on Japan, Germany and Italy without delay and without fear and is prepared to follow our lead resolutely and to cooperate in the fullest measure in her power. If the trade agreement fails, through this recession from our offer, we will be creating here a psychological and a realistic situation which will undo the work

²⁷ In a memorandum attached to this document Mr. Walter N. Walmsley, Jr., Assistant Chief of the Division of the American Republics, notes that "Ambassador Messersmith telephoned me the attached message instead of telegraphing it in order to save time."

of years in a few weeks and which will create political, economic and labor repercussions here which will cause exceedingly difficult problems for us not only in American-Cuban relationships but the repercussions of which will be felt in the other American republics.

Whatever our problems at home may be in giving this short sugar note, they are small as compared with those which we would be creating by receding from our offer at this crucial time.

I therefore recommend in our interest that I be authorized to include without delay this short sugar note in the trade agreement and to proceed with the signature at the latest on Monday, December 22. The text of the agreement otherwise has been fully agreed to by us and by the Cubans.

MESSERSMITH

611.3731/2633

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

[WASHINGTON,] December 17, 1941.

The Ambassador²⁸ called at Messrs. Duggan's²⁹ and Walmsley's request after the Secretary had earlier stated that he perceived no objection to informing the Ambassador of the nature of the instructions which the Secretary had signed this morning. Mr. Duggan took great pains to explain that:

1. When the short note was proposed to Cuba Cuba hesitated but later accepted.
2. Almost at the same time the O'Mahoney-Fulmer bill disturbing the quota relationships in the Sugar Act of 1937 was passed by the House.
3. The Secretary instructed that the nature of the sugar note and the conclusion of the trade agreement must await clearing up of the legislative situation.
4. The Senate Finance Committee in amending the House version, at the request of the several interested Departments including the Department of State, reported the bill out with a statement to the effect that while the Committee sympathized with the ambitions of the several interests which would be benefited by the House version, it did not believe that these proposed changes should be examined during war time and that therefore consideration of the changes should be postponed to after the war.
5. In view of this Congressional intent it becomes desirable to substitute an exchange of notes binding the Executive Branch of the Government to using its best efforts to preserve the *status quo* for Cuba under the Sugar Act of 1937 rather than endeavor to tie the

²⁸ Aurelio F. Concheso, the Cuban Ambassador.

²⁹ Laurence Duggan, Adviser on Political Relations.

hands of the Congress, which clearly wants to consider new legislation later in the form of the "short note". The latter, as the Secretary, who is an expert in legislative procedures and psychology, feels, would do far more harm to Cuba than good. Therefore the proposed exchange of notes, while binding only the Executive is really in practice a better guarantee for Cuba than the short note.

Mr. Walmsley gave Ambassador Concheso for his convenience the texts of the "short note" and of the proposed exchange of notes which he said he would remit to the President by airmail if possible this afternoon; in the meantime he would telephone to the President.

The Ambassador indicated that he had been following very closely the course of the sugar legislation in the Congress and understood the Department's position.

611.3731/2604a : Telegram

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

WASHINGTON, December 17, 1941—5 p.m.

414. Reference your telephone conversations yesterday and particularly your confidential message to Mr. Welles and me. You will recall that the short note to item 501 was proposed after the Cubans had submitted a counterproposal relating solely to possible action by the Executive not to the Congress; and that we made this proposal on November 7, the day on which proposed sugar legislation was introduced. The Cubans were slow to accept the short note and meanwhile the legislative picture here was changing. In view of recent legislative developments, growing out of Japan's attack on us, which could not have been foreseen at the time we proposed the short note, I instructed Hawkins to telephone you last Saturday to keep the sugar provisions of the trade agreement fluid until we could have an opportunity to see what the Senate Finance Committee's report would contain and what the ultimate outcome in regard to the pending sugar legislation would be.

We have now seen that report, which contains the following statement:

"Admittedly, the bill does not give full recognition to the needs and ambitions of all groups in the sugar industry. These needs and ambitions were forcefully represented to the Committee and with many of them the Committee is sympathetic. Nevertheless, since these matters are not of immediate consequence during the period of war in which the Nation is engaged, it was deemed expedient to postpone their consideration to a time when more thorough examination of them is possible."

In view of this expression of Congressional intent merely to postpone consideration of the quota provisions of sugar legislation until

after the emergency, and in view of the cooperative spirit shown by the Committee in rejecting the House bill which would have been adverse to Cuba, I think that we would risk offending members of Congress and perhaps jeopardize Cuba's future position and other matters of interest to the Department and the Administration if we went ahead with the trade agreement on the basis of the short note which would be interpreted as an attempt to forestall Congressional action after the emergency is over.

Therefore, I want you to make every effort to persuade the Cubans that it would be in their own interest to accept in lieu of the short note an exchange of notes the substantive portions of which would read as follows:

Note From Foreign Minister

"In view of the extreme importance of sugar exports to the economy of Cuba, and of the predominant position of the United States as a market for Cuban sugar, my Government is deeply concerned over the possibility of the adoption of measures in the United States which would adversely affect the position of Cuba as a supplier of sugar for the United States market as compared with its position under the provisions of the Sugar Act of 1937."

Reply Note

"I have the honor to state that I am directed by my Government to assure Your Excellency that the interest of your Government in maintaining the position of the Republic of Cuba as a supplier of sugar for the United States market as compared with its position under the provisions of the Sugar Act of 1937 is fully appreciated and that this Government will exert every appropriate effort to safeguard that position."

This exchange of notes would afford substantially the same protection of Cuba's position in the United States sugar market as the note for which they would be substituted.

Account has been taken also of the fact that the Cuban Government in its memorandum of December 14³⁰ (paragraphs 2 and 8) indicated that one of the conditions of the conclusion of the Cuban purchasing agreement would be that the provisions of the trade agreement should conform to the "principle" of the earlier sugar note. The exchange of notes meets this requirement.

Please take this matter up immediately with the Cuban authorities and make every effort to obtain prompt conclusion of the agreement on this basis.

The Cuban Ambassador is being advised in the above sense, without indication of the possibility of recession. Nevertheless, if you are certain that the trade agreement and purchase agreement would be

³⁰ *Post*, p. 246.

lost if we should insist upon the substitution of the exchange of notes for the short note, you are authorized, as a last resort, to agree to the retention of the short note; but with full notice to the Cuban Government that it must assume responsibility in the light of the considerations set forth above, for any consequences adverse to Cuban interests.

3. The proposed first note to item 501, providing for a possible customs quota, has now been deleted from the agreement as unnecessary.

4. A definitive text of the agreement incorporating the exchange of notes will be transmitted as soon as possible.

5. Mañas should of course proceed to Washington at once as requested by the Defense Supplies Corporation (Department's 410 of December 14³¹).

HULL

611.3731/2634

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

[WASHINGTON,] December 18, 1941.

The Ambassador³² telephoned at 10:30 saying he had received the Department's telegram (no. 414)^{32a} of instructions regarding the trade agreement. He mentioned the Under Secretary's telephone call of yesterday and said that the Department could count on him to handle the presentation of the proposed exchange of notes with his full energies. He thought he had at least a 50-50 chance of success.

He had some questions to ask as follows:

1. What would be the timing of the signature of the proposed exchange of notes. I stated they should be signed and exchanged simultaneously with signature of the trade agreement.

2. He wished to know what happens under the exchange of notes procedure to the sugar note in the present trade agreement. I informed the Ambassador that an instruction forwarding the final text of the supplementary trade agreement had been signed last night and should answer this question. Nevertheless, after our conversation I transferred the Ambassador to Mr. Fowler of TA.³³ (At 12:30 p. m. December 19 the Ambassador had still not received the instruction, and he asked that TA slip an extra copy of the trade agreement text into an envelope this afternoon to be sent airmail. I so requested Mr. Leddy.^{33a})

³¹ Not printed.

³² Mr. Messersmith, Ambassador in Cuba.

^{32a} *Supra.*

³³ William A. Fowler, Assistant Chief, Division of Commercial Policy and Agreements.

^{33a} John M. Leddy, of the Division of Commercial Policy and Agreements.

3. The Ambassador stated that Gerald Smith should be sent instructions about departure. This has been done.

4. As to timing the signature of the trade agreement and exchange of notes, the Ambassador was in complete agreement also with the Department that first the legislative situation must be cleared up. It was agreed that the Department should notify the Ambassador the moment final action is taken by the Congress.

5. The Ambassador expected to see Cortina and the other Ministers the evening of the 18th. They were busy during the day at the Congress with the bill to grant emergency powers to the President.

[For text of the second supplementary trade agreement between the United States and Cuba signed December 23, 1941, see Department of State Executive Agreement Series No. 229, or 55 Stat. (pt. 2) 1449; for an analysis of the general provisions of the agreement, see Department of State *Bulletin*, December 27, 1941, pages 603 ff.]

**ARRANGEMENTS FOR EXPORT-IMPORT BANK CREDIT TO FINANCE
PRODUCTION OF AN ADDITIONAL SUGAR QUOTA DURING 1941**

837.61351/2356

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

No. 1306

HABANA, December 18, 1940.

[Received December 19.]

SIR: I have the honor to inform the Department that the Minister of State, Dr. Cortina, requested me last evening to call on him this morning as he had a memorandum which he wished to deliver to me. I called on him this morning and he handed me the appended communication from the Cuban Government with the memorandum attached,³⁴ in which the Cuban Government requests the assistance of our Government through the Import-Export Bank in the financing of 500,000 tons of sugar.

The Minister made quite a number of observations which I am not able to transmit in this despatch as I have just returned from the long conversation which I have had with him, and the airmail is leaving within the next hour.

The Minister stated that he hoped that our Government would be able to give immediate consideration to this request of the Cuban

³⁴ Neither printed.

Government as the grinding season would begin shortly and whatever action was taken would have to be taken without delay. He said that this assistance was of immediate and imperative necessity for the maintenance of the economy and social situation in Cuba.

I told him that I would transmit this communication without delay to my Government and that I could make no observations with regard to the memorandum as the details of such an operation as that proposed by the Cuban Government would have to be dealt with by the Import-Export Bank and other Departments and agencies of our Government in collaboration with the Department of State. The only observation I made in this connection was that he knew that in our conversations I had always expressed the opinion that the maintenance of sugar production at present levels in Cuba was the most important factor in maintaining the Cuban economy under the conditions which we had to envisage for the next year and for probably several years longer.

The Minister stated that this request of the Cuban Government was separate and apart from the loan negotiations in progress. In connection with the loan negotiations, he would give me next week for transmission to the Department a memorandum of proposals of the Cuban Government with respect to the loan.

I shall transmit by the airmail tomorrow a more complete report on this request of the Cuban Government with such observations and recommendations which this Embassy may be in a position to make. I may say at this time that I believe that the present request of the Cuban Government should be considered as carefully and as benevolently as may be in our power, as I am of the opinion that no one thing which we can do for Cuba will be of more immediate benefit to Cuba and to us than appropriate steps to maintain for the present year, and if possible for several years longer, the production of sugar in Cuba at present levels.

Respectfully yours,

GEORGE S. MESSERSMITH

837.61351/2372 : Telegram

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

HABANA, January 8, 1941—7 p. m.

[Received January 9—12: 50 a. m.]

11. From Pierson³⁵ to Will Clayton.³⁶ It is anticipated that the Cuban Government will fix a crop of 2,000,000 Spanish long tons

³⁵ Warren Lee Pierson, President of the Export-Import Bank.

³⁶ Deputy Federal Loan Administrator.

exclusive of any extraordinary quota which may be financed by the Export-Import Bank. On the basis of a crop of this size, I recommend that the bank offer to finance the production during 1941 of a special additional quota of 400,000 tons the financing to be made at the rate of one cent per pound upon the following conditions:

Loan to be against 5-year notes secured by pledge of sugar as well as allocation of 6 cents per bag production tax and provision for diversion of not exceeding 50,000 tons of pledged sugar per annum for sale in the American market within the American quota if equivalent amount is not sold elsewhere at price not lower than the financing price.

Authorization for the financing should be obtained from the Cuban Congress which should include in the enabling legislation provision for the extension without substantial modification of Decree Law 522.³⁷

It is contemplated that the Cuban Sugar Stabilization Institute³⁸ would act as representative of the parties to the financing agreement and that a private bank would act as trustee.

If the foregoing is approved by the State Department and the bank I shall submit it to the Cuban Government at the first opportunity. [Pierson.]

BEAULAC

837.61351/2372 : Telegram

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

WASHINGTON, January 9, 1941—7 p. m.

11. Your no. 11 January 8, 7 p. m. For Pierson from Clayton. The Executive Committee of the Export-Import Bank today approved your recommendation for a credit to be extended on 400,000 Spanish long tons of sugar. The Committee fixed the rate of interest at 3.6 percent. You are requested to put forward an additional clause whereby amortization would be speeded up if the world sugar price rises to 1.5 cents. [Clayton.]

HULL

³⁷ Promulgated January 18, 1936. The decree established standards for the production and export of sugar and authorized Government regulation; see *Gaceta Oficial*, Edición Extraordinaria No. 13, January 20, 1936.

³⁸ A governmental body organized to supervise the production and export of sugar, authorized on May 14, 1931, and continued by the Decree Law 522.

837.61351/2377

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

[WASHINGTON,] January 16, 1941.

[Subject:] Despatch No. 1394, January 10, 1941, from Habana ³⁹

The position of Dr. Cortina, as of Friday, January 10, vis-à-vis the Export-Import Bank proposal to finance a 1941 Cuban surplus of 400,000 Spanish long tons of sugar, is outlined in the attached memorandum of conversation between Mr. Beaulac and Dr. Cortina.⁴⁰ As the Department is aware from Mr. Beaulac's telephone conversation of January 13,⁴¹ Cortina may now oppose the loan. The principal points taken up on January 10 are as follows:

(1) Dr. Cortina exhibited an extraordinary sensitiveness to American "pressure" toward extending 522.⁴² While Cuba recognizes the wisdom of extending this legislation, Dr. Cortina pretended [*contended*] that we should rely on Cuba to do so "spontaneously". Mr. Beaulac agreed and expressed regret that Cuba had not taken advantage of numerous opportunities to act "spontaneously". The Chargé appeared to obtain Dr. Cortina's agreement that the proposed sugar financing now added an important technical reason for extending 522 (thereby extending the life of the Sugar Institute, which would be the principal factor in the operation).

(2) Cortina regretted that the proposal fixed the sum of 400,000 tons instead of the originally requested 500,000 tons but said that he would not make an issue of it.

(3) Dr. Cortina also appeared to wish to bargain about the rate of advances. Cuba has asked for \$4.00 per bag. The Export-Import Bank offers \$3.25. Dr. Cortina hoped the ante could be raised to \$3.50. His principal arguments related to "cost of production", which the Chargé pointed out would not have been covered even by the \$4.00 rate. The cost of production on sugar is not covered in any way by prices obtained by Cuba's contribution to the world market in recent years.

(4) In relation to the general subject of aid to Cuba, the Chargé found an opportune occasion to review the past three years of Cuban-American relations which have been largely made up of generous offers of cooperation by the United States conditioned upon certain acts of cooperation on the part of Cuba which have long been obviously necessary. . . . Dr. Cortina apparently conceded that Cuba should in fact now offer some concrete token of its willingness to cooperate.

³⁹ Despatch not printed.

⁴⁰ Not printed.

⁴¹ Memorandum of telephone conversation not printed.

⁴² Decree Law 522.

(5) The Foreign Minister . . . referred to the importance to the new administration's stability and strength of "an achievement". Mr. Beaulac, accepting this premise by implication, observed that while the United States had repeatedly shown a desire to assist and cooperate, the Cuban Government of recent years has exhibited no leadership in combatting attacks within Cuba on the United States and against the traditionally friendly United States-Cuban relations. This negative policy on the part of recent Cuban Governments stands in strange contrast to the Cuban Government's attitude that it is up to us to extricate the Cuban Government from difficulties to the solution of which it has as yet made no contribution.

The net result of the conversation seems to have been that Cortina would use Mr. Beaulac's observations in discussing the sugar finance proposal with the members of the Government, and the meeting with Mr. Pierson scheduled for Friday night was postponed to Tuesday, when the Ambassador is expected back.

837.61351/2389

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

No. 1445

HABANA, January 22, 1941.

[Received January 23.]

SIR: Supplementing my despatch No. 1428, of January 18, 1941,⁴³ and with reference to the Department's confidential telegram No. 20, January 17, 6 p. m.,⁴³ I have the honor to report that representatives of the Government met on January 20 with representatives of the sugar industry, to discuss again the offer of the Export-Import Bank to finance the production during 1941 of an extraordinary sugar quota of 400,000 tons. The representatives of the industry were informed at the meeting that the Export-Import Bank was prepared to raise the financing price from \$3.25 per bag to \$4.00, the other terms remaining unchanged.

I am enclosing a memorandum⁴³ concerning the meeting, as described to the Embassy by an entirely reliable person, who was present. It is obvious that, in contrast to its attitude during the first meeting, the Government warmly commended the offer to the industry; and that the mill owners approved the offer enthusiastically. The general impression is that the objections on the part of the *colonos*⁴⁴ were made

⁴³ Not printed.

⁴⁴ The *colonos*, or planters, had representation in the Sugar Stabilization Institute.

in a personal, rather than official, way. I have now been reliably informed that the *colonos* last night communicated to the Government their approval of the offer. It is therefore expected that the Government shortly will indicate acceptance of the offer.

Respectfully yours,

GEORGE S. MESSERSMITH

837.61351/2398

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

No. 1490

HABANA, January 31, 1941.

[Received February 3.]

SIR: Supplementing my despatch No. 1486, of January 30, 1941,⁴⁶ I have the honor to enclose, in strict confidence, copies of two memoranda⁴⁶ presented jointly by the *Hacendados* Association⁴⁷ and the *Colonos* Association⁴⁸ to the Government, "clarifying" the terms under which the Associations understand the proposed financing of a special crop of 400,000 tons of sugar during 1941 will be carried out.

Particular attention is called to paragraph (c) on page two of Memorandum No. 1. The device suggested provides for the sale of a minimum amount of 50,000 tons annually in the world market, at prices higher than the financing price, if possible, or at prices lower than the financing price, if the Export-Import Bank approves. If such sale in the world market cannot be made, an equivalent amount must be sold in the United States market the following year, and the proceeds from the sale of this sugar in excess of the financing rate may be applied by the Institute to make up losses in the sale of additional sugars in the world market at less than the financing price. The proceeds of the 6¢ tax, after charges for interest and expenses have been paid, likewise would be available for making up the difference between the proceeds from sales of sugar in the world market at less than the financing price and the proceeds which would have been received if such sugar had been sold at the financing price. The result of the device suggested would be to make it possible to dispose of the special quota sugars more rapidly than otherwise possible. The Embassy believes that the suggestion has merit; and it is an interpretation of the bank's offer to which the bank may agree without having to modify its offer.

Respectfully yours,

GEORGE S. MESSERSMITH

⁴⁶ Not printed.

⁴⁷ Representative of the mill owners.

⁴⁸ Representative of the planters.

837.61351/2419

The Ambassador in Cuba (Messersmith) to the Under Secretary of State (Welles)

HABANA, January 31, 1941.

DEAR SUMNER: I have not written you concerning the general situation here since my return as I wished to await certain developments, but I will no longer delay, and give you a brief if somewhat sketchy picture.

The delay in the sugar arrangement being completed is not due to any lack of interest by the Government, or even of the industry. I need not tell you, who know the situation here so well, that such a question always brings into play certain interests which may have no direct connection with the matter. The Government has worked effectively. The *hacendados* have made no difficulty. The *colonos* are making difficulty because very egotistically they would like to use the legislation which has to be enacted in connection with the sugar arrangement, and which will of course include renewal of decree-law 522, as an opportunity to get parity with the *hacendados* in the Sugar Institute. In a way to give them such parity could be considered as a substantial alteration of 522, and it is an alteration which I hope we will not be asked to approve.

Parity for the *colonos* in the Sugar Institute might mean trouble in the future in an organization which has, on the whole, functioned effectively. As it is now, the large mill owners, the small mill owners, and the *colonos*, have equal representation in the Institute. This is fair and proper, as it represents relative interest. The *colonos* want to get a position in the Institute to which they are not relatively entitled, and I can see that with their having parity we might have all sorts of trouble in the future.

The *hacendados* and *colonos* have given their formal approval to the Government to the sugar arrangement. A small group is now preparing the legislation which will have to be enacted by the Congress. The *colonos* and *hacendados* were prepared to ask the Government to accept the arrangement immediately, and work out the details of the law and with the bank later. Cortina and Saladrigas⁴⁹ took the attitude that everything would have to be worked out, including an acceptable draft bill for the Congress, which was satisfactory to us, before any announcement could be made. This is characteristic of the helpful attitude which Cortina and Saladrigas have taken recently. Both of them are eager that their relations with us should be

⁴⁹ Carlos Saladrigas, Cuban Prime Minister.

on a correct and sound basis, and they want any misunderstandings or difficulties avoided. I hope to have a draft of the law in a day or two so we can submit it to the Department, and after we say that it is satisfactory then a formal announcement can be made by the bank and by the Cuban Government that a sugar arrangement has been concluded.

I think there will be no difficulty in getting the authorizing act, which includes the renewal of 522, through the Congress. Of course, there are those who do not like the renewal of 522, nor the using of the 6 cents a bag tax for the sugar arrangement, but the arrangement is so obviously necessary that I am confident that, although there will be some voices in the Congress against the bill, it will be carried.

I am sure that this sugar arrangement will be the most constructive thing that we could do in the Cuban situation now, and it is most important that it should go through, for without it there would be economic distress in the country districts within three or four months, and I fear that this would result definitely in political disorders. If we can get this sugar arrangement through, it, together with the increased demand for molasses, will help to stabilize the economic situation until we can get some constructive action on credits for agricultural diversification and public works.

I get it from every side that Cortina and Saladrigas have been most helpful, not only in this sugar arrangement, but with respect to our relations in general and to developments here. They are the best men now in the Batista⁵⁰ Government. Cortina has shown an extraordinarily meticulous desire to keep everything on a sound and constructive basis. Saladrigas is helping him. Casanova⁵¹ has on the whole been helpful, but he remains Casanova, and I have had great difficulty in keeping him down on this question of molasses. . . .

[Here follows a discussion of other matters, mostly Cuban internal political conditions.]

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

P. S. After reading this letter I think I should say that the second paragraph on page 2 may be a little too optimistic, as there may be some difficulty in getting the authorizing act for the sugar arrangement through Congress. The *colonos* are behaving very badly. Most everyone is really pleased with the sugar arrangement and wants it to go through. The *colonos*, however, are trying to use this opportunity to get parity in the Sugar Institute. . . . The *hacendados* are

⁵⁰ President Fulgencio Batista.

⁵¹ José Manuel Casanova, President of the Sugar Stabilization Institute.

in a weak position because, although they are right in the attitude they are taking, they represent "capital" interests.

It is this difficulty over parity which is holding up the formal acceptance by the Government of the sugar arrangement and its completion. So far as the operation itself is concerned, there is agreement and no serious question. I think it is important that this question between the *hacendados* and *colonos* over parity be worked out before the bill is introduced in the Congress. Casanova is one of the very few *hacendados* in the Congress, while in the House there are some 40 *colonos* and in the Senate I believe 9. If this matter is not ironed out before the authorizing bill gets to Congress the *colonos* will try to fight it out there, and they will have popular support. One amendment leads the way to others, and the whole bill might be amended in such a way as to make it unacceptable to us and prevent the completion of the sugar arrangement. I still believe this matter will be worked out, but I wanted you to know what the delay is due to and that it has nothing to do with the arrangement itself.

G. S. M.

837.61351/2458

The Ambassador in Cuba (Messersmith) to the Under Secretary of State (Welles)

HABANA, March 22, 1941.

[Received March 24.]

DEAR SUMNER: The sugar financing bill passed the House day before yesterday with only one vote against it. I understand that this one adverse vote was cast by Carlos de la Cruz. You may recall the Senate passed the financing bill with not a single vote cast against it and with well over 40 Senators present at the time the vote was taken. The President has signed the bill.

There has been a long delay in this financing measure being approved by the Congress, but as I told you in my rather full letter of March 1⁵² this delay in many respects has had its advantages, for it made possible the clearing up of many situations in the industry and the basis has been laid for more stable conditions in the sugar industry. As I pointed out in my letter of March 1 to you, longstanding difficulties between *hacendados* and *colonos* have been worked out on what seems to be a mutually satisfactory basis. The Institute has been reestablished for the period of the sugar arrangement, and the internal administration of the Institute is improved as a result of all

⁵² Not found in Department files.

these discussions and the financing law. Decree-Law 522 is renewed without any alteration which we consider substantial. When we realize how deep-seated and real were the difficulties between *hacendados* and *colonos*, what definite criticism there was of the Institute and opposition to the prolongation of its life, and how many interests were combined to prevent a prolongation of Decree-Law 522, this action of the Cuban Congress—especially the final vote on the financing bill—becomes all the more significant. . . .

Although the financing bill is of primary importance and vital in the maintenance of the economic, and therefore of the political, situation in Cuba, there are many other reasons why this financing arrangement is of importance and advantage to both Cuba and ourselves. Without this financing arrangement the Institute was dead, and the present equitable distribution of quotas would have been destroyed. Without the financing arrangement it would have been impossible to secure the renewal of 522, which, as you and I know, is essential to stable conditions in the sugar industry. If 522 had not been renewed there would have been an orgy of private interests, and Cuban and particularly American interests would have been affected. You and I realize that this discrimination against American sugar interests, which would have resulted from the failure to renew 522, would have been the invitation for and opened the way to discrimination against other American interests.

Growing out of the discussions which I have had with Batista, Cortina, Saladrigas, and others, over this sugar financing, there have come the most categorical declarations from them that under no circumstances must American interests be prejudiced or injured. I think there is more than words here, for I believe that the insistence which we showed with respect to 522 has had a salutary influence all around. You have performed a useful service in our relations with Cuba in general in maintaining the Department's position so consistently that the renewal of 522 was of this primary importance.

I would like to think that we have passed another milestone on a road which we are endeavoring solidly to construct.

I should add that, although there has been this delay in the passage of the financing bill, it has not seriously affected either the economic situation or the industry, as there was the basic belief all the time that in some way or other the law would be voted in a satisfactory form. Although the grinding quota had been fixed at two million tons the mills were proceeding on the basis that the 400,000 provided by the bill were certain.

Now that this financing arrangement has been voted, and only the details need be worked out for the contract between the Bank and the Institute, Cortina is likely to go ahead more actively with the conver-

sations on economic and financial cooperation. There has been no delay on my part, and I am awaiting the delivery by him of a memorandum which he informed me some weeks ago he was working on. My own preliminary impression is, without going into any detail at this time, that sufficient ground has really been cleared by the Cubans in meeting our conditions to enable us to go ahead. I am keeping in mind your strictly confidential letter to me of February 27⁵⁵ in this connection.

As the Secretary was so much interested in this financing arrangement he may be able to find the time to read this letter.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

**NEGOTIATIONS FOR THE PURCHASE BY THE UNITED STATES OF THE
ENTIRE 1942 CUBAN SUGAR CROP**

837.61351/2620 : Telegram

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

WASHINGTON, October 21, 1941—7 p. m.

313. The Office of Production Management has recommended that the Federal Loan Agency, acting through the Defense Supplies Corporation, make arrangements to acquire the entire 1942 sugar crop of Cuba. The Defense Supplies Corporation is ready to proceed immediately with negotiations. You are requested to inform the Cuban Government in confidence of this proposal and to invite it in behalf of the Federal Loan Agency to send suitable representatives to Washington for this purpose if the proposal meets with the approval of the Cuban Government. (The Department relies upon you to convey in a discreet fashion the importance of selecting qualified negotiators.)

The Department feels that this proposal goes a long way toward meeting the aspiration of the Cuban Government and the sugar industry to be consulted, as expressed in Foreign Minister Cortina's letter of August 13 to you.⁵⁶ The Department is convinced therefore that the Cuban Government should be receptive to the proposal and will cooperate in every reasonable way to assure orderly marketing of sugar during the emergency at equitable prices.

This should prove a splendid opportunity for the Cuban Government and the sugar industry to implement their assurances of cooperation. In this connection it is the Department's often repeated

⁵⁵ Not printed.

⁵⁶ Not printed; this letter was primarily a protest against the fixing of sugar prices by the Office of Price Administration without consulting Cuba.

view that large volume production at moderate prices is best for the Cuban economy on the long pull.

You should at the same time point out that the current trade-agreement negotiations,⁵⁷ although separate, are in fact closely related to the purchase proposal; and emphasize again the importance of early conclusion of the negotiations, on general grounds, and in order to remove the uncertainty as to the duty on Cuban sugar after January 1. Removal of this uncertainty would facilitate the reaching of an agreement in regard to the purchase of the 1942 crop. Also the early conclusion of the trade agreement would establish a firmer foundation for future trade with the United States in sugar and other products.

HULL

837.61351/2626

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

No. 2816

HABANA, October 24, 1941.

[Received October 25.]

SIR: Referring to the Department's telegram No. 313, October 21, 7 p. m., and my despatch No. 2802 of October 23,⁵⁸ I have the honor to report that I handed to Dr. Cortina yesterday afternoon the confidential memorandum (text accompanying despatch No. 2802) indicating our Government's interest in purchasing the entire 1942 sugar crop.

This information did not of course come altogether as a surprise to Dr. Cortina, since there has been a good deal of speculation by the local press in recent weeks concerning possible crop purchase proposals on the part of our Government. The Minister said that he could not give me any immediate official indication of the attitude of his Government, but that he would at once inform the President and other interested Cuban officials, and that he would let me have their preliminary views as soon as possible.

With reference to the question of sending a Cuban representative to Washington, Dr. Cortina inquired whether the purpose of the trip should be held as confidential or whether it would be proper for his Government to let our proposal be known. (Although it was left that the matter would be held in confidence pending word from me, I anticipate that the proposal will almost inevitably become known at an early date.)

Emphasizing that he was speaking in a personal rather than official vein, Dr. Cortina then said that he doubted whether it would be

⁵⁷ See pp. 196 ff.

⁵⁸ Latter not printed.

desirable for his Government to sell the entire crop at a fixed price. He explained that "since sugar is money in Cuba, we have to use the dollars received for our sugar to buy all our essential commodities—the majority of which are obtainable at present only from the United States." The Minister pointed out that more than 90% of Cuba's imports now come from the United States and that, while Cuba wished to cooperate with us very closely in this matter as in all others, he did not feel it would be fair for us to ask Cuba to sell its 1942 *zafra* at a fixed price, unless the prices of Cuban imports could also be fixed, and on the same relative level.

Although I made no comment to the Minister, I am strongly impressed by the reasonableness of this point of view. It is quite true that at the present time Cuba must buy practically everything from the United States, and I do not believe it would either be equitable or in the long run be advantageous to us to create a situation in which, having sold her crop, Cuba would have no means of meeting rising prices for the American products required by this country. In my opinion one solution would be for the crop to be sold on some formula basis, rather than on a fixed-price basis.

I made the informal suggestion to Dr. Cortina that while we should welcome whatever representative his Government wished to send to Washington, I thought it would be helpful for Dr. Mañas⁵⁹ to take part in the discussions, not only because of his ability and his intimate knowledge of the Cuban sugar situation but also because of his understanding of our own Government. I added that I thought it essential that an English-speaking representative be sent. (I of course assume that Dr. Albertini⁶⁰ will also be available to assist the Cuban representative.)

Respectfully yours,

GEORGE S. MESSERSMITH

837.61351/2648

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

No. 2888

HABANA, November 6, 1941.

[Received November 7.]

SIR: Referring to despatch no. 2885 of November 5⁶¹ and previous correspondence regarding the sugar crop-sale proposal, I have the honor to transmit copy and translation of the Cuban decree in the premises,⁶¹ issued by the Government yesterday. The Department will observe that it is carefully drawn and states merely that a

⁵⁹ Arturo Manuel Mañas, representative of the Cuban sugar mill owners.

⁶⁰ Oscar Diaz Albertini, representative of the Cuban Sugar Stabilization Institute, a Government entity that supervised the production and export of sugar.

⁶¹ Not printed.

Commission shall proceed to Washington "to study the conditions and situation of the American market. . . ." ⁶² The text was written by Dr. Mañas.

Dr. Ramiro Guerra has been appointed Adviser to the Commission, with Sr. Manuel Perdomo as assistant. The latter is in the employ of the Institute as statistician and has been a member of the Cuban Delegation at various sugar conferences in the past.

Dr. Cortina, Minister of State, has been informed of the postponement of the first meeting from Monday next to Wednesday, November 12. The Commission now expects to leave Habana by airplane on the morning of November 8 and to reach Washington on November 10.

Although it is now generally believed in sugar circles in Habana that the purpose of the Commission's trip is to discuss possible purchase of the 1942 crop, publicity in the Spanish language press in Habana continues to show considerable restraint. (I enclose the pertinent clipping from this morning's *Diario de la Marina*, which likewise contains the Spanish text of the decree.) The *Havana Post* has, however, made a sensational play of the appointment of the Commission, which it reports under the caption "Sugar Crop Sale Negotiations Set—Cuban Group to Discuss Terms in Washington". I enclose the clipping.

Respectfully yours,

GEORGE S. MESSERSMITH

837.61351/2653

Memorandum of Telephone Conversation, by the Ambassador in Cuba (Messersmith) ⁶³

HABANA, November 25, 1941.

Mr. Pierson ⁶⁴ called me on the telephone at 11:30 today to say that they were having their troubles in coming to agreement with the Cuban Sugar Commission on the purchase of the 1942 crop. At the meeting yesterday, we had offered the Cubans what was equivalent to 2.40 for sugar and 2.30 for 1,000,000 tons sugar content molasses. He pointed out that the Price Comptroller had agreed to raise the selling price of sugar from 3.50 to 3.64. This made it possible to offer the Cubans 2.40 instead of the present 2.26 for sugar. The Cubans had remained firm in asking 2.75 for sugar and molasses and the meeting ended yesterday on that basis.

⁶² Omission indicated in the original.

⁶³ Transmitted to the Department by the Ambassador in Cuba in his despatch No. 2991, November 25; received November 26.

⁶⁴ Warren Lee Pierson, President of the Export-Import Bank of Washington.

Mr. Pierson said that they had had a meeting with OPM⁶⁵ this morning, which had just ended, and that OPM had indicated that it could not pay a higher price than 2.30 net for molasses. OPM felt that by rationing alcohol for use in gin and alcoholic beverages and by using some 600,000,000 bushels of corn for alcohol, and certain other steps, it could meet the needs without consummating this purchase of the Cuban 1942 crop.

Mr. Pierson said that in addition to asking 2.75 for sugar and molasses, the Cubans had insisted that they be given corresponding benefit of any increase-benefit-payments paid to American producers. This, he said, had caused a bad impression among the representatives of Agriculture.

Mr. Pierson further said that our people had conducted the conversations very fairly and had arrived at the conclusion that the Cubans were assuming an unreasonable attitude.

I told Mr. Pierson that I hoped very much that some arrangement could be arrived at. We had asked the Cubans to come up on this matter and the initiative was ours. We had our relations with Cuba on a sounder and firmer basis than we had had them for years and I feared very much that failure to reach an agreement on this matter would have a very bad effect and complicate our relationships. I pointed out that these negotiations for the purchase of the 1942 crop were tied up with our trade agreement negotiations which were also in a crucial stage, and that these whole negotiations were particularly important, both for us and for Cuba from the long-range point of view. I said that with regard to the technical aspects of the sugar purchase, there were those who knew so much more than I that I could not offer any helpful comment. I did want to stress again the importance of the negotiation not failing because of what I believed would be an inevitably undesirable effect on our general relations which were so important.

In this connection, Mr. Pierson said that the negotiations were not being broken up and it could not be said of them that they were a failure, but that the Cubans would be returning "to report" and would have an opportunity to reflect.

Mr. Pierson also said that he had had a conversation with Dr. Mañas this morning in which he had informed him of the alternatives which we had and could use, such as using corn for alcohol and rationing alcohol for beverages. I told him that it was important to stress these factors with the Cubans who perhaps were too strongly impressed with their belief of our dependence upon them. I failed to mention it, but of course, in this connection, I am sure that there

⁶⁵ Office of Production Management.

is being brought to the attention of the Cubans the possibility which exists of some kind of agreement with the Japanese, as a result of which Philippine sugars will continue to come into our market. These alternative measures and sources should, I believe, be brought strongly to the attention of the Cubans.

Mr. Pierson suggested the advisability of my seeing President Batista to bring to his attention the possible results of failure of the negotiations for the Cuban economy. I told Mr. Pierson that I had already had this in mind and mentioned it to Mr. Walmsley⁶⁶ this morning. I also told him that I had had a talk with Mr. Welles⁶⁷ this morning in which I expressed the hope that some arrangement would still be found in view of our present and long-range relationships with Cuba. I said to Mr. Pierson that I did not think I should see the President here until I had more news from him and until I had some pertinent facts which could be sent me by airmail or by cable.

Mr. Pierson said that the British had agreed for the present not to buy any sugar except at present prices.

GEORGE S. MESSERSMITH

837.61351/2654c: Telegram

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

WASHINGTON, December 1, 1941—3 p. m.

374. Reference Walmsley's telephone call this morning to the Ambassador. The Defense Supplies Corporation and the Office of Price Administration request that the proposal made by Mr. Pierson be restated in the following language and thus replace points 1 to 5 in the Department's telegram no. 373 of November 30, 4 p. m.⁶⁸ In delivering the following proposal to Dr. López Castro⁶⁹ it should be made clear it is not an offer but that if the proposal is acceptable to Cuba Mr. Pierson as Chairman of the United States Commission will recommend it to the interested agencies of the United States as a satisfactory basis for a purchase agreement:

"1. The entire 1942 Cuban crop will be purchased at a minimum basic price of 2.50 f. o. b. Cuba for sugar, invert and blackstrap.

⁶⁶ Walter N. Walmsley, Jr., Assistant Chief of the Division of the American Republics.

⁶⁷ Under Secretary of State Sumner Welles.

⁶⁸ Not printed.

⁶⁹ Amadeo López Castro, Secretary of the Presidency, and head of the Cuban Sugar Commission.

This basic minimum price applies with the freight rate for sugar fixed at 34 cents and will not be disturbed by any increase in freight without a corresponding rise in the price of sugar.

2. By condition of the Cuban Commission any reduction in the present tariff (15 points) will be for Cuba's benefit. Since Cuba insists that any agreement be predicated on a 15 point reduction in the present tariff, the basic minimum price as stated in Article 1 above will be

2.65 for raw sugar (freight constant at 34 cents for this minimum)

2.50 for invert and blackstrap (neither of which is affected by the tariff).

3. Purchase of the entire crop to be less

(a) 200,000 long tons for local consumption, and less the blackstrap therefrom;

(b) 65,000 long tons for the world market; and

(c) molasses requirements of Cuban distillers for about 65,000,000 gallons of alcohol.

4. The basic minimum price of 2.50, f. o. b. Cuba, will hold for invert without deduction of the usual production cost differential estimated at 20 to 30 points, but this price as applied to blackstrap will be subject to deduction of approximately two cents per gallon representing the freight differential between blackstrap and invert.

5. OPA to lift the domestic price ceiling to 3.74 contemporaneously with the conclusion of the purchase agreement.

6. The basic minimum price for sugar, invert and blackstrap will vary upward upon any rise of market price following any rise in ceiling price, the price to be paid to be determined by the average market price during the 15 day period prior to the arrival of each shipment United States port, except as modified by Article 7 below.

7. Any rise in the domestic price ceiling due to or in anticipation of a freight rise will not affect the f. o. b. price Cuba, all such freight rises to be for Cuba's account so long as they do not affect the basic minimum price. The pertinent agencies of the United States Government will undertake to exert their best efforts to prevent freight rises.

8. Cuba agrees to produce a maximum crop and will deliver as per buyers' indications, whether sugar or invert, it being understood that the immediate need is for invert but that United States requirements will not exceed approximately 1,000,000 long tons sugar equivalent."

Mr. Leon Henderson, the Price Administrator, has stated that he cannot approve the proposal on behalf of the OPA before he discusses it with the President within the next day or so.

HULL

837.61351/2681b supplemental : Telegram

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

WASHINGTON, December 12, 1941—6 p. m.

401. Instruction 1096 of December 11.⁷⁰ The Office of Price Administration has confirmed that the proposed terms of purchase for the 1942 Cuban sugar crop as stated in the Department's telegram no. 374 of December 1, 3 p. m., are satisfactory to that Office. These terms may therefore be considered as a commitment. In order that no misunderstandings may arise you are requested to secure from the Cuban Government a memorandum of acceptance of the proposal set forth in the Department's aforementioned telegram no. 374.

With reference to the penultimate paragraph of the Department's airmail instruction no. 1096 of December 11, 1941, you are requested to advise the Department by telegram immediately that the Cuban Government has indicated its very clear understanding that any adjustment in the price ceiling of raw sugar which might be undertaken in anticipation of the purchase agreement would be designed to carry out in advance the terms of that agreement, and not for any other purpose.⁷¹

As soon as you have obtained satisfactory assurances on these two points, the Defense Supply Corporation and the Office of Price Administration will be prepared to work out the final details of the arrangements with a small Cuban commission, say of not more than two persons. Naturally the selection of these persons is entirely up to the Cuban Government, but the naming of Dr. Arturo Mañas will be very satisfactory because of his familiarity with the previous negotiations as well as his knowledge of English.

This Government, of course, understands that the purchasing arrangement would not be formally concluded nor go into effect before conclusion of the pending supplementary trade agreement, the situation with regard to which you have been made aware by Hawkins' ⁷² telephone call of this afternoon.

HULL

⁷⁰ Not printed.

⁷¹ See memorandum of December 14, 1941, from the Cuban Minister of State to the American Ambassador in Cuba, p. 246.

⁷² Harry C. Hawkins, Chief of the Division of Commercial Policy and Agreements.

837.61351/2663

The American Ambassador in Cuba (Messersmith) to the Cuban Minister of State (Cortina) ⁷³

No. 906

HABANA, December 13, 1941.

EXCELLENCY: I have the honor to refer to the memorandum of December 2, 1941,⁷⁴ which I handed to Your Excellency and to the Secretary of the Presidency, Mr. Amadeo López Castro, who was the head of the Commission of your Government recently in Washington for the purpose of discussing the purchase by my Government of the 1942 sugar crop of Cuba. In this memorandum the Office of Price Administration of my Government stated the proposed terms of purchase.

I am now informed by my Government that the Office of Price Administration has confirmed the proposed terms, which may now be considered as a definite offer of my Government. In order that no misunderstandings may arise, I am requested to secure from Your Excellency's Government a memorandum of acceptance of the proposal set forth in the memorandum of December 2, 1941, above referred to.

My Government informs me that on December 7, by agreement between the Department of Agriculture and the Office of Price Administration, orders were issued freezing the price for refined sugar and providing that sugar refineries should deliver to customers only for their immediate needs, for the purpose of nullifying insofar as possible the effects of possible war hysteria on the market. This action, the Office of Price Administration advises, is intended to be only a temporary measure. For this and for other reasons, it may become desirable or necessary, despite the refined freezing order, to raise the domestic ceiling on raw sugar prior to the conclusion of the agreement for the purchase of the Cuban 1942 crop. As Your Excellency knows, the conclusion of the purchase agreement has also been somewhat delayed through the necessary steps involved in the negotiation of the Supplementary Trade Agreement between our two Governments. It therefore becomes necessary that the interested agencies of my Government be informed of the acceptance of the proposed terms for the purchasing arrangement before formal conclusion of the arrangement occurs, and in that case my Government will appreciate an indication from the Cuban Government of its perfect understanding that any such price ceiling adjustment of raw

⁷³ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 3113, December 16; received December 17.

⁷⁴ Not printed, but see telegram No. 374, December 1, 3 p. m., to the Ambassador in Cuba, p. 242.

sugar which might be undertaken in anticipation of the purchase agreement would be designed to carry out in advance the terms of that agreement and would not be for any other purpose.

Please accept [etc.]

GEORGE S. MESSERSMITH

837.61351/2662

*The Cuban Minister of State (Cortina) to the American Ambassador in Cuba (Messersmith)*⁷⁵

[Translation]

MEMORANDUM

1) With regard to the proposal made by the "Defense Supplies Corporation", an agency of the Administration of the United States of America, to the Republic of Cuba for the purchase of the sugar, certain amounts of invert molasses and blackstrap molasses which may be produced during the 1942 crop, this Government, accepting the viewpoint maintained by the American Commission in its conferences with the Cuban Commission of carrying out the proposed operation using wherever possible regular commercial channels, submitted the proposal originally made by Mr. Warren L. Pierson to the consideration of the Associations of *Colonos* and *Hacendados* of Cuba which are the entities which together officially represent the Cuban sugar industry.

2) The Government found it necessary in submitting the purchase proposal to them to inform them confidentially at the same time and in view of the relation thereto of the proposed reduction in the duties under paragraph 501 of the American Customs Tariff to 0.75 and of the principle on which is based the note to that paragraph proposed by the United States Government which reads as follows:

"No measure shall be made effective in the United States of America which would adversely affect the position of the Republic of Cuba as a supplier of sugar for the United States market as compared with its position under the provisions of the Sugar Act of 1937."^{75a}

3) The Government of the Republic of Cuba proceeded in the manner set forth, due to the fact that the Cuban Commission took into account in the course of the negotiations the conclusion of the additional agreement which is being negotiated between the Government of the Republic of Cuba and that of the United States of America in

⁷⁵ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 3104, December 14; received December 16.

^{75a} 50 Stat. 903.

view of the importance to the Cuban sugar industry of the tariff modification under paragraph 501 and of the note referred to above.

4) Therefore both associations through their representative bodies considered carefully the proposal and the details of the proposed commercial agreement in so far as it refers to sugar. As a result of their study they informed the Government that in their opinion the basic minimum prices mentioned in the proposal were not satisfactory from a strictly commercial view point considering the increases which the sugar industry has had in its production costs and the profound crisis through which it has been passing. Nevertheless these associations recommended to the Government that the operation be accepted in principle envisaging the conclusion of the projected agreement under the conditions proposed which consists in the reduction of 15 points in the customs duties on sugar and guarantees for the future stability of the industry. They also took into consideration with a high sense of responsibility that the cordial relations and the mutual cooperation between our Republic and the Government of the United States must become closer every day.

5) Subsequently the Government of Cuba received from the Government of the United States a memorandum dated December 8, 1941⁷⁶ in which it indicated the possibility of being obliged to substitute the note to paragraph 501 referred to above by two other (notes) which would have different effects on the industry and of which the first would refer to the situation resulting from the Bill HR-5988⁷⁷ approved by the House and pending in the American Senate; and the second regulated the possibility of establishing customs quotas for Cuban sugar.

6) In as much as the sugar industry had accepted the operation on condition that the agreement would be signed under the conditions originally submitted to it, the Government felt it necessary to make a confidential exploration through the Cuban Commission with the leading representatives of the industry in order to ascertain what the position of the *Hacendados* and *Colonos* would be with respect to the sale of the crop if, as a result of the notes mentioned, the provisions of the supplementary agreement which had originally been considered were modified. The Cuban Commission informed the Government that the new question which had been raised if formally proposed to the assemblies of the respective associations would result in a change in their attitude in the sense that they would request the withdrawal of the offer which they had recommended.

⁷⁶ Not found in Department files.

⁷⁷ The Fulmer-O'Mahoney Sugar Bill which extended the Sugar Act of 1937. It passed the Senate on December 19, 1941; 55 Stat. 872.

7) The difficulties faced by the American Government as set forth in the memorandum of December 8 in definitely inserting under paragraph 501 the note proposed by that Government appeared to have been obviated as a result of the resolution adopted by one of the Committees of the American Senate recommending the modification of the House bill in a way which will not adversely affect Cuba's position as established by the sugar legislation of 1937.

8) On that assumption the Government of the Republic of Cuba can state that in principle and subject to the adjustments of the details natural in an operation of this kind, the proposal which it received from the "Defense Supplies Corporation" is acceptable, and would be formulated as soon as the supplementary trade agreement between the Governments of the Republic of Cuba and of the United States of America has been signed establishing the duties for sugar under paragraph 501 at 0.75 embodying therein the note proposed by the Government of the United States, as quoted in this memorandum or another similar (note) which might be made, based upon the same principle, if that were necessary, referring to the new sugar law approved by the American Congress, provided that law does not establish conditions less favorable for Cuba than those of the Sugar Act of 1937.

9) It is believed opportune at the same time to take this occasion to clarify the following points in the proposal of the "Defense Supplies Corporation":

a) In as much as the operation envisages that the proposed supplementary trade agreement will be in effect, the basic minimum price for sugar would be 2.65 f. o. b. and 2.50 for molasses.

b) The proposal, doubtless due to an oversight, makes no reference to a point on which both Commissions were in agreement that the contract must contain a provision guaranteeing that Cuban refiners and other industries which enjoy a direct consumption quota in Cuba will be able to acquire the raws necessary for the manufacture of their share of such direct consumption sugars for exportation to the United States of America within the quota of 375,000 short tons of direct consumption sugars to which Cuba is entitled under legislation in effect in the United States.

c) Item *c*) of Section (7) of the proposal refers to gallons of alcohol and it should be understood that it refers to gallons of invert highest molasses for the manufacture of alcohol. The Cuban Commission has indicated to the Government that the amount which it originally gave as tentative may be fixed at a maximum of 34,000,000 gallons of invert molasses.

d) The two cents' freight referred to in Section (4) of the proposal would be the maximum deductible.

e) Certain clarifications must be made in Section (7) of the proposal.

10) The Government of the Republic of Cuba desires to state that, as was expressed by the Cuban Commission during the conferences in Washington, that the good faith of the American Administration is ample guarantee that any increase which domestic areas may need in the proceeds from their sugars will be made by increasing the ceiling price and not in the form of a subsidy or any other indirect assistance which does not, however, refer to the allocation of a global amount (*misma cifra global*) which the American Government may make in order to carry out certain policies of a social agrarian character. The statements made in the proposal that the appropriate agencies of the American Administration will do everything in their power to prevent increases in freight rates is likewise satisfactory to the Government of the Republic of Cuba.

11) If the conditions of acceptance contained in this memorandum are satisfactory to the "Defense Supplies Corporation" and as a result thereof the American Administration desires to modify the present ceiling price of 3.50 by increasing it, the Government of the Republic of Cuba would consider such an increase as an advance measure of the Government of the United States for the purpose of the proposed operation.

HABANA, December 14, 1941.

837.61351/2788

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

No. 3348

HABANA, January 28, 1942.

[Received January 29.]

SIR: I have the honor to enclose texts and translations of the exchange of notes referring to the sale of the 1942 Cuban sugar crop, as agreed upon at a meeting with Sr. López Castro, Senator Casanova and Dr. Mañas last evening, and as confirmed thereafter by telephone by Mr. Walmsley.

The Cuban Government decree authorizing the Institute to sell the crop on the terms agreed upon was signed by President Batista last night and a copy will be transmitted as soon as it is promulgated in the *Official Gazette*.⁷⁸

Final agreement on the contract itself was also reached early this morning and it is hoped to sign the contract and the exchange of notes during this afternoon.⁷⁹

⁷⁸ For Decree 178, see *Gaceta Oficial*, Edicion Extraordinaria, January 28, 1942.

⁷⁹ The contract and notes were signed on January 28, 1942; English text of contract not found in Department files; for Spanish text, see *Gaceta Oficial*, Edicion Extraordinaria, February 5, 1942.

With respect to the exchange of notes the Embassy's task was facilitated by an assurance received by telephone from Dr. Joshua Bernhardt of the Department of Agriculture last evening that a footnote would be inserted at the appropriate point in the Department of Agriculture's sugar statistics to the effect that Cuba had, at the request of and in cooperation with the Government of the United States, produced gallons of invert in lieu of raw sugar which, by sugar content, would have been the equivalent of tons of sugar. Mr. Mersereau who obtained the foregoing assurance from Dr. Bernhardt, is confirming it by a letter to the Institute on behalf of Defense Supplies Corporation, a copy of which will be transmitted to the Department in due course. The foregoing was accepted by Sr. López Castro in lieu of the inclusion of the clause "and that for statistical purposes the molasses shipped to the United States by Cuba in 1942 be treated as sugar."

Respectfully yours,

For the Ambassador:
ELLIS O. BRIGGS

[Enclosure 1—Translation]

The Cuban Minister of State (Cortina) to the American Ambassador (Messersmith)

HABANA, January , 1942.

EXCELLENCY: I have the honor to refer to the contract signed on by representatives of the Cuban Sugar Stabilization Institute and the Defense Supplies Corporation, an agency of the United States Government, for the sale to the United States of the 1942 sugar cane crop of Cuba.

I confirm to Your Excellency that, in accordance with the terms of this contract, the production and exportation of the proceeds of the Cuban cane crop in 1942 shall be regulated by the sugar legislation now in force in Cuba, and that my Government will take the appropriate measures for both the manufacture of sugar and molasses and the delivery thereof to ports of embarkation.

My Government desires in addition to make the following observations:

1. In view of the terms of the purchase contract, my Government desires to state that it is its understanding that the increases in relation to prices now prevailing in the income of sugar-producing areas in the United States will be through the medium of adjusting the

raw sugar price ceiling. My Government wishes to know what assurances it may receive in this respect.

2. The delivery of a portion of the crop in the form of high-test molasses for alcohol, as agreed to by the Institute at the request of the Defense Supplies Corporation, is performed as an act of cooperation by Cuba in the joint war effort and without prejudice to Cuba's position as a supplier of the United States sugar market.

3. The Government of the United States will exert appropriate efforts to the end that maritime freight rates from Cuban ports to United States ports for the transportation of the products of sugar cane shall not be raised during the life of the contract.

I avail myself [etc.]

(J. M. CORTINA)

[Enclosure 2]

The American Ambassador (Messersmith) to the Cuban Minister of State (Cortina)

No. 48

HABANA, January , 1942.

EXCELLENCY: I have the honor to acknowledge Your Excellency's note of this date referring to the contract signed on January by representatives of the Defense Supplies Corporation, an agency of the United States Government, and the Cuban Sugar Stabilization Institute for the purchase by the United States of the 1942 sugar cane crop of Cuba.

I am pleased to observe that the Cuban Government understands that the production and exportation of the crop in 1942 will be undertaken in accordance with the terms of the contract and sugar legislation now in force in Cuba and that your Government will take the appropriate measures for both the manufacture of sugar and molasses and the delivery thereof to ports of embarkation.

I am directed by my Government, furthermore, to inform Your Excellency as follows:

1. The Government of the United States undertakes to exert during the life of the contract all appropriate efforts to the end that the present relative position as to net incomes of the various sugar-producing areas supplying the United States market shall be maintained, within the limits of United States legislation. Nothing in this or any other arrangement shall be interpreted in any way to obligate the United States not to reduce the duty on sugar from other countries.⁸⁰

⁸⁰ Concerning the deletion of this sentence, see *infra*.

With reference to items 2 and 3 of your note, I am pleased to inform Your Excellency that my Government shares the understanding of your Government.

Please accept [etc.]

(GEORGE S. MESSERSMITH)

837.61351/2801

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

No. 3373

HABANA, January 30, 1942.

[Received February 2.]

SIR: I have the honor to report that, as anticipated in my telegram No. 36 of January 28, 11 p. m.,⁸¹ the exchange of notes in connection with the purchase of Cuba's 1942 sugar crop was effected as of yesterday's date. The texts are identical with those accompanying my despatch No. 3348 of January 28 with the exception of the deletion from my note in reply of the sentence, "nothing in this or any other arrangement shall be interpreted in any way to obligate the United States not to reduce the duty on sugar from other countries", from numbered paragraph 1 on page 2 thereof.

With reference to my conversation with Mr. Hawkins on January 28 in which I explained the views of Dr. Cortina concerning the deletion of this sentence, I enclose a rather detailed memorandum for our records, setting forth all the attendant circumstances.⁸² In my opinion this will avoid any possible misunderstanding concerning the point of view of the Minister of State in desiring to have the sentence in question removed from the text. I am likewise of the belief that this memorandum and Dr. Cortina's understanding of the situation, as well as that of the other Cuban officials, adequately protects our position on this duty-reduction question.

Respectfully yours,

GEORGE S. MESSERSMITH

⁸¹ Not printed.

⁸² Memorandum not printed; Minister of State Cortina conceded that the United States had a right to reduce duties but, he contended, an agreement for the sale of the sugar crop was not the place for a provision with respect to duties.

DOMINICAN REPUBLIC

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC, SIGNED AUGUST 2, 1941

839.24/8-241

Lend-Lease Agreement Between the United States and the Dominican Republic, Signed at Washington, August 2, 1941

WHEREAS the United States of America and the Dominican Republic declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938,¹ they, together with all the other American republics, are united in the defense of the Americas and are determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents;

AND WHEREAS the President of the United States of America has determined, pursuant to the Act of the Congress of the United States of America of March 11, 1941,² that the defense of each of the American republics is vital to the defense of all of them, and for that reason the United States of America proposes to provide certain defense articles and defense information to the Dominican Republic;

AND WHEREAS the United States of America and the Dominican Republic are mutually desirous of concluding an agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfil or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of the Dominican Republic have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Dominican Republic under the terms of this Agreement armaments and munitions of war to a total value of about \$1,600,000. The United

¹ For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

² 55 Stat. 31.

States of America proposes to begin deliveries immediately and to continue deliveries as expeditiously as practicable during the coming twelve months to an approximate total value of \$250,000 for use by the Dominican Army and an approximate total value of \$100,000 for use by the Dominican Navy.

The United States of America, however, reserves the right at any time to suspend, defer, or stop deliveries whenever in the opinion of the President of the United States of America further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere.

ARTICLE II

Records shall be kept of all defense articles transferred under this agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

Thereupon the Dominican Republic shall pay in dollars into the Treasury of the United States of America the total cost to the United States of America of the defense articles theretofore delivered up to a total of \$900,000, less all payments theretofore made, and the Dominican Republic shall not be required to pay more than a total of \$150,000 before July 1, 1942, more than a total of \$300,000 before July 1, 1943, more than a total of \$450,000 before July 1, 1944, more than a total of \$600,000 before July 1, 1945, more than a total of \$750,000 before July 1, 1946, or more than a total of \$900,000 before July 1, 1947.

ARTICLE III

The United States of America and the Dominican Republic, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Dominican Republic hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,³ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the

³ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

The Dominican Republic undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this agreement, or permit its use by anyone not an officer, employee, or agent of the Dominican Republic.

ARTICLE V

If, as a result of the transfer to the Dominican Republic of any defense article or defense information, it is necessary for the Dominican Republic to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Dominican Republic will do so, when so requested by the President of the United States of America.

ARTICLE VI

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Dominican Republic is in a position to supply, the Dominican Republic will make such defense articles and defense information available to the United States of America on terms similar to those expressed in this agreement.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed at Washington in duplicate, in the English and Spanish languages, this second day of August, 1941.

On Behalf of the United States of America:

SUMNER WELLES

*Acting Secretary of State
of the United States of America*

On Behalf of the Dominican Republic:

A. PASTORIZA

*Envoy Extraordinary and Minister Plenipotentiary
of the Dominican Republic at Washington*

SUPPLEMENTARY LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC, SIGNED AUGUST 6, 1941

Supplementary Lend-Lease Agreement Between the United States and the Dominican Republic, Signed at Washington, August 6, 1941

WHEREAS the United States of America and the Dominican Republic are desirous of concluding an Agreement supplementary to the Agreement between the two Governments signed at Washington August 2, 1941,⁴ for the purpose of stating the terms and conditions on which certain additional materials which the Dominican Republic wishes to obtain from the United States of America shall be procured and supplied;

AND WHEREAS the making of such a supplementary Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfil or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Dominican Republic have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The Dominican Republic will pay in advance for all articles and commodities, in addition to the defense articles and defense information provided for in the Agreement between the two Governments signed August 2, 1941, which shall be procured and supplied in accordance with this Agreement. The United States of America, however, reserves the right at any time to suspend, defer, or stop deliveries whenever in the opinion of the President of the United States of America further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere.

Records shall be kept of all such articles and commodities agreed to be procured and of all deliveries, and of any other pertinent information; and not less than every ninety days these records shall be exchanged, reviewed, and verified.

ARTICLE II

The Dominican Republic will submit to the Department of State of the United States of America for the approval of the President of the United States of America a complete list of all the persons to whom the title, possession, or use of such articles or commodities is

⁴ *Ante*, p. 253.

to be transferred and undertakes that it will not, without the prior consent of the President of the United States of America, transfer title to or possession of any such article or commodity or any part thereof or permit its use by anyone not the recipient designated on such list so approved.

ARTICLE III

If, as a result of the sale to the Dominican Republic of any articles or commodities in accordance with this Agreement, it is necessary for the Dominican Republic to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such article or commodity, the Dominican Republic will do so, when so requested by the President of the United States of America.

ARTICLE IV

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in duplicate, in the English and Spanish languages, at Washington this sixth day of August 1941.

For the United States of America:

SUMNER WELLES

*Under Secretary of State of the
United States of America*

For the Dominican Republic:

A. PASTORIZA

*Envoy Extraordinary and
Minister Plenipotentiary of the
Dominican Republic at Washington*

ECUADOR

COOPERATION BETWEEN THE UNITED STATES AND ECUADOR ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

810.20 Defense/677

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

[WASHINGTON,] February 10, 1941.

The Ambassador of Ecuador² called to see me this morning at my request.

The Ambassador gave me a message from his Foreign Minister³ which is attached herewith⁴ referring to the recent statements in the Peruvian press of Dr. Ulloa, former Foreign Minister of Peru, alleging that Ecuador was negotiating a concession of the Galápagos Islands to the United States.

I asked the Ambassador to let Dr. Tobar know that I myself was greatly astonished by these statements of Dr. Ulloa whom I had known for many years. Obviously, I said, the statements were utterly without foundation, and as a personal friend of Dr. Ulloa, I regretted that he had made these statements without availing himself of the many opportunities presented to assure himself that the reports to which he had given credence were utterly without foundation.

822.248/157

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

No. 1652

QUITO, February 25, 1941.

[Received March 1.]

SIR: I have the honor to condense in this despatch the essential points covered in personal letters to Mr. Welles dated February 21 and 22⁵ and to Mr. Bonsal dated February 24.⁶

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 105 ff.

² Colón Eloy Alfaro.

³ Julio Tobar Donoso.

⁴ Not printed.

⁵ Neither printed.

⁶ Not printed; Philip W. Bonsal was Acting Chief of the Division of the American Republics.

Colonel W. K. Burgess, Chief of our Air Mission here,⁷ delivered his report to the Assistant Secretary for National Defense before mid-day on Saturday, February 22.

It contains recommendations for the present, as well as the future, but this report deals merely with urgent items.

Ecuadoran aviators, grounded since the Fall of 1939, have no planes in which to fly. Last Spring, after General Dargue⁸ and Colonel Brady⁹ visited Ecuador, this Government sent five old basic trainer engines to Patterson for overhaul. These engines, presumably in perfect condition, returned to Guayaquil on February 23. Colonel Burgess's report contains a statement that if a few mechanics can be borrowed from the Canal Zone they should be able to recondition some of the airplanes and fit the BT engines therein so that basic trainers might be available for refresher service for a few Ecuadoran pilots. Major Paez, Chief of the Ecuadoran Army Air Corps, has, through Colonel Burgess, requested the loan of the mechanics from Panama, offering to pay their board and keep during their sojourn in this country, presumably at Guayaquil.

Colonel Burgess likewise recommends the repair of six primary trainers, the engines for which have already been sent to Patterson, N. J. for overhaul. Presumably this will require about four months. Meanwhile, it will be necessary to order spare parts to fix up the planes—also some material for a repair shop, the total cost, after considerable revision downward (for necessary items), to keep the old planes, once re-habilitated, going for about a year or a year and a half, will be \$57,000.

Guayaquil, where training was formerly given, has been the scene of many disasters—due, in large part, to a lack of emergency landing places. For physiological and other reasons, Colonel Burgess has recommended that primary aviation training be given at Salinas; advanced training at Quito. This means that two small training schools will need to be constructed. Colonel Burgess's report included the plans. The estimated cost of the school for Salinas is roughly \$12,000; that for Quito about \$18,000. Both, according to the figures he has received, can be finished for approximately \$30,000.

Taking the item given above for reconditioning old planes of \$57,000; add to it \$30,000, and the result is \$87,000. It is respectfully suggested the Air Mission have made available to it at least \$100,000 pending the arrangement of a larger credit which presum-

⁷ An agreement between the United States and Ecuador for a military aviation mission was signed on December 12, 1940; Department of State Executive Agreement Series No. 189, or 54 Stat. (pt. 2) 2437.

⁸ Brig. Gen. H. A. Dargue of the Air Corps.

⁹ Lt. Col. Francis M. Brady.

ably will be the subject of discussion between the two Governments and consequently may be delayed for some time.

It is presumed that upon receipt of information to the effect that this credit will become available, Colonel Burgess could immediately begin construction of the plants at Salinas and Quito. The moral effect of seeing work started, added to the ability of Ecuadoran aviators to fly, as they can do in the very near future if we lend mechanics to help fix up the planes, will produce an excellent effect in this country.

The Panagra¹³ plane which left here this morning carried an air express package addressed to Colonel A. R. Harris, G-2, War Department, containing the exhibits to Colonel Burgess's plan, carbon copies of which, along with two letters from Colonel Burgess to Colonel Harris, went air mail. Thus, the Foreign Relations Section of the War Department should be in possession of a copy of Colonel Burgess's report, also his request for a loan of the mechanics and his recommendation that provisional credit be granted.

I concur in the advisability of quickly arranging such a credit and of doing anything else, within the power of our Government, to facilitate accomplishments for its Air Mission in Ecuador.

Respectfully yours,

BOAZ LONG

822.34/85½

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

Op-12C-CMD
(SC) L11-7/EF 23
Serial 047212

WASHINGTON, April 25, 1941.

SIR: Referring to the subject of the transfer of two United States Naval patrol vessels of the yacht type to the Government of Ecuador, I am enclosing herewith a copy of a proposed agreement¹⁴ between the Government of the United States of America and the Government of the Republic of Ecuador regarding this transfer, and, also a copy of a sample letter¹⁴ for the information of the Ecuadoran Ambassador in preparing a request to the President of the United States for the transfer of the two vessels under the provisions of Public Law 11.¹⁵

It is noted that the Government of Ecuador not only desires to acquire the two vessels, but also desires that a sufficient number of United States Naval personnel remain on board the vessels, after they have been transferred, to train and instruct the crew in the operation and upkeep of the vessels.

¹³ Pan American-Grace Airways.

¹⁴ Not printed.

¹⁵ The Lend-Lease Act of March 11, 1941; 55 Stat. 31.

It is also noted that, at present, Ecuador possesses practically no Naval resources and it is apparent that, unless a small Naval Base, capable of making minor repairs, can be obtained by Ecuador, the ships transferred will deteriorate rapidly.

The proposed agreement, therefore, has been prepared not only to cover the details of the transfer of the vessels and the status of the United States Naval personnel remaining on board, but also for the acquisition of a small Naval Base for the operation and upkeep of the vessels transferred.

Respectfully,

FRANK KNOX

822.34/85%

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] May 1, 1941.

Captain Alfaro called this afternoon and read the text of the proposed agreement for the transfer of naval vessels and of the letter¹⁶ which he will address to the President transmitting his Government's request. He said that he perceived no objection to either one, and asked for three copies in order to inform his Government. I took the occasion to point out to him that in order to operate the vessels after they had been turned over to the Ecuadoran Government, funds would be required which could not be provided under the Lend-Lease Act, and that it would consequently be necessary to give consideration to this matter.

Captain Alfaro seemed surprised that the construction of the naval base was included in the proposed agreement, as in his correspondence with the President of Ecuador the latter had only referred to the acquisition of the two boats. He added, however, that the President would in all probability consent to the inclusion of the naval base.

The Ambassador also inquired whether this matter could not be made public on May 4. I replied that I would convey his inquiry to the appropriate officials of the Department.

810.20 Defense/834

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

Serial No. 010913
(SC) EF 23/L 4-3

WASHINGTON, May 13, 1941.

SIR: In regard to Mr. Paul F. Foster's project for the development of Albemarle Island in the Galápagos Group,¹⁷ in which the State

¹⁶ Neither printed.

¹⁷ This project was planned for the purposes of exploiting sulfur deposits and of establishing an observation post as a defense measure. See *Foreign Relations*, 1940, vol. v, pp. 850 ff.

Department is interested, the Navy Department believes that the naval facilities which should be installed on Albemarle Island, in order to comply with the President's wishes, are the following:

	<i>Estimated Cost</i>
(a) A pier capable of taking a vessel three hundred fifteen feet in length and draft of twenty feet.	\$176,000.00
(b) A radio station capable of communicating with the Canal Zone.	395,000.00
(c) A ramp for hauling out patrol planes.	190,000.00
(d) Storage for 10,000 gallons of aviation gasoline.	14,000.00
Total	\$775,000.00

The above items are listed in the order of desirability. In the event this program is believed to be too ambitious the Navy Department will be glad to eliminate items starting from the bottom of the list.

The estimated costs shown above are curbstone estimates. To form a real estimate an investigation of the conditions at the site would be required. No personnel shelter is included in the above figures.

It is recommended that such naval facilities as may be constructed on Albemarle Island be located at Elizabeth Bay.

Respectfully,

FRANK KNOX

810.20 Defense/1098

Memorandum by the Chief of Naval Operations (Spears) to the Liaison Officer (Wilson)

No. OP-12C-CMD

WASHINGTON, June 19, 1941.

1. The second draft of the Proposed Agreement with Ecuador has been received and examined by representatives of the Navy Department. There are no comments to offer regarding the text of the Proposed Agreement.¹⁸

2. It is the understanding of the Navy Department that further agreements will be made with Ecuador to specify the benefits to be received by the United States as a result of the transfer of the ships and the construction of a Naval Base on the mainland of Ecuador.

3. The Navy Department point of view is that these benefits should include the right to use ports, harbors, bases of Ecuador including the right to construct Naval and Air bases, if needed, in the Galápagos Islands.

W. O. SPEARS

¹⁸ This proposed agreement was not concluded because the United States Navy needed all patrol vessels for its own use. The two craft which were included in this proposal were, however, assigned for training Ecuadoran naval personnel in December 1942.

822.248/182

Memorandum by the Minister in Ecuador (Long), Temporarily in Washington, to the Adviser on Political Relations (Duggan)

[WASHINGTON,] July 2, 1941.

AMERICAN AVIATION MISSION IN ECUADOR

MR. DUGGAN: There is urgent need that several constructive steps be taken looking to the establishment of a small Ecuadoran aviation group. Last year we succeeded in eliminating Italian aviation instruction, and this year we hope to see the German aviation company out of Ecuador.¹⁹

Before the aviation members of the Italian Military Mission to Ecuador were sent back to Italy (1940), it had been tentatively understood that an American Aviation Mission would proceed to Ecuador. However, Ecuador opportunely made perfectly clear that her economic position was steadily growing worse, which prevented the making of payments as other nations do; hence, Ecuador asked for advance assurances that she would receive assistance—a million dollars being suggested as a tentative fund. The President of Ecuador called our Minister before his entire Cabinet, explained that he desired to be relieved of embarrassment by having the United States Government know in advance of Ecuador's economic distress so that he (the President of Ecuador) would not be made uncomfortable by having our Chief of Aviation Mission come to Quito, make plans and ask for funds which Ecuador could not deliver simply because she lacked money and knew no source from which it might be obtained save through collaboration with us, which he desired to perfect.

In reply, the Department of State indicated that setting up such a fund for Ecuador would be premature as other American republics had not then stated what their requirements would be. Even so, we did say that, after the Chief of our Aviation Mission had reached Ecuador and made recommendations in which Ecuador concurred, methods for implementing them would receive attention. Compliance on our part is now in order, since Ecuador expected and expects that in some manner, not precisely specified but more or less as outlined by Colonel Burgess, we will help to put her experienced aviators back in the air and also train some new ones. Her experienced aviators are now practically grounded for lack of adequate planes, spare parts to recondition Ecuador's old planes, a shop under proper mechanical direction for maintenance, and the other things which go with supporting a small air force.

¹⁹ See pp. 270 ff.

Prior also to concluding the arrangements for the establishment of Panagra in Ecuador (as a local operation) that country pointed out the double nature of Sedta²⁰ services (1) commercial and (2) military services. Ecuador sought to oblige Panagra to undertake both, but for obvious reasons Panagra declined those of a military character.

Thereupon Ecuador was reminded that the revival of her own Aviation Corps, under our aviation direction, might enable them to perform their own military services, that is, take over from Sedta. These services consisted of transporting border guards, coast guards, troops and officers, including Cabinet members and occasionally the President, about Ecuador. The burden of these services would not be great. Also, Ecuador is said to have several experienced pilots who should in a comparatively short time be enabled to take over, with our aid. In this connection intimation was made that we might assist Ecuador in financing the acquisition of one or two hydro planes or amphibians for the "Oriente service" provided Ecuador would refrain from closing a contract with Sedta, the German company which precisely at that moment was seeking a contract for the entire Oriente service of about 80 flights per year for a million sucres (roughly \$66,666.66 US dollars)—a low price.

Sedta transported some Ecuadorans free, others for a minimum fee, but the rates are being made progressively lower since Panagra set up its local service.

Panagra entered Ecuador with the understanding that her former rates would be brought down to those of Sedta as of a given date. Yet the moment Panagra got into operation (internal services within Ecuador), Sedta cut prices.

Our assurances to help Ecuador in the development of their own military aviation on a limited scale were given prior to Ecuador's indication that she would assist in the elimination of Sedta.

It would seem that the proper procedure would be for funds to be made available now for the aviation schools and the things necessary to their success. A quarter of a million dollars should suffice (see attached memorandum "A" or letter from War²¹ which shows that Department has no money for such purposes).

When available the funds might be turned over to our Aviation Mission to do the necessary things, or they might be passed along to Panagra to do certain portions of the work in Ecuador. In the order of importance, the steps appear to be as follows:

²⁰ Sociedad Ecuatoriana de Transportes Aéreos, German-controlled commercial air carrier.

²¹ Not attached to file copy.

Pay or give guaranty to the Aircraft Export Corporation, New York, for \$70,000 (plus) for spare parts, etc. to recondition the

5 Basic Trainers owned by Ecuador—all old	
6 Primary Trainer engines	Do
5 Primary Trainer planes	Do

and get certain equipment to establish a repair shop for maintenance. It will also be necessary to obtain priorities for the manufacture of these parts, as they are not in stock.

Supply someone in Ecuador with about \$80,000 to build primary training schools at Salinas, with quarters for our Aviation Mission members; secondary training aviation plant at Quito with quarters for our Aviation Mission members; make necessary connections with airports; establish repair plants; and generally to insure the success of the venture. Use for the remaining \$100,000 will quickly thereafter become apparent.

The school plants probably could be built during the present dry season if funds were available forthwith.

The spare parts, or some of them, from the Aircraft Export Corporation, should begin filtering into Ecuador before the end of 1941. Meanwhile the members of our very small Mission will have plenty to do, after another officer from here reaches Ecuador, in giving instruction with Primary Trainers, continuing repair work or maintenance on the few old trainers now in Ecuador, and laying plans for further construction steps. The several things to be done are outlined in Mr. Welles' letter to the Secretary of War dated June 27 or 28.²²

BOAZ LONG

810.20 Defense/1027 : Telegram

The Acting Secretary of State to the Chargé in Ecuador (Drew)

WASHINGTON, July 11, 1941—10 p. m.

117. Your despatch no. 1863, July 1, 1941.²³ It is believed that if any such proposal became known or there were a suggestion that the United States is interested in a base on the Galápagos, the reaction in Peru would be extremely unfavorable and tend to strengthen those who assert that the United States is supporting Ecuador in the boundary dispute in return for certain advantages. You are requested to explain our attitude confidentially to the Foreign Minister at the earliest practicable moment and express the hope that the matter will be completely dropped, at least for the time being.

WELLES

²² Letter of June 28, not printed.

²³ Not printed; it dealt with a proposal for making available to the United States a naval base on the Galápagos Islands.

740.00111A Neutrality Patrol/158b : Telegram

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

WASHINGTON, September 12, 1941—9 p. m.

240. The Navy Department has informed the Department that it considers it essential to increase its patrol activities owing to the presence of raiders in the Pacific. It desires, therefore, to ascertain if the Government of Ecuador would consent to grant blanket permission for ships of the United States Navy engaged in patrol duties to use the ports of the Galápagos Islands and Guayaquil in order to obtain fuel and supplies. In addition, the Navy Department would also desire to send tankers and tenders into these ports. The naval vessels would obtain fuel and supplies from these tankers and tenders when not obtainable through local purchase. Should such permission be accorded, instructions would, of course, be issued to the commanding officers of the vessels concerned to inform the Consulate at Guayaquil as far in advance as practicable in order that the latter may notify the appropriate Ecuadoran officials.

In order to enable the Department to determine whether to present a formal request, you will please, provided you perceive no objection, consult discreetly and informally the appropriate authorities of the Government to which you are accredited in order to obtain an expression of their opinion. The Department would also appreciate a statement of your own views on this subject. Although, in the plan outlined above, the present practice of informing the Foreign Office of naval visits via the Legation would be abandoned, the Department is confident that the Ecuadoran Government will fully realize the importance of these patrol activities in the interest of hemisphere defense.

HULL

740.00111A Neutrality Patrol/165

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

No. 2158

QUITO, October 21, 1941.

[Received October 25.]

SIR: I have the honor to refer to the Department's confidential telegram no. 240 of September 12, 9 p. m. and the Legation's telegram no. 314 of September 13, 6 [8] p. m. and no. 332 of September 16, 5 p. m.²⁴ regarding permission for patrol vessels and planes of the United States to visit the Galápagos Islands and Ecuadoran ports.

The Legation has now received a memorandum from the Foreign Office indicating that the necessary instructions have been issued by

²⁴ Telegrams nos. 314 and 332 not printed.

the Minister of National Defense to permit the vessels of the United States and airplanes on patrol duty to enter the ports of the Galápagos Islands and Ecuadoran ports.

Copies of the memorandum and translation are attached.²⁵

Respectfully yours,

BOAZ LONG

822.014G/532

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

[WASHINGTON,] December 13, 1941.

The Ambassador of Ecuador called to see me this morning.

The Ambassador stated by instruction of his Government that Ecuador was prepared immediately to enter into a cooperative agreement for defense which would make it possible for this Government to patrol the Galápagos Islands and the Ecuadoran coast line. I suggested that for reasons of convenience the negotiations be conducted here. The Ambassador asked if I would request Minister Long to make that suggestion to the Ecuadoran Government, which I said I would do.

S[UMNER] W[ELLES]

810.20 Defense/1769 : Telegram

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

QUITO, December 14, 1941—3 p. m.

[Received 9:05 p. m.]

536. For the Under Secretary. Department's 388, December 13, 9 p. m.²⁶ Foreign Minister is cabling Ambassador Alfaro (Ecuadoran Ambassador at Washington) to inaugurate negotiations forthwith at Washington.²⁷ He feels that it is tremendously urgent that the matter be quickly settled and hopes that it may be done so as not to prejudice Ecuador's position in the mediation.

Doctor Tobar said that ever since the Habana Conference²⁸ he has hoped this might come about; that he will collaborate by acting quickly whenever Alfaro consults him.

LONG

²⁵ Not printed.

²⁶ Not printed; for the substance of this instruction, see *supra*.

²⁷ These negotiations, which related to a defense understanding, continued until January 31, 1942.

²⁸ July 21-30, 1940; for correspondence, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.

810.20 Defense/1788 : Telegram

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

QUITO, December 15, 1941—7 p. m.
[Received December 16—7 : 45 a. m.]

538. Referring to Department's telegram of December 13, 8 p. m., No. 387.²⁹ In a preliminary informal conversation with the Minister of Foreign Affairs this afternoon, he expressed his willingness to conclude an agreement along the lines of the Department's telegram. I am [sending?] him a note³⁰ embodying the provisions of the agreement tomorrow morning.

LONG

810.20 Defense/1828

*The American Minister in Ecuador (Long) to the Ecuadorian Minister for Foreign Affairs (Tobar Donoso)*³¹

No. 195

QUITO, [December 16, 1941.]

EXCELLENCY: I have the honor to inform Your Excellency that I have received a communication from my Government, in which reference is made to Resolution No. 15 adopted at the meeting of Foreign Ministers of the American republics held in Habana,³² in which it is provided that in the event of aggression by a non-American nation against an American nation "all the signatory nations or two or more of them, according to circumstances, shall proceed to negotiate the necessary complementary agreements so as to organize cooperation for defense and the assistance that they shall lend each other".

It is the opinion of my Government that the situation contemplated under Resolution No. 15 has now arisen and it is consequently its desire to reach an agreement with Your Excellency's Government on certain measures of military cooperation.

It is therefore hoped that it will be satisfactory to Your Excellency's Government to give its agreement to the following measures:

1. Authorization for military airplanes of the United States to fly over and land on Ecuadoran soil without restriction regarding the type or number of planes or the armament or personnel on board.

²⁹ The same, *mutatis mutandis*, as telegram No. 228 to the Minister in Guatemala, printed in vol. VI, p. 56.

³⁰ *Infra*.

³¹ Copy transmitted to the Department by the Minister in Ecuador in his despatch No. 2391, December 16; received December 20.

³² For text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

Wherever possible, prior notification would be given directly to the airport at which landings were contemplated.

2. Authorization for the use of airports in Ecuador, including airport facilities, such as, telephones, repair shops, radio, et cetera.

3. Authorization for the assignment to Ecuador of groups of fifteen United States Air Corps technicians, each composed of seven non-commissioned officers and eight privates, for the purpose of facilitating flights of United States military planes.

4. Authorization for the free movement within Ecuador of uniformed military personnel, with or without arms, which may be necessary or desirable in connection with servicing of aircraft, transmitting and receiving necessary communications, and the housing and feeding (at the expense of the United States Government) of military personnel. This would include permission to use roads and highways adjacent to airports.

5. Authorization to take aerial photographs of Ecuadoran territory when necessary or desirable for the compilation of air navigation charts. In that connection it is understood that information obtained in this way would be made available to the Ecuadoran armed forces as promptly as possible.

My Government has expressed its confident belief that there will be the fullest measure of cooperation between the armed forces of our respective countries for the attainment of the objectives contemplated by the agreement which I have the honor to propose in this communication.

I should greatly appreciate receiving at as early a time as possible the views of Your Excellency's Government with regard to the proposed agreement.

Please accept [etc.]

[File copy not signed]

810.20 Defense/1793 : Telegram

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

QUITTO, December 16, 1941—9 p. m.

[Received 10:50 p. m.]

543. My number 538 of December 15, 7 p. m. Notes exchanged today. Ecuador accepts all measures proposed in Department's telegram number 387 of December 13, 8 p. m.³³ Copies of notes follow via next air mail.³⁴

LONG

³³ See footnote 29, p. 268.

³⁴ For text of U.S. note, see *supra*.

INTEREST OF THE UNITED STATES IN THE ELIMINATION OF GERMAN
INFLUENCE FROM ECUADORAN AIRLINES³⁵

822.796/291 : Telegram

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

QUITO, January 7, 1941—3 p. m.

[Received 10:22 p. m.]

5. Reference my despatch No. 1488, December 27.³⁶ This morning's press published Sedta³⁷ advisement offering to carry all mail by air at ordinary postage rates.

It has been ascertained that a contract was signed this morning valid for 5 years under which Sedta agrees to carry up to 250 kilos of mail per trip at 10 sucres a kilo. I am informed that the contract can be canceled by the Government upon 8 days notice and it is understood that the Government will receive any proposals Panagra³⁸ may have to make.

As Vidal³⁹ is not here I suggest that the Department consult Panagra's New York office regarding what countermove it is prepared to make. No hint of prospective signature of contract was received.

LONG

822.796/289 : Telegram

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

WASHINGTON, January 9, 1941—9 p. m.

6. Your despatch 1488, December 27.³⁶ The Priorities Board⁴⁰ approved on January 7, 1941, the application of Panagra for two DC-3 airplanes which will release an additional DC-2 for use in Ecuador and a third DC-2 for emergency purposes or for a shuttle service between Quito and Guayaquil, should this later become necessary. The Department is assisting Panagra in obtaining the DC-3 planes as rapidly as possible in order that the additional DC-2 for Ecuador will be available promptly, and will telegraph when the delivery dates are known.

³⁵ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 831 ff. See also Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 242-243.

³⁶ Not printed.

³⁷ Sociedad Ecuatoriana de Transportes Aéreos, German-controlled commercial air carrier.

³⁸ Pan American-Grace Airways.

³⁹ Gustavo Vidal, vice president of Panagra.

⁴⁰ The Priorities Board was an agency of the Council of National Defense. Its authority was revoked on January 7, 1941, and its function turned over to the Office for Emergency Management.

Your 5, January 7, 3 p. m. If you perceive no objection thereto, please point out strongly to the Ecuadoran Government that the entering into any further contracts or agreements with Sedta is considered by this Government to be contrary to the understanding between the two Governments for the elimination of Sedta. The Department is likewise pointing out to Alfaro "the seeming inconsistency of the Ecuadoran Government's entering into further agreements with Sedta in the face of assurances to eliminate that company.

HULL

822.796/316

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

No. 1634

QUITO, February 18, 1941.

[Received February 24.]

SIR: In amplification of my despatch No. 1360 [1630] of February 17,⁴² I have the honor to report that an employee of Panagra advised me about noon yesterday that his company had received a query from the Minister of National Defense as to whether it could purchase or take over 400 drums of aviation gasoline which have been stored at Guayaquil since the Fall of 1939.

The local Panagra office first had the idea of inquiring as to the specifications of this gasoline, feeling quite sure that it was 87 octane, which Panagra could not use. About 3 p. m. I was advised that Panagra would probably answer the Minister of National Defense, saying that it would purchase the gasoline. This sudden change of front was due to a rumor that Sedta had already received an authorization from the Ecuadoran Government to take over the entire 400 drums.

Late last week Sedta revised its schedule downward to make fewer trips, for "technical reasons". At the post office inquirers were advised that a shortage of gasoline prevented Sedta from making its usual trips. A representative of Panagra asserted that friends from Guayaquil advised that Sedta had only a few drums of gasoline left. Other sources indicated that Sedta's March quota of 150 drums could not be delivered from Talara until about March 3.

Yesterday afternoon advice reached us that Major Paez, Acting Chief of the Ecuadoran Air Corps, had given the Government order turning over to Sedta the 400 drums of old aviation gasoline stored at Guayaquil.

⁴¹ Colón Eloy Alfaro, Ecuadoran Ambassador.

⁴² Not printed.

The resident diplomatic agent of Panagra advised me this morning that he had sent an air mail communication to Mr. Gustavo Vidal, Panagra Vice President, at New York by plane leaving February 17 at 2 p. m., to the effect that Sedta has now applied for permission to utilize all facilities being installed by Panagra, namely, airports, hangars, offices, and so forth. There has been no time to confirm this latest move of Sedta but past experience shows that aggressive steps will be taken by them.

Rumor has it today that the next move will be to provide the Ministry of National Defense with airplane service to the Oriente. However, it is felt that this may be an exaggeration since the presence here of our Aviation Mission suggests that eventually progress will be made and steps be taken to equip Ecuadoran Army fliers to render the Oriente service.

This office would appreciate being informed as to the approximate date when Panagra may receive the delivery of new planes which will release one or more of the old DC-2's for service in Ecuador. It would likewise be appreciated if we might be advised as to approximately how long it would take to supply the civilian instructors and the hydroplanes necessary to render the Oriente service. This information may be of use in blocking further contracts by Sedta.

This morning I mentioned to Dr. Tobar⁴⁵ that Major Paez was understood to have authorized Sedta to make use of the 400 drums of aviation gasoline at Guayaquil and observed that this was a supply sufficient to run Sedta for two and a half months. I said that I had gathered the impression from the President some weeks ago when handing him the autographed letter from President Roosevelt that it was not then the intention of the Ecuadoran Government to lend gasoline to Sedta. Dr. Tobar said he was not informed but that in his personal opinion it was obviously desirable that thought be given to the realization of the objectives sought as soon as Panagra was in a position to render a full internal service.

Respectfully yours,

BOAZ LONG

822.796/323a : Telegram

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

WASHINGTON, March 14, 1941—9 p. m.

38. Panagra officials have advised the Department that a service completely duplicating Sedta's service and schedules was started on March 13. If this information is accurate, you are requested to so advise the Foreign Minister and if you deem it advisable, the President

⁴⁵ Julio Tobar Donoso, Ecuadoran Minister for Foreign Affairs.

as well. At the earliest opportune moment you should also indicate to these officials that in accordance with the agreement between the two Governments this Government expects the Ecuadoran Government to initiate steps for the elimination of Sedta. On receipt from you of information that Panagra's services are fully duplicating those of Sedta within the meaning of the agreement between the two Governments,⁴⁶ the Department plans to so notify Alfaro and express its confidence that the Ecuadoran Government will proceed with the elimination of Sedta.

It is understood that Panagra is about to retain attorney Cárdenas to conduct negotiations looking to the attainment of the objectives.

HULL

822.796/333

The Chargé in Ecuador (Drew) to the Secretary of State

No. 1717

QUITO, April 1, 1941.

[Received April 7.]

SIR: I have the honor to refer to my telegram No. 43 of March 24, 6 p. m.,⁴⁷ reporting the instructions given to the Panagra attorney, Dr. Catón Cárdenas by Mr. Gustavo Vidal with regard to the elimination of Sedta.

I am informed by Colonel Flores Guerra⁴⁸ that when Dr. Cárdenas discussed this subject with the President, offering Panagra's cooperation to buy out Sedta, President Arroyo expressed his appreciation and said that would not be necessary as the continuance of that company in operation in Ecuador was dependent on the attitude of the International Petroleum Company⁴⁹ in continuing to supply it with gasoline. I understand that the President expressed the view that as soon as this gasoline supply is cut off, the company will necessarily have to suspend operations and there will be no necessity for any action on the part of the Government. When asked if he felt that the company might demand an indemnity from the Government, he replied that, on the contrary, the Government would be in a position to demand reimbursement of part of the 800,000 sucres subsidy which had been given the company.

Colonel Flores Guerra believes that the Government would be pleased to see Sedta's gasoline supply cut off as this would relieve it of the responsibility of taking any steps in the matter. It is his opinion, based on statements of the President, that the Government would

⁴⁶ See *Foreign Relations*, 1940, vol. v, pp. 848-849.

⁴⁷ Not printed.

⁴⁸ Panagra's local representative in Ecuador.

⁴⁹ Of Toronto, Canada.

be extremely reluctant to cancel the Sedta contract as it would establish an unfortunate precedent in the Government's relations with other foreign companies operating under concessions with the Ecuadoran Government.

Sedta is committed to return to the Ecuadoran Government on April 15 the 200 drums of gasoline which it borrowed from the Air Corps supply. It is believed that the company will not be in a position to comply with this obligation, which may offer a justification for some action on the part of the Government.

I am hopeful that as soon as Sedta's operations are suspended because of shortage of gasoline, the Government will feel justified in ordering the company to liquidate on grounds of non-compliance with its operating contract. It would not be satisfactory from our point of view for the company merely to cease flying operations if it were to continue to maintain offices and radio stations in the various cities which it serves in Ecuador. As soon as the occasion appears to be opportune, I shall bring these considerations to the attention of the Ecuadoran authorities.

I consider that the situation is developing satisfactorily and that it may not be over optimistic to hope that Sedta's days are numbered.

Respectfully yours,

GERALD A. DREW

822.796/340 : Telegram

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

WASHINGTON, April 19, 1941—4 p. m.

63. Your 64, April 17, noon.⁵⁰ The Department understands that definite instructions have been issued by Ottawa to the International Petroleum Company to ship no more gas to Sedta. Perhaps the Ecuadoran Government will want to take the 150 drums shipped April 14 in partial repayment for the 200 drums lent to Sedta, especially in view of the possible shortage of aviation gasoline and probable increased demands by the Ecuadoran Government.

HULL

822.796/345

The Chargé in Ecuador (Drew) to the Secretary of State

No. 1775

QUITO, May 9, 1941.

[Received May 15.]

SIR: I have the honor to refer to the Department's telegram No. 63 of April 19, 4 p. m., with regard to the suspension of sales of aviation gasoline to Sedta by the International Petroleum Company.

⁵⁰ Not printed.

On May 3 the International Petroleum Company informed its Ecuadoran representative, Mr. Raul Cucalón, that no further deliveries would be made to Sedta in view of instructions received from the Government of Canada. This information was apparently transmitted to Sedta and has been published in local newspapers. One article reported a statement by the Sedta office that it was aware of the suspension of future sales by the International Petroleum Company, but that it had made arrangements to obtain gasoline from other sources. The Sedta office indicated that its traffic in Ecuador would not be interrupted.

In recent conversations with the Minister of Foreign Affairs I have informally brought up the question of the elimination of Sedta. He has consistently replied that this could readily be accomplished by shutting off sales of aviation gasoline from Peru. The Department will also recall that President Arroyo del Río indicated to a Panagra representative that this was the logical way to eliminate Sedta. While neither of these officials has indicated that they would not be disposed to seek other means for the elimination of Sedta in the event that the shutting off of gasoline supplies does not prove effective, there is no doubt in my mind that our objective will be greatly facilitated if that company is obliged to suspend or reduce its services for lack of fuel.

The statement of the Sedta office that it has made arrangements to obtain gasoline from other sources is probably largely bluff. However, it is not impossible that they may have uncovered some source of supply of which we are not aware. The first possibility which occurs to me is Japan. Japanese vessels call in Ecuador from time to time, and if sufficient pressure from Germany were applied it is not inconceivable that Japan might be willing to supply the few hundred drums per month which would be adequate to permit Sedta to operate its full schedule. I understand that strenuous efforts have been made by the company to obtain gasoline from Argentina. I am not acquainted with the precise situation of the refineries there, but it occurs to me that if they are dependent for the manufacture of high-test gasoline on American supplies of Ethyl compound, we might be disposed to indicate that shipments of gasoline either directly or indirectly to Sedta might prejudice the likelihood of obtaining export licenses for future shipments of Ethyl compounds.

I assume that all American manufacturers of high-test gasoline including those operating refineries in Aruba or other parts of South America have been apprized of the situation and will under no circumstances permit sales to Sedta. It might be well also to warn these companies to be alert for any orders for aviation gasoline from new or unknown customers, as Sedta might endeavor to have supplies

released to a dummy, either in Ecuador or some other country, for subsequent resale to it.

I do not doubt that these possibilities have occurred to the Department and may have already received its consideration. In any event, I desire to emphasize that the question of the supply of aviation gasoline is the crux of the situation, and we should not overlook any possible source of supply which it is within our power to cut off.

Respectfully yours,

GERALD A. DREW

822.796/349 : Telegram

The Secretary of State to the Chargé in Ecuador (Drew)

WASHINGTON, May 22, 1941—8 p. m.

84. Panagra representatives have approached Civil Aeronautics Board for authorization to discontinue Quito stop in international service by June 1, 1941.

It is assumed Legation still feels it would be unwise to bring up this matter with Ecuadoran authorities before Sedta is eliminated. Telegraph immediately and report later as to when you feel stop at Quito can be discontinued.

HULL

822.796/350 : Telegram

The Chargé in Ecuador (Drew) to the Secretary of State

QUITO, May 23, 1941—8 p. m.

[Received May 24—10:27 a. m.]

95. Reference Department's telegram No. 84, May 22, 8 p. m. In my despatch 1801 of today's date,⁵¹ leaving here in tomorrow's pouch, I report that under instructions from Lima the local Panagra representative informed the President yesterday that arrangements to eliminate Quito had been concluded and that the President had accepted this decision, but expressed the opinion that this action will cause criticism of Panagra.

While I am not informed of the importance to Panagra of eliminating Quito at once it would certainly be desirable to defer this, if possible until the situation with respect to Sedta is clarified. If the 1-day service between the Canal Zone and Lima is to be inaugurated in the near future the elimination of Quito should preferably be deferred until that time. The action should be preceded by a careful preparation of public opinion.

⁵¹ Not printed.

Even though the Government may not modify its position with respect to the suppression of Sedta, I am confident that there will be a violent anti-Panagra campaign, particularly in the pro-Nazi press.
DREW

822.796/350 : Telegram

The Secretary of State to the Chargé in Ecuador (Drew)

WASHINGTON, May 27, 1941—10 p. m.

85. Your 95, May 23, 8 p. m. Application to eliminate Quito from the international run will be held in abeyance pending the elimination of Sedta or further word from you.

HULL

822.796/375

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

No. 1894

QUITO, July 22, 1941.

[Received July 26.]

SIR: I have the honor to report that during a long conversation last Sunday evening with President Arroyo he stated that Sedta had been encountering difficulties during May and June in continuing operations and was using automobile fuel part of the time instead of aviation gas. Had this condition continued a few weeks longer, he thought Sedta might have suspended.

The recent border dispute (early this month)^{51a} enabled Sedta to stage a dramatic comeback in public opinion when it became necessary to send officers on flying trips within Ecuador. . . .

Sedta, emboldened by the acclaim received because of its services to the Army, has made an offer to Ecuador to handle mail to Europe for an insignificant rate, asserting connections through Condor⁵² and Italian lines will give an 8-day service to Lisbon. President Arroyo says he has refused to consider the offer at the moment.

He added that eliminating Quito from international schedules at this moment might release public opinion against Panagra but asserted he was anxious to see Sedta out whenever Panagra would render the same services.

He recommended the following: first, relieve Panagra internal services in Ecuador from having to consult Lima regarding domestic passengers, then have Panagra carry airmail within Ecuador at the

^{51a} For correspondence on boundary dispute between Ecuador and Peru, see vol. VI, pp. 212 ff.

⁵² Sindicato Condor Ltda.; see correspondence printed in vol. VI, section under Brazil entitled "Interest of the United States in the elimination of Axis influence from Brazilian airlines."

same rate as Sedta. Once agreed, he would cancel the airmail part of the Sedta contract—which would leave them only passengers, and shortly thereafter a campaign would be started pointing out the dangers of flying with automobile gasoline, which he thought might be the end of Sedta.

I asked if he was not disposed to make certain the elimination by confiscating Sedta and buying the two Junkers. He replied, "Not at this instant, as the Army is depending upon them for transport; moreover, considering the new grip Sedta feels she has on the public sentiment, she would probably refuse—just now. However, should peace continue with Peru and Panagra regain some of its lost favour through the elimination of the need to consult Lima as to movements of passengers within Ecuador, also to replace Sedta as to handling airmail, conditions might be different." Arroyo thought it might not take long to remould public sentiment, though there was an underlying apprehension in the minds of many Ecuadorans that once Sedta had been eliminated Panagra would reduce its domestic services.

The President observed that acquiring the Junkers with the idea that Ecuadoran fliers could operate them was fraught with risk, as our Aviation Mission had not given sufficient refresher instruction. Such a step would not be safe. Moreover, spare parts would be a problem. If there was any thought of taking over the Junkers on the expectation that, in the hands of comparatively inexperienced Ecuadorans, they would render efficient service to the Army, he was dubious. Thus it became a technical question, and it might be better to go back to the civilian pilots and two American planes idea—as offered by us a year ago—if Panagra could not render all the service.

This brings us back to the same old circle. Panagra is possibly right in declining to render aviation services that are likely to run it into difficulties. When they made this crystal clear during negotiations last year, our Government, in an effort to defeat Sedta's proposals, offered to finance the acquisition of two amphibians or hydroplanes and the salaries of two American civilian instructors for the Oriente or military services if I remember correctly.

The memoranda left with Mr. Duggan by me on July 2⁵³ referred briefly to the fact that our Aviation Mission was to have trained Ecuadoran fliers—also to the dual character of the aviation here—commercial and military.

Following the receipt of the Department's telegram No. 127 of June [*July*] 18, 9 p. m.,⁵⁴ an effort was made to ascertain how the

⁵³ See memorandum by the Minister in Ecuador to the Adviser on Political Relations, July 2, p. 263.

⁵⁴ Not printed; it was primarily concerned with the matter of Panagra's surplus gasoline supply (822.796/369).

various people who have to do with aviation might feel with respect to the aviation problems, and our reply, telegram No. 164 of July 21, 9 p. m.,⁵⁵ gives the more important points. Amplifications appear below.

The Germans operating Sedta, in addition to asking 1500 liters of aviation gasoline per hour while flying for account of the Army, also wished insurance should their pilots, auxiliary personnel, or planes be shot down, also some type of additional compensation to care for the bodies and/or families of personnel wounded or killed in the line of duty.

Ecuadorans, should they confiscate Sedta under a wave of patriotic inspiration, might find it quite difficult to operate efficiently even the two Junkers planes now here. Sedta has a manager, a diplomatic contact man (propagandist), excellent pilots, quite a number of mechanics, efficient radio service, and satisfactory ground crews. Together they have for many months rendered a dependable service and, even in the face of scant aviation gas supplies, have kept going, albeit at considerable risk when fuel stocks were low.

The simple fact that a few Ecuadoran pilots can fly the rebuilt Basic Trainers of '36 vintage from Guayaquil to nearby airports and get back alive—this without proper radio or instruments—is not proof acceptable to some Ecuadorans that they could intelligently handle the present Sedta system, if confiscated.

In this connection, it has been recalled that the aviation history of Ecuador is filled with too many deaths, and a repetition of past tragedies at this time might react most unfavorably in the public mind, and reflect upon the Administration which caused Ecuadorans to assume the responsibility before its aviators were fully prepared, without sufficient foreign technical guidance.

Now that eliminating Sedta has again been raised, it should be pressed.

Respectfully yours,

BOAZ LONG

822.796/377 : Telegram

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

WASHINGTON, August 3, 1941—11 p. m.

159. Your 193, July 29.⁵⁵ Department has conferred with officials of the Post Office Department regarding the carrying of mail by Panagra at a rate equal to the present rate charged by Sedta. In concurring with the Department's position in this matter the Post Office Department immediately discussed the question with Roig of

⁵⁵ Not printed.

Panagra⁵⁸ with the result that they have authorized Panagra to put the reduction into effect whenever you consider it advisable to do so.

In this regard the Department has been requested by Roig to weigh the advisability of endeavoring to obtain on behalf of Panagra an exclusive mail contract which will extend for a period of 5 years and preclude the issuance of mail contracts to any other air carrier in Ecuador. In view of the unusual extent of this concession by Panagra and the possible financial risks involved therein the Department is inclined to feel that it would be equitable to make this proposal to the Ecuadoran Government. The 5-year period would, however, be without prejudice to the possibility of mail contract being taken over in meantime by a national Ecuadoran company if one is organized.

For your information a definite refusal by Ecuadoran Government to grant the exclusive 5-year concession mentioned would not cause Panagra to decline to carry the mail at the present Sedta rate.

Since the mail concession appears to be an important part of the general plan which Morgan⁵⁹ contemplates presenting to the Ecuadoran Government under your direction will you please advise him upon his arrival of this development.

WELLES

822.796/385 : Telegram

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

QUITO, August 5, 1941—6 p. m.

[Received August 6—12:35 a. m.]

212. From Morgan for Clayton.⁶⁰ In interview this afternoon President informed American Minister and me that he would cancel Sedta mail contract with 8 days' notice upon Panagra agreement to carry mails at Sedta rate. He would then study best method of canceling operating concession and taking over Sedta assets. He intimated expropriation proceeding with compensation under Ecuadoran law might require very large expenditure. Might possibly be able to cancel franchise for failure to live up to obligations. He asked me to submit a definite plan at the next conference. Please advise (1) whether you would be satisfied for the present with cancellation only, (2) whether I should now offer President conditional loan of \$150,000 maximum for complete expropriation through acquisition of stock or acquisition of franchise and assets whichever most feasible. Mailing draft agreement today. [Morgan.]

LONG

⁵⁸ H. J. Roig, president of Pan American-Grace Airways.

⁵⁹ Stokeley Morgan, representative of the Defense Supplies Corporation, purchasing agency of the Reconstruction Finance Corporation operating under the Federal Loan Agency.

⁶⁰ W. L. Clayton, Deputy Loan Administrator, Federal Loan Agency.

822.796/393a : Telegram

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

WASHINGTON, August 9, 1941—4 p. m.

175. Clayton requests following be communicated to Morgan :

“The telegram from you sent on the 5th of August was received on the 8th.⁶¹ It is believed that every endeavor should be made by you to have the purchase of assets and equipment of Sedta brought about at a price which will be as low as possible. Such price should not be more than \$150,000 and should be on terms mentioned in discussion with you before you left. Please let us know if this is not possible. With reference to the telegram dated August 6,⁶² please report the extent of free transportation which Panagra provided as well as what further amount of such transportation would be desired.”

HULL

822.796/377 : Telegram

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

WASHINGTON, August 19, 1941—5 p. m.

198. Your 193 July 29, 5 p. m.⁶² Panagra indicated willingness to carry mail at same rate charged by Sedta provided this would be agreeable to United States Post Office Department, which now states such action has its approval. This information is being communicated to Roig, of Panagra, and R.F.C.⁶³

HULL

822.796/406

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

No. 1974

QUITO, August 22, 1941.

[Received August 27.]

SIR: I have the honor to report that Mr. Stokeley Morgan and I had a brief interview with the Minister for Foreign Affairs this morning.

I called the Minister's attention to the agreement of last November, included in an exchange of notes between Dr. Tobar and myself (see my despatches 1373 of November 12 and 1439 of December 5⁶⁴) under which the Government admitted its obligation to eliminate Sedta in return for assurances that other domestic services would be

⁶¹ No. 212, *supra*.⁶² Not printed.⁶³ Reconstruction Finance Corporation.⁶⁴ Neither printed, but see *Foreign Relations*, 1940, vol. v, pp. 848-849.

provided by Panagra or another company without German influence. Dr. Tobar readily admitted the Government's obligation under that agreement.

Mr. Morgan has not been able to see the President since August 13 and is naturally somewhat discouraged as it becomes more and more apparent that the President has been unable to make up his mind what action, if any, he is prepared to take looking towards the elimination of Sedta.

I am in hopes that there will be a change in the situation within the next two or three days and that the President will decide upon a policy which will permit Mr. Morgan to enter upon the loan negotiations which are the object of his visit. . . .

Respectfully yours,

BOAZ LONG

822.796/407 : Telegram

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

QUITO, August 27, 1941—11 a. m.

[Received 2 : 35 p. m.]

263. For Clayton from Morgan.

"The President this morning informed the American Minister and myself that the Government would immediately order Sedta to discontinue operations, basing this action upon the failure of the company to maintain adequate standards of safety. The Government will then make Sedta an offer for all its stock at a reasonable price and if the offer is not accepted would proceed to expropriate. Panagra must be prepared to carry all the mail immediately.

The President . . . said that if existing services are curtailed the public reaction will be very severe and highly unfavorable not only to the Government but also to the United States and to Panagra. I hope you can advise me without delay that means will be found to increase Panagra domestic services within Ecuador either by sending one more plane and crew or by sending additional pilots to increase frequencies with present equipment. The President expressed the opinion that Sedta airplanes would not be found usable when taken over."

LONG

822.796/421 : Telegram

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

QUITO, September 4, 1941—6 p. m.

[Received 11 : 59 p. m.]

287. In a long conference yesterday on Sedta the Foreign Minister sought to bind Morgan and me with a promise for immediate arrival

of another plane or two, or an oral commitment covering an immediate increase in Panagra internal services. We told him that we were doing our best and thought that the matter could be worked out.

He then asked me to send him a note confirming my indications that \$275,000 is to become available for aviation training (Legation's telegram no. 270, August 28, 2 p. m. ⁶⁶). I replied that I was awaiting detailed information and would advise him later. Please instruct.

Later in the day the Foreign Minister explained that when Sedta ceased operation we might expect considerable adverse propaganda, unless Panagra would immediately satisfy the demand for air transportation. He emphasized the need of doing something now rather than in a few weeks. I believe it advisable to lend an extra plane here at least for a short time to take care of the situation resulting from the elimination of Sedta.

LONG

822.796/421 : Telegram

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

WASHINGTON, September 6, 1941—8 p. m.

235. Your 287, September 4. As you know, this Government arrived at a clear and definite arrangement with the Government of Ecuador with respect to the elimination of Sedta. Under this arrangement this Government had certain obligations. These obligations have all more than fully been complied with. The Department is informed that Panagra is now providing, and for some time in the past has provided, a service superior to that performed by Sedta at the time that this arrangement was entered into. Ecuador, therefore, has no ground under the agreement for requesting concessions other than those contemplated in the agreement and it is therefore expected that Ecuador will eliminate and assist in the complete liquidation of Sedta without conditioning such action on additional service, airplanes or expenditures for aviation training.

It is unnecessary to recall to the Legation the various types of assistance to Ecuador which this Government has rendered during recent months. This assistance was freely offered by this Government without being conditioned on the performance of any action by Ecuador, and was rendered as part of a program designed not only to help Ecuador to develop its internal economy but also to permit Ecuador to play its appropriate role in hemisphere solidarity and defense. Our two governments agreed that one important step to be taken in connection with hemisphere defense was the prompt elimination of Sedta. It

⁶⁶ Not printed.

is only by the effective performance by each of the 21 American Republics of its share in responsibilities for hemisphere defense that the American Republics can feel secure.

This Government of course does not overlook the fact that Ecuador is passing through an extremely difficult period in its history and that it has enormous political problems to contend with. This Government is equally aware of the desire of Ecuador to develop and improve air transportation. It is therefore prepared, provided always that Sedta is eliminated, to assist in supplying airplanes and technicians for a service consonant with Ecuador's needs and based on a careful survey to be made by Hardin⁶⁷ and Van Zandt.⁶⁸

The \$275,000 for aviation training became available September 5; it will be expended by the Chief of the Air Mission in Ecuador and all expenditures will be supervised by you. . . .

HULL

822.796/428 : Telegram

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

QUITO, September 9, 1941—10 p. m.

[Received 11:05 p. m.]

302. Reference Department's telegram No. 233, September 6, 1 [6] p. m.⁶⁹ It cannot be said that the company has been eliminated. However, it has ceased operations and the Government has placed guards over all its physical properties. Negotiations are now in progress between the Government and the company management for its purchase.

LONG

822.796/450 : Telegram

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

QUITO, September 22, 1941—10 a. m.

[Received 11:57 a. m.]

354. For Clayton from Morgan.

"Your 255, September 19⁷⁰ just received. Never intended to sign the agreement with figures in blank but only to [initial?] the text of the agreement with the Minister for Foreign Affairs for signature later in Washington. Please see last paragraph of my letter of September 2.⁷⁰

⁶⁷ Thomas Hardin, Technical Aviation Expert.

⁶⁸ Parker Van Zandt, representative of the Federal Loan Agency.

⁶⁹ Not printed; it requested a report as to whether Sedta had been definitely eliminated (822.796/427b).

⁷⁰ Not printed.

Committee will not accept figure of \$100,000 with two planes since it insists upon a substantial 'cushion.' See my telegram no. 349, September 19.⁷¹ Please authorize 150,000 maximum amount as originally authorized. Believed that actual payments to be made may be substantially less."

LONG

822.796/450 : Telegram

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

WASHINGTON, September 23, 1941—4 p. m.

266. For Morgan from Clayton. Your cable 354 received. Approve maximum amount suggested by you.

Suggest following addition at end of line 51 as desirable but not absolutely essential "and the obligation of Defense Supplies Corporation to make such advances shall terminate on". Here insert mutually agreeable date not more than 1 year hence.

Please advise when contract has been signed giving dates and amounts inserted. [Clayton.]

HULL

822.796/466 : Telegram

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

QUITO, October 2, 1941—10 p. m.

[Received 10:44 p. m.]

387. For Clayton from Morgan.

"Agreement signed this evening by the Minister of Defense, Minister of Finance and myself with the approval of the Attorney General. President signed enabling decree. Insert line 51 the date March 31, 1942, no other changes.

Leaving for Washington first available space."

LONG

822.24/121

*Contract Between the Government of Ecuador and the Defense Supplies Corporation, Signed October 2, 1941*⁷²

Know by this instrument that the Government of the Republic of Ecuador and the Defense Supplies Corporation have agreed upon the contract the articles of which are included in the Executive Decree which is inserted below.

⁷¹ Not printed.

⁷² Copy transmitted to the Department by the Defense Supplies Corporation in its letter of November 25; received November 28.

The Government of the Republic of Ecuador participates in this contract represented by Colonel Carlos Alberto Guerrero, Minister of National Defense, and Vicente Illingworth Yeaza, Minister of Finance, duly authorized by the President of the Republic, as set forth in Decree No. 163 of October 1, 1941. This decree, as said above, is transcribed in the present instrument. The appointments of the above mentioned Ministers are also herein transcribed.

The Government of the Republic of Ecuador proceeds to conclude this contract in accordance with its constitutional powers, especially the Legislative Decree passed on September 27, 1941. The first article of which grants, among other powers, to the Executive Power that of issuing decrees with the force of law concerning economic matters.

Moreover the Government signs this contract with favorable opinions previously rendered of the Comptroller General and Attorney General of the Nation, in order to comply with the provisions of Art. 55 of the Organic Law of Finance, and Art. 3 (*e*) of the Supreme Decree No. 188 of August 1, 1928 and Art. 12 of the Supreme Decree No. 23 of October 14, 1935.

The Defense Supplies Corporation, a corporation organized under the laws of the United States and whose entire stock is owned by the Government of that Republic through Reconstruction Finance Corporation participates in this contract represented by Stokeley Williams Morgan, accredited by the note addressed to the Minister for Foreign Affairs by the Legation of the United States in Quito, a copy of which is transcribed herein, and a cable sent by the Secretary of State of the United States to the same Legation, stating that Mr. Morgan is empowered to sign the present contract.

The Executive Decree which authorizes the conclusion of the present contract is as follows:

Presidency of the Republic
Reserved No. 163
Carlos A. Arroyo del Rio
Constitutional President of the Republic.

By virtue of the powers invested in him and

In view of the favorable reports submitted by the Comptroller General and the Attorney General of the Nation. Nos. 9855 and 386 of October 1 and September 30 of the present year and in view of the provisions of Art. 8 of the Law of Political and Administrative Organization.

Decrees:

Article 1. The Ministers of Defense and Finance and Public Credit are authorized to sign a contract in the following terms:

AGREEMENT

September 19, 1941

Between the Government of Ecuador represented by the Minister of National Defense and the Minister of Finance and Public Credit and the Defense Supplies Corporation (a corporation organized under the laws of the United States, the entire stock of which is owned, through Reconstruction Finance Corporation, by the Government of the United States) represented by Stokeley W. Morgan:

WHEREAS, The Government of Ecuador has requested the cooperation of the Government of the United States for the development of commercial aviation in Ecuador, and the Government of the United States is willing to afford such cooperation on the terms herein set forth;

WHEREAS, The Policy of the Government of Ecuador is to grant concessions for the operation of airlines only to native-born citizens of Ecuador or of any of the American Republics;

WHEREAS, The Government of Ecuador, as an initial step in furtherance of this policy, has taken steps to acquire the property of Sociedad Ecuatoriana de Transportes Aereos (hereinafter referred to as Sedta) against payment of fair and reasonable compensation;

WHEREAS, Defense Supplies Corporation is willing to facilitate the furtherance of the aforesaid policy of the Government of Ecuador by making its funds available for use by the Government of Ecuador, upon the terms herein set forth, and

WHEREAS, Pan American-Grace Airways, Inc. has made arrangements with the Government of Ecuador satisfactory to said Government for the transportation of the domestic airmails of Ecuador between points in Ecuador;

NOW, THEREFORE, In consideration of the foregoing and of the mutual covenants herein contained, it is agreed as follows:

I

The Government of Ecuador shall proceed immediately with the steps necessary under the laws of Ecuador to acquire the property of Sedta against payment of fair and reasonable compensation to the owners thereof.

The Government of Ecuador shall not permit the sale or transfer of the property so acquired by it to persons other than native-born citizens of Ecuador or of any of the American Republics or, in the case of corporate entities or organizations, other than those controlled by native-born citizens of Ecuador or any of the American Republics. The foregoing restrictions shall apply both to the nominal and the beneficial ownership.

II

The Government of Ecuador shall not permit the resumption of operations by Sedta.

III

Upon commencement by the Government of Ecuador of the steps necessary to acquire the property of Sedta, as provided in Article I, and upon presentation by the Government of Ecuador to the Defense Supplies Corporation in Washington from time to time of itemized statements certifying that sums of money are required to defray necessary and reasonable expenses in connection with such acquisition, Defense Supplies Corporation shall advance to the Government of Ecuador the sums of money called for by such statements. The Government of Ecuador shall forthwith apply such advances to the payment of the items shown on the respective statements.

The aggregate amount of such advances shall not exceed one hundred and fifty thousand dollars (\$150,000) and the obligation of Defense Supplies Corporation to make such advances shall terminate on March 31, 1942.

[IV]

The advances referred to in Article III shall be evidenced by notes (hereinafter called the Notes) substantially in the form annexed hereto, marked Exhibit A.⁷⁴

(a) The Notes shall mature ten years from their issuance and shall be renewable during the six months prior to their maturity for an additional period of ten years if at their maturity fifty percent of the principal and all interest has been paid. The Notes and renewals thereof shall be amortized by means of equal semiannual principal payments, each such payment to be two and one-half percent (2½%) of the face amount of the respective original Note; the first principal payment shall be due and payable six months after the issuance of the respective Note. The Notes shall bear interest upon the unpaid balance thereof at the rate of four percent (4%) per annum.

(b) The Notes shall be secured by the equipment and other physical assets of Sedta, acquired by the Government of Ecuador and also by the stock of Sedta should that also be acquired.

V

Defense Supplies Corporation may, at its option to be exercised within one year from the date hereof, purchase the flying equipment

⁷⁴ Not printed.

of Sedta at the price of twenty thousand dollars (\$20,000) per plane regardless of the value which may be fixed by the appraisers. Defense Supplies Corporation shall buy one or both of said planes at the price per plane aforesaid if requested to do so by the Government of Ecuador within three months after the signature of this Agreement. Such price shall be credited pro rata against the Notes or, at the election of the Government of Ecuador, against particular Notes.

VI

Defense Supplies Corporation shall cooperate with the Government of Ecuador in arrangements looking to the establishment and initial operation of an air transportation enterprise serving points within Ecuador, to be owned and managed by native-born citizens of Ecuador or of any of the other American Republics. To this end, Defense Supplies Corporation shall cause a survey of the economic and technical situation respecting domestic commercial aviation in Ecuador to be made by qualified experts at the expense of Defense Supplies Corporation. The Government of Ecuador shall cooperate with the personnel making this survey and assist them in every way. A report shall be submitted by these experts within six months from the execution hereof and shall form the basis for discussion between the Government of Ecuador and Defense Supplies Corporation regarding the nature and scope of such air transportation enterprise as it may appear feasible to establish in Ecuador to replace the services of Sedta.

If, after such discussion, it shall appear to Defense Supplies Corporation that the Government of Ecuador will provide arrangements assuring that such air transportation enterprise will operate successfully, Defense Supplies Corporation shall, within three months after an agreement has been reached, provide the Government of Ecuador with a loan sufficient to permit the purchase of suitable planes and equipment and the engaging of suitable technical personnel, the obligation of Defense Supplies Corporation in this respect being subject to the working out of a loan agreement mutually satisfactory to the Government of Ecuador and to Defense Supplies Corporation.

It is expressly agreed, however, that the reaching of such an agreement between the Government of Ecuador and Defense Supplies Corporation, or the failure to reach such an agreement, shall not in any way affect the validity of any of the other obligations of the parties hereto.

VII

The obligations specified in the present agreement which have no definite fixed term shall remain in force so long as any indebtedness is outstanding upon the notes issuable under article IV and in any event for not less than ten years.

VIII

The present agreement, drafted in duplicate original in the Spanish and English languages, shall be formalized as a public instrument and signed by the persons hereinabove first described or their duly authorized representatives.

Done in the National Palace, in Quito, October 1, 1941.

(sgd) C. A. Arroyo del Rio

The Minister of National Defense

(sgd) C. A. Guerrero

The Minister of Finance and Public Credit

(sgd) V. Illingworth Y.

Here are inserted the text of the notes; the appointments, reports and other exhibits previously mentioned.

[Here follow the exhibits.]

Signed in duplicate a copy in English and another in Spanish, in Quito, October 2, 1941.

(Sgd) C. A. GUERRERO

(Sgd) V. ILLINGWORTH

(Sgd) STOKELEY WILLIAMS MORGAN

822.796/466 : Telegram

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

WASHINGTON, October 3, 1941—6 p. m.

286. Your 387, October 2, 10 p. m. We are delighted that the contract has been signed. We hope that the Ecuadoran Government will now proceed without delay in the cancellation of Sedta's franchise, thus completing the elimination of Sedta.⁷⁵ Please press this matter with the Ecuadoran officials.

HULL

⁷⁵ An Evaluating Committee was appointed to make a report to the Ecuadoran Minister of Defense concerning the properties of Sedta; this was followed by liquidation.

NEGOTIATIONS FOR A LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR⁷⁶

822.24/92

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

No. 1658

QUITO, February 26, 1941.

[Received March 4.]

SIR: I have the honor to report that late this evening I had a visit with President Arroyo del Rio. I explained that I had gathered the impression, as a result of preliminary conversations between Colonel Urrutia⁷⁷ and Commander Barbaro,⁷⁸ that a \$30,000,000 credit, to be used by Ecuador for acquiring all sorts of armament equipment for the Navy and Army, was a *sine qua non* as a condition precedent to reaching conclusions.

The President said that I was mistaken. However, he added, the fact that the Ecuadoran Congress had authorized him to arrange a credit up to \$30,000,000 was a factor which must be taken into consideration, as the Congress was an important branch of the Government.

The President explained that it was not possible for one unacquainted with the cost of airplanes, ships, anti-aircraft guns, and all the other equipment which might fall under the general classification of defense materials, to think in terms of dollars as readily as he might in terms of the indispensable requirements: for all he knew, the total might run considerably beyond \$30,000,000.

The President then said he would like to change the subject for a moment to the political condition existing in the country. He thought the majority of the thinking people were in favor of the democracies, but the Axis powers were so skillful in presentation of arguments extolling the merits of the planned economy which was to run the world if Hitler won, and also in their propaganda, which constantly kept before the public the wonderful military organization of the Axis powers, that it was not surprising that there was also another school of thought. He favored the democracies but as President it was necessary for him to show a certain amount of consideration for the views of Ecuadoran citizens. As an illustration of his attitude, he referred to the application of the Ecuapetrol, German oil syndicate, successor to Otto Wolff, for a renewal of its concession. The President informed me that, notwithstanding the fact

⁷⁶ See also section entitled "General policy of the United States for the negotiation of the basic agreements relating to Lend-Lease to other American Republics," vol. VI, pp. 133 ff.

⁷⁷ Col. Francisco Urrutia, Commander in Chief of the Ecuadoran Army.

⁷⁸ Comdr. Joseph R. Barbaro, Chief of the U. S. Naval Mission to Ecuador.

that when the application reached his desk it had every required legal endorsement, he had declined to renew the Ecuapetrol concession. This act, he said, would unquestionably bring tremendous pressure to bear upon him to reverse his position.

President Arroyo then stated that his greatest need was a demonstration which the public could see—for example, a few Ecuadoran pilots flying planes which belonged to Ecuador, and at least one and possibly two small ships which could fly the Ecuadoran flag. Both planes and ships would be interpreted by his public as a demonstration that something was being accomplished by his administration and thus tend to counteract the contentions of pro-Axis thinkers that the democracies talked much and did little.

These planes and one or more ships would, the President continued, serve as laboratories for the training of members of the Aviation Corps and also of the Navy. If Ecuador was ever to make a beginning, it would have to start with these; hence he had no hesitancy in being perfectly plain about the immediate needs of his country. He referred to the aviation training schools to be built at Salinas (for primary training) and Quito (for advanced training) as also indispensable, stating that they, too, would be helpful at this time. He felt that these were minimum requirements of the moment and that this was the psychological time for something to be done. He expressed the hope that our Government would be able to give early consideration to Ecuador's needs and would lose no time in cooperating with him in this moment of emergency.

The President stated that he was glad I was going to Washington and hoped that I would work with his Ambassador to the end that an early solution might be reached as to the problems mentioned herein.

Respectfully yours,

BOAZ LONG

822.24/96 : Telegram

The Chargé in Ecuador (Drew) to the Secretary of State

QUITO, May 16, 1941—3 p. m.

[Received May 17—9: 43 p. m.]

88. Minister of National Defense informs me that at the suggestion of the Department a military mission composed of Colonel Urrutia, the Chief of the Ecuadoran Air Corps,⁷⁹ the Commander of the First Military Zone, and a fourth officer now in the United States will go to Washington the end of this month to remain for a minimum of 90 days to discuss procurement of armament.

⁷⁹ Maj. Jorge Paez.

I understood that *El Comercio* of Lima in connection with discussion of the mediation offer ⁸⁰ has already criticized our action in transferring two patrol boats to Ecuador. It occurs to me that further criticism may be made when the visit of the Ecuadoran Military Mission to Washington becomes known, possibly prejudicing the success of the mediation.

DREW

822.24/96 : Telegram

The Secretary of State to the Chargé in Ecuador (Drew)

WASHINGTON, May 17, 1941—7 p. m.

80. Your 88, May 16, 3 p. m. Within the next few days you will receive a circular instruction ⁸¹ informing you, for your information, that the President has approved furnishing the other American countries military and naval matériel during the next few years to a total value of 400 million dollars. Pursuant to the President's instructions each of the American Republics has been informed of the amount of military and naval equipment which will be furnished to it and each country has been requested immediately to designate military and naval aides to discuss with the War and Navy Department here what it desires to obtain within the allocation set aside for it.

The visit referred to in your telegram of reference is for this purpose. Although appreciative of your suggestion, the Department sees no reason for recommending delay in the departure of the mission since this program is not only one of general application to all of the American Republics but conversations are already taking place here between appropriate representatives of Peru and our military and naval authorities.

It is hoped that my statement yesterday ⁸² will dispose of the thoroughly groundless allegation that the participation of this Government in the tender of friendly offices had any connection with the transfer of the two patrol boats to Ecuador, the acquisition of other military or naval supplies by Ecuador, or bases on the Galápagos Islands.

HULL

⁸⁰ For the negotiations concerning the Peruvian-Ecuadoran boundary dispute, see vol. VI, pp. 212 ff.

⁸¹ See telegram of May 20, 10 p. m., to the Ambassador in Argentina, vol. VI, p. 137.

⁸² Department of State *Bulletin*, May 17, 1941, p. 596.

810.20 Defense/1371

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] July 21, 1941.

The Ambassador of Ecuador⁸³ called this morning in order to discuss with me the question of acquiring arms under the provisions of the Lend-Lease Act.⁸⁴

After I had outlined to him the various steps to be taken by each interested government in order to obtain the amounts allotted by the Joint Army-Navy Advisory Board, he told me that he had just received a telegram from his President asking whether the Ecuadoran Government could obtain twenty million rounds of 7.92 caliber ammunition, ten million rounds for machine guns, and ten million rounds for rifles. If these cartridges could be delivered as soon as possible and, in any event, within the fiscal year ending June 30, 1942, the Ecuadoran Government would expedite the steps necessary to acquire the armaments allotted by the Joint Army-Navy Advisory Board.

Consultation with Colonel MacMorland⁸⁵ revealed that no ammunition of this caliber is being manufactured at present in the United States and that in order to do so it would be necessary for the factories to change their machinery. This would not be worth their while for such a small order. Colonel MacMorland went on to say that the only rifle and machine gun ammunition that is now being manufactured consists of .30, .50, and .303 calibers. I transmitted this information to the Ambassador and he asked whether there might be some stocks of the 7.92 cartridges on hand. I passed this inquiry on to Colonel MacMorland, who answered that he was certain that no such stocks existed. This reply was conveyed to the Ambassador.

The Ambassador told me that the machine guns in question were manufactured by the Skoda Works in Czechoslovakia and that the rifles were Mausers and Mannlichers.

822.24/104

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

No. 1907

QUITO, July 25, 1941.

[Received July 31.]

SIR: I have the honor to report that the Minister of Finance⁸⁶ intimated that he might take up the matter of the \$5,000,000.00 worth

⁸³ Colón Eloy Alfaro.⁸⁴ Approved March 11, 1941; 55 Stat. 31.⁸⁵ Col. Edward E. MacMorland, War Department Liaison Officer with the National Munitions Control Board.⁸⁶ Vicente Illingworth.

of equipment which Ecuador is to receive under the Lease Lend allotment for the present fiscal year.

The Commander-in-Chief⁸⁷ is an Army man who has had limited experience with aviation, save for the flying which he did during a recent visit to our country. His first idea, when learning that the \$5,000,000.00 worth of matériel was to become available, was to have most of it in munitions.

Recent developments in world events which have thrown into relief the importance of aviation have caused Colonel Urrutia to have many talks with the members of the American Aviation Mission⁸⁸ which, at the solicitation of Colonel Urrutia, has submitted a list of what it deems to be conservative requirements for the Air Corps of Ecuador during the present fiscal year.

I enclose a copy of the memorandum⁸⁹ handed by Captain Renshaw⁹⁰ to Colonel Urrutia which totals approximately \$2,000,000.00 or 40% of the total available prior to July 1, 1942.

The Minister of Finance may not be familiar with these details. Consequently, this report is sent in advance so that the respective Departments of our Government may be prepared to discuss allotments in the event that they are willing to take the matter up with Mr. Illingworth.

I am informally advised that at this moment there are available nine fairly dependable Ecuadoran pilots; and that at the end of probably four months' training eleven additional pilots (who would then be competent) will become available. In addition, it will be recalled that primary training is to begin as soon as the new Primary Trainers being shipped from California arrive in Ecuador. That is, this training should start about the middle of September.

The Air Mission in Ecuador tells me that they are counting upon the assignment of one additional Officer more or less as indicated in Mr. Welles' letter to the Secretary of War dated June 28.⁸⁹ It is urged, of course, that the new man be a qualified instructor who speaks Spanish, and that he arrive here without delay.

If the \$2,000,000.00 are made available in aviation equipment, as suggested by our Aviation Mission, it is thought that the Army can be supplied with sufficient cartridges to satisfy present requirements with \$3,000,000.00.

Respectfully yours,

BOAZ LONG

⁸⁷ Col. Francisco Urrutia.

⁸⁸ An agreement between the United States and Ecuador for a military aviation mission was signed December 12, 1940; Department of State Executive Agreement Series No. 189, or 54 Stat. (pt. 2) 2437.

⁸⁹ Not printed.

⁹⁰ Capt. Harry A. Renshaw, Chief of the American Military Aviation Mission in Ecuador.

810.20 Defense/1373

*Memorandum by the Adviser on Political Relations (Duggan) to the
Under Secretary of State (Welles)*

[WASHINGTON,] August 4, 1941.

MR. WELLES: The Ambassador of Ecuador has inquired whether, now that hostilities have ceased with Peru, this Government is prepared to go ahead with the negotiation of the lend-lease agreement.

My recommendation is that we defer negotiating the basic agreement until such time as the retirement from the *status quo* line has been effected and control measures instituted to assure the continued separation of the forces of the two countries. No objection is perceived, however, to either Peru or Ecuador proceeding to present their lists of matériel desired under the lend-lease authorizations.

LAURENCE DUGGAN

722.2315/2429 : Telegram

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

WASHINGTON, October 16, 1941—noon.

791. From Under Secretary. This Government is confronted with an increasingly embarrassing situation resulting from the continuing efforts on the part of both Peru and Ecuador to purchase airplanes, armaments and ammunition in the United States. It has seemed to the Department that at a time when hostilities had regrettably broken out between Peru and Ecuador, although these hostilities have at least been suspended, but with no prospect in sight for any prompt pacific solution of this dispute it would not be in the interest of inter-American relations for the United States to permit the shipment from this country of military matériel which would inevitably be utilized by the Peruvian and Ecuadoran military forces should hostilities again break out. It is primarily for that reason that the War Department is requisitioning 18 modern bombers which the Peruvian Government had purchased in Canada from the Norwegian Government and which were in transit through the United States, although these airplanes are urgently needed in our own defense program, and will be utilized in that way.

I am informed that the Bolivian Government desires to dispose of certain excess military equipment which it has available and that there is a probability that this matériel will be purchased by Peru.

It seems to me that the question involved is a fundamental one of principle affecting the interests of all the American Republics and that it would be highly desirable and beneficial if the American Republics would join in making it known that they would not permit

the sale of military or naval matériel to the two parties to the dispute until and unless a pacific solution of the controversy were under way.

At a meeting which I had this afternoon with the Argentine and Brazilian Ambassadors here I requested them to take this matter up informally with their respective governments so that I might have the benefit of the point of view of the Governments of Argentina and Brazil with the thought that should those two governments concur, the three governments could join in making this suggestion to the governments of the other American Republics.

The Argentine Ambassador is reporting to his Foreign Minister by telegraph and asked particularly that I inform you of this question and ask you likewise to talk the matter over with the Minister for Foreign Affairs. Please do so and report by cable any action you may take. I am, of course, particularly anxious that the matter be regarded as informal and completely confidential at this stage. [Welles.]

HULL

823.24/172

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

WASHINGTON, December 26, 1941.

MY DEAR MR. SECRETARY: I acknowledge the receipt of Mr. Forrestal's letter of December 14⁹² recommending that in view of the excellent cooperation manifested by both the Ecuadoran and Peruvian Governments in the present emergency, the restriction regarding the procurement of matériel by these two Governments, under the Lend-Lease Act, be terminated, and pointing out the desirability of permitting the Peruvian Government to obtain certain non-combatant matériel for the purpose of increasing the efficiency of the naval arsenal at Callao, a port which has been made available for the use of our naval forces.

I am pleased to inform you that this Department concurs in the views expressed in this letter and has instructed the Ambassador at Lima and the Minister at Quito to inform the Governments to which they are accredited that this Department is prepared to commence discussions relative to the acquisition of armaments under the provisions of the Lend-Lease Act.⁹³

Sincerely yours,

For the Secretary of State:
SUMNER WELLES

⁹² Not printed.

⁹³ These discussions resulted in an agreement signed on April 6, 1942. It provided for the transfer of armaments and munitions to a total of \$17,000,000 and accorded Ecuador a reduction of 96.47 percent in the cost. The conclusion of the agreement was deferred by reason of the concurrent negotiations concerning bases.

MODIFICATION BY EXCHANGE OF NOTES OF RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR, SIGNED AUGUST 6, 1938⁹⁴

822.151/38

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

No. 439

WASHINGTON, February 12, 1941.

SIR: Reference is made to your despatch no. 1537 of January 17, 1941⁹⁵ reporting the views of the Ecuadoran Ministers of Foreign Affairs and Finance⁹⁶ with respect to application of certain new and additional customs charges upon Ecuadoran imports of products in Schedule I of the trade agreement under authority of recent legislation enacted for the purpose of obtaining revenues to liquidate possible loans for new water-supply systems in various cities of Ecuador. The Ecuadoran Minister of Finance was reported to have stated in this connection that he would withhold application of the additional duties mentioned until March 31, 1941 if the Department would arrange for the extension by the Export-Import Bank of Washington of a credit of \$3,000,000 to the Ecuadoran Government for construction of the water-supply systems in question.

As you explained to the Minister of Finance, the decisions concerning specific loans by the Export-Import Bank are based on the merits of the individual applications for such loans. As the Ecuadoran Ministers of Foreign Affairs and Finance indicated might be the case, in the course of their discussion of this matter with you, there has as yet been no direct application by the Ecuadoran Government or by the Municipalities of Guayaquil or Quito for the loan of a specific amount or amounts for the construction of new water-works systems.

Several months ago the Ecuadoran Ambassador⁹⁷ informed the Department orally of the interest of the President of Ecuador in the possibility of obtaining credits for a new water supply system in Guayaquil. This information was brought to the attention of the Export-Import Bank, and at the same time the Department expressed its interest in the project. The Bank officials, however, have at no time in the course of discussing this matter given any specific indication of a favorable disposition toward extending such credit assistance, and the action of the Bank so far has been restricted to the authorization of \$700 of its funds for the expenses of an engineer

⁹⁴ For text, see Department of State Executive Agreement Series No. 133, or 53 Stat. (pt. 3) 1951; for correspondence, see *Foreign Relations*, 1938, vol. v, pp. 509 ff.

⁹⁵ Not printed.

⁹⁶ Julio Tobar Donoso and Vicente Illingworth, respectively.

⁹⁷ Colón Eloy Alfaro.

who will obtain more information concerning the projects in Guayaquil and Quito. The arrangements for the preliminary survey work to be conducted by this engineer, Mr. Frank E. DeMartini of the United States Public Health Service, were described to you in detail in the Department's instruction no. 414 of January 22, 1941.⁹⁸

When Mr. DeMartini completes his compilation of preliminary data with respect to the probable nature and cost of new water-works systems in Guayaquil and Quito, it is expected that the information prepared by him will be studied by the appropriate agencies of this Government. It is hoped that the data will likewise be of use to the Ecuadoran authorities in considering a possible loan application or applications.

With respect to the application of the additional customs duties to products in Schedule I of the trade agreement, you may inform the Minister of Finance that it is believed to be most practicable to consider this question separately. If, however, the Minister insists upon linking the questions together and the issue therefore arises of the conflict with the provisions of the agreement, you may inform him of the substance of the confidential paragraph in the Department's telegram no. 5 of January 8, 1941.⁹⁹ Before doing this, however, you should assure yourself that the Ecuadoran officials have a full understanding of the revenue possibilities in the suggestion contained in the second paragraph of the Department's telegram no. 1 of January 2, 1941.¹ It would appear desirable to emphasize this point again to the Ecuadoran officials.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

822.151/64

*The Ecuadoran Ambassador (Alfaro) to the Acting Secretary
of State*

[Translation]

No. 119

WASHINGTON, July 16, 1941.

MR. SECRETARY: I have instructions from my Government to request—as I hereby do, availing myself of Your Excellency's worthy intermediary—a loan from the Export-Import Bank of Washington

⁹⁸ Not printed.

⁹⁹ Not printed. This paragraph reads: "For your information, if after due consideration of these possibilities the Ecuadoran Government should take the position that sufficient revenues could not feasibly be raised in a manner consonant with the provisions of the trade agreement the Department would, of course, be glad to consider any specific proposals by that Government for changes in the agreement." (822.151/35)

¹ Not printed. This paragraph suggested an increase in certain customs duties provided the tax on domestic industries were increased correspondingly. (822-151/33)

intended to provide potable water for the city of Quito, the capital of the Republic of Ecuador.

The importance and various aspects of the work are clearly apparent from the report of the American expert Mr. Frank E. De Martini, which report is with the Export-Import Bank of Washington.

The Quito [Municipal]⁴ Council plans to entrust the work to the American concern of Nick F. Helmers, Inc., of New York, which has already made studies for the purpose and drawn up the draft budget⁵ which I enclose with this note. It amounts to [\$]1,297,085.87, a sum which it is planned to finance completely by means of the loan which I request.

The enclosed memorandum⁵ contains a report on the funds assigned to provide potable water with which the loan requested will be amortized.

Requesting Your Excellency to be good enough to transmit this request to the Export-Import Bank of Washington, I beg to urge that it be favorably recommended, as it involves a project indispensable to the health of the Ecuadoran city.

I express my thanks in advance for the attention which Your Excellency will take the trouble to give this note and I renew [etc.]

C. E. ALFARO

822.151/63

The Acting Secretary of State to the Secretary of Commerce (Jones)

WASHINGTON, July 23, 1941.

MY DEAR MR. SECRETARY: I wish to acknowledge receipt of your letter of July 16, 1941⁵ suggesting that the consent of the Government of Ecuador be obtained to permit the assignment to this Government of the lease of Albemarle Island, in the Galápagos group, for which Commander Foster has an option⁶ and the installation by this Government of facilities useful for defense purposes on that island. You indicate that under these conditions you might feel justified in advancing the funds required to construct the desired water systems at Quito and Guayaquil.

Although any suggestion you make is, of course, always welcomed by me, I feel obliged to tell you in all frankness that in this case the proposal you recommend is open to so many and well-founded objections as not to warrant its further consideration.

⁴ Brackets appear in the file translation.

⁵ Not printed.

⁶ Paul F. Foster (one-time Lieutenant Commander) was said to have had a 30-year lease on the entire Albemarle Island and to have sponsored a plan, technically commercial, to exploit sulfur deposits and establish an observation post as a defense measure. See *Foreign Relations*, 1940, vol. v, pp. 850 ff.

In the first place, the President, for a number of reasons, has not considered it desirable for this Government to initiate negotiations with the Government of Ecuador for the purpose of obtaining a lease on the Galápagos Islands. Those reasons still seem entirely valid today.⁷

In the second place, from the standpoint of the maintenance of our extremely friendly and helpful relations with all the American Governments on matters of hemisphere defense, it would not, in my opinion, be desirable to make any approach to the Ecuadoran Government for the purpose you indicate. For example, as long as the Ecuador-Peru boundary dispute⁸ is outstanding, any action by this Government to secure a base on the Galápagos Islands would immediately be suspected by Peru as involving a pledge of support by the United States to Ecuador in connection with the boundary problem. It is indispensable to our security that our relations with all the American countries remain on their present friendly footing, and that no step be taken that would impair this relationship even with one country.

Finally, it does not seem wise to link together the granting of credits for social purposes with the obtaining of defense facilities. I am glad to observe, however, that you are prepared to consider, in the granting of credits, reasons of a broad general character.

I take the occasion to express the very sincere hope that you will find it possible to proceed to construct the water systems at Quito and Guayaquil. I, of course, do not suggest the extension of credits except on a sound basis, but from what I am informed it should be possible to work out some plan for constructing these water systems that would permit repayment of the credits.

Within the last few days the Ambassador of Ecuador has presented to the Department a memorandum submitting a specific proposal for the construction of a waterworks at Quito. A copy of this material is enclosed⁹ for your consideration. Other copies have been transmitted directly to the Export-Import Bank.

Sincerely yours,

[File copy not signed]

⁷ For correspondence concerning the interest of the United States in the Galápagos Islands for defense purposes, see pp. 261-269.

⁸ For correspondence concerning this dispute, see vol. VI, pp. 212 ff.

⁹ Not printed.

611.2231/477

*Memorandum of Conversation, by Mr. John F. Melby of the
Division of the American Republics*

[WASHINGTON,] August 5, 1941.

Participants: Vicente Illingworth, Ecuadoran Minister of Finance
The Ambassador of Ecuador
TA ¹⁰—Mr. Smith
RA ¹¹—Mr. Melby

The Minister of Finance explained the desire of his Government either to reach a gentleman's agreement on the trade agreement or, if that weren't possible, to modify the terms of the agreement in order to provide greater revenues for the Government of Ecuador. Customs revenues have been declining during the past two years due to the influence of the war and an increase is now needed in order to provide services and interest on the proposed loan for the Guayaquil and Quito waterworks.

Mr. Smith gave it as his preliminary opinion that some arrangement could be reached which would allow an increase in Ecuadoran revenues without actual modification of the treaty. If further study, however, proves this impossible, he expressed the belief that the Department would be willing to make some suitable modification in conformance with Ecuadoran desires and at the same time preserve the spirit of the agreement.

The Minister explained that Ecuador is denouncing all of its commercial agreements with the exception of the one with the United States and an agreement which is now in process of negotiation with Chile. This fact, he felt, entitles Ecuador to special treatment by the United States which will be in a peculiarly favored position.

Conversations will be continued on the basis of more detailed studies.

611.2231/481

The Department of State to the Ecuadoran Embassy

MEMORANDUM

Reference is made to conversations which have taken place recently in the Department of State regarding the desire of the Government of Ecuador, in the present emergency, to increase customs and other revenues, and the restrictions imposed by the trade agreement between the United States and Ecuador against any increase in customs

¹⁰ Division of Commercial Treaties and Agreements.

¹¹ Division of the American Republics.

duties on products imported from the United States and included in Schedule I of that agreement.

The Government of the United States has given sympathetic consideration to the fiscal problems confronting the Government of Ecuador in the existing economic situation and is prepared to work out an arrangement along the lines of that discussed in the Department of State with the Ecuadoran Minister of Finance.

It is believed that the desire of the Government of Ecuador for greater freedom of action in increasing customs duties can most readily be attained through the termination of those provisions of the trade agreement between the United States and Ecuador which now impede such action. It would of course be necessary at the same time to terminate those provisions of the agreement relating to the customs treatment accorded Ecuadoran products imported into the United States and included in Schedule II of the trade agreement.

A minor point regarding Schedule I involves the note referring to pharmaceutical products which follows Tariff Item 374. It is assumed that the Government of Ecuador would have no objection to the retention of that note in the agreement.

The Government of the United States is of the opinion that a revision of the trade agreement such as would thus be effected, offers an opportunity to bring about a further change relating to Article X, on exchange control. As it is believed that this Article, in the form in which it is drafted, is somewhat too rigid to meet existing conditions, it is believed that it might be eliminated. However, in order that some provisions might be in force between the two countries with respect to exchange control measures, it is proposed that the notes to be exchanged between the Governments of the United States and Ecuador provide in substance for the granting of most-favored-nation treatment with respect to exchange matters.

The changes in the trade agreement set forth above would involve the termination of Articles I, II, III, IV (except in so far as it refers to the note regarding pharmaceutical products following item 374 of Schedule I), VI, VII and X. The remainder of the trade agreement would, of course, remain in full force and effect.

As the Minister of Finance of Ecuador has expressed the desire that the matter under consideration be handled definitively in Quito, it is contemplated that appropriate instructions in the sense of the foregoing will be sent to the American Minister at Quito. From the standpoint of the United States the arrangement set forth above could be handled by means of an exchange of notes between the American Minister at Quito and the Foreign Minister of Ecuador.

WASHINGTON, August 21, 1941.

611.2231/487a

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

No. 663

WASHINGTON, September 24, 1941.

SIR: Reference is made to the Department's instructions nos. 606 and 623 of August 16 and 27, respectively,¹² indicating that a tentative agreement had been reached with the Ecuadoran Minister of Finance to terminate, by means of an exchange of notes, certain provisions of our trade agreement with Ecuador.

There is attached the draft text of a note, in the form for presentation by you to the Ecuadoran Foreign Minister, providing for (1) termination of the pertinent provisions of the agreement and (2) most-favored-nation treatment on a like article basis with regard to exchange control. The latter provision is designed to replace Article X of the trade agreement, which is to be eliminated.

The note to be submitted to you by the Ecuadoran Foreign Minister should be identical, *mutatis mutandis*, with your note to him, except for the third paragraph which would read as follows:

"The Government of Ecuador will be pleased to enter into negotiations with the Government of the United States, at the earliest practicable date, for the renewal or replacement of the above-mentioned provisions of the trade agreement of August 6, 1938."

Before submitting the attached draft for the consideration of the Foreign Minister, you should assure yourself that the Ecuadoran Government desires to proceed with the revision of the trade agreement along the lines worked out in the Department with the Ecuadoran Minister of Finance. Once you are assured of this you may present the draft to the Foreign Minister. You should inquire at the same time whether the executive authority in Ecuador is empowered to bring the provisions of the notes into force without their having previously been submitted to the Congress for action.

Please inform the Department if the foregoing procedure and notes are acceptable to the Ecuadoran Government. Upon receipt of an affirmative reply, the Department will suggest a future date on which the notes may be exchanged and the date to be inserted in the second paragraph of the notes, which date will be such as to allow at least a thirty-day period to elapse between the day of signature and the effective date. Meanwhile, the other necessary documents, including the proclamation by the President, will be prepared here.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

¹² Neither printed.

[Enclosure]

*Draft of Note To Be Presented to the Ecuadoran Minister for
Foreign Affairs (Tobar Donoso)*

EXCELLENCY: I have the honor to refer to recent conversations which have taken place regarding the desire of the Government of Ecuador, in view of the financial emergency with which it is confronted, that certain provisions of the trade agreement between the United States of America and the Republic of Ecuador signed at Quito on August 6, 1938, as amended by notes exchanged at Quito on August 6, 1938, September 9, 1938, and September 13, 1938, be terminated.

I now desire to confirm and make of record by this note the agreement which, as a result of the conversations referred to, has been reached between the Government of the United States of America and the Government of the Republic of Ecuador that the provisions of Articles I, II, III, IV (except in so far as it relates to the Note regarding pharmaceutical products following Item 374 of Schedule I annexed to the Agreement), VI, VII and X of the said Agreement of August 6, 1938, as amended, and Schedules I (except for the Note regarding pharmaceutical products following Item 374) and II annexed thereto, shall cease to have force and effect on and after, 1941.

The Government of the United States has noted with pleasure the willingness of the Government of Ecuador to enter into negotiations at the earliest practicable date for the renewal or replacement of the above-mentioned provisions of the trade agreement of August 6, 1938.

I also desire to confirm that the Government of the United States and the Government of the Republic of Ecuador are in further agreement, as follows:

1. If the Government of either country establishes or maintains any form of control of the means of international payment, it shall accord unconditional most-favored-nation treatment to the commerce of the other country with respect to all aspects of such control.

2. The Government establishing or maintaining such control shall impose no prohibition, restriction or delay on the transfer of payment for any article the growth, produce or manufacture of the other country which is not imposed on the transfer of payment for the like article the growth, produce or manufacture of any third country. With respect to rates of exchange and with respect to taxes or charges on exchange transactions, articles the growth, produce or manufacture of the other country shall be accorded unconditionally treatment no less favorable than that accorded to the like articles the growth, produce or manufacture of any third country. The foregoing provisions shall also extend to the application of such control to payments necessary for or incidental to the importation of articles the

growth, produce or manufacture of the other country. In general, the control shall be administered so as not to influence to the disadvantage of the other country the competitive relationships between articles the growth, produce or manufacture of that country and like articles the growth, produce or manufacture of third countries.

It is further understood that, notwithstanding any of the provisions of paragraphs 1 and 2 above, or of the trade agreement of August 6, 1938, as amended, the Government of each country may adopt such measures as it may deem necessary for the protection of its essential interests in time of war or other national emergency.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

611.2231/490

*The Chief of the Division of Commercial Policy and Agreements
(Hawkins) to the Commercial Attaché in Ecuador (Tewksbury)*

WASHINGTON, November 5, 1941.

DEAR TEWKSBURY: I was glad to receive your letter of October 25¹³ in regard to the Finance Minister's desire to apply higher rates of duty as soon as possible and to remove the commitment in the trade agreement which stands in the way of such action.

As you and Mr. Long have stated, Schedule II would, as a practical matter, have to be terminated if Schedule I were terminated, and at the same time. As to the time between public notice of termination of both schedules and the effective date, we would, I feel sure, agree to whatever the Government of Ecuador might suggest, provided at least 30 days' notice were given.

However, we have not been too happy about the prospect of terminating both schedules. In the case of Schedule II, termination would have an adverse effect on the hat industry in Ecuador and here, and if we should eventually give the concession to Peru, we would give up a considerable part of our limited bargaining power with Ecuador. In the case of Schedule I, our exporters would not only be faced with increased rates (20 percent higher, according to Mr. Illingworth) but would not have definite assurance that the rates would not go back, later on if not immediately, to pre-agreement levels plus 20 percent. This would be so despite Mr. Illingworth's statement that the Government of Ecuador has no intention of restoring the pre-agreement rates and adding the 20 percent to such rates.

I am leaning in the direction of a different approach to the solution of this problem, namely:

¹³ Not printed.

1. The Government of Ecuador would address a note to us stressing the financial emergency now confronting the country as a result of the war; loss of European markets and decline of imports from Europe with consequent diminution of customs revenue which makes up such a large percentage of total national revenue; stating desire to raise all customs duties by 20 percent as an emergency measure, purely fiscal in nature and purpose, deemed necessary in order to safeguard the vital interests of the nation; stating also the intention to remove this emergency surcharge as soon as the wartime emergency has passed; asking whether, in view of the foregoing, this Government would refrain from invoking the pertinent provisions of the trade agreement, which was negotiated in time of peace and which does not specifically provide sufficient flexibility to take care of wartime emergency situations such as that now confronting Ecuador; and winding up with a statement to the effect that the only alternative would appear to be termination of both schedules, an alternative which the Government of Ecuador would naturally regret having to propose.

2. This Government would reply appropriately to the effect that, in all the circumstances, it would not invoke the pertinent provisions of the agreement; perhaps adding something designed to protect goods in transit.

I should like very much to have Mr. Long's reaction, and yours, to this possible alternative approach. Meanwhile, I shall take it up with others in the Department and in the Trade Agreements Committee.

Cordially yours,

HARRY C. HAWKINS

611.2231/490½

The Commercial Attaché in Ecuador (Tewksbury) to the Chief of the Division of Commercial Policy and Agreements (Hawkins)

QUITO, November 26, 1941.

[Received December 8.]

DEAR HAWKINS: This acknowledges your air mail letter of November 5, which for some reason did not reach us until November 18.

I have discussed the contents of your letter with Mr. Long and while we both agree that if possible some solution other than the discarding of Schedules I and II of the Trade Agreement would be desirable, it does not appear that the suggested alternative contained in your letter could be adopted.

The entire proposal involving a change in the Trade Agreement arose from the fact that the Ecuadoran Congress, in the fall of 1940, approved a law providing various new taxes for specific waterworks projects. As you will recall, these taxes involve, among other things, an additional ad valorem tax of 5½ per cent and cus-

toms surcharges, totaling 7 per cent. As you say, Mr. Illingworth estimates that the new taxes represent an increase in the amount of duty to be paid of about 20 per cent.

The law was passed specifically for the purpose of providing funds for waterworks projects throughout the country. Furthermore, the taxes established in the law were allocated for specific individual projects. For instance, the law provided that the revenues of the 5½ per cent ad valorem tax were to be divided as follows:

- ¾ per cent for the water supply for Quito;
- ¾ per cent for the water supply for Guayaquil;
- 4 per cent to be divided equally among the 15 Provinces, not including Pichincha or Guayas.

The 7 per cent customs surcharge was to be divided as follows:

- 2½ per cent for the water supply for Quito;
- 2½ per cent for the water supply for Guayaquil;
- 1 per cent for the water supply for Portoviejo;
- 1 per cent for the water supply for Cuenca.

Various additional provisions are made in the law regarding the application of taxes collected.

In view of the fact that the law is not directly connected with disturbed world conditions, it appears doubtful if the proposal, as outlined in your letter could be used. Since the taxes were imposed for the purpose of obtaining badly needed water supply systems throughout the country, it is very doubtful if there was any intention of making these taxes temporary. To carry out the waterworks projects which are needed will require many years of application of the taxes provided in the measure.

In order to follow some procedure such as you outline, it would apparently be necessary for the President to abrogate the legislative decree, which would unquestionably cause very strenuous opposition. The water situation in both Quito and Guayaquil is very serious and early action is essential. Since July, there have been but few days when water has been available throughout the day in Quito. As illustrative of the seriousness of the situation, the entire city of Quito has been without water, except for a few hours in the middle of the night, for two days and nights during the present week. Such water as was obtainable was the color of strong coffee. If the President, under his emergency powers, should abrogate the waterworks law, even in an effort to save the Trade Agreement, the reaction would doubtless be far more violent than the outcry which arose during this last complete failure.

If you can think of any method by which Ecuador could be authorized to collect the taxes provided in the waterworks law on prod-

ucts listed in Schedule I and still retain both Schedules I and II in force, I am sure that the Minister of Finance, as well as the Foreign Office, would be only too glad to cooperate. The Minister of Finance feels that the inability to collect the waterworks tax on Schedule I products is definitely against the interests of Ecuador, and there is probably no question but that he would ultimately prefer to abrogate the entire Agreement rather than lose these essential added revenues.

We have today sent a telegram (No. 472 of Nov. 26, 11 p. m.¹⁴) at the request of the Minister of Foreign Affairs, suggesting an early exchange of the notes, a draft of which was sent with the Department's instruction no. 663 of September 24, 1941.¹⁵

Very sincerely yours,

HOWARD H. TEWKSBURY

**ADDITIONAL ARTICLE TO THE AGREEMENT OF DECEMBER 12, 1940,
BETWEEN THE UNITED STATES AND ECUADOR RESPECTING A
MILITARY AVIATION MISSION, SIGNED APRIL 30, 1941**

[For text of additional article to the agreement of December 12, 1940, see Department of State Executive Agreement Series No. 207, or 55 Stat. (pt. 2) 1265.]

**ADDITIONAL ARTICLE TO THE AGREEMENT OF DECEMBER 12, 1940,
BETWEEN THE UNITED STATES AND ECUADOR RESPECTING A
NAVAL MISSION, SIGNED APRIL 30, 1941**

[For text of additional article to the agreement of December 12, 1940, see Department of State Executive Agreement Series No. 206, or 55 Stat. (pt. 2) 1263.]

¹⁴ Missing from Department files.

¹⁵ The two approaches to the problem, that indicated in the draft of note (p. 305), and that proposed by Harry C. Hawkins in his communication of November 5 (p. 306) were reconciled in the notes as exchanged on March 2, 1942; see Department of State *Bulletin*, March 7, 1942, pp. 221-222.

EL SALVADOR

DISCUSSIONS REGARDING A LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR¹

816.24/99

The Acting Chief of the Division of the American Republics (Bonsal) to Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles)

[WASHINGTON,] July 14, 1941.

MR. COLLADO: The Minister of El Salvador² spoke to me on July 11 regarding El Salvador's attitude toward the recent Lease Lend proposal for furnishing arms and munitions. I outlined to the Minister to the best of my ability the general conditions involved. He stated that it has always been the policy of the President of El Salvador³ to avoid assuming any foreign indebtedness. He said that in the matter of arms and munitions El Salvador had always bought her requirements for hard cash but that under present conditions very little was being obtained in this manner.

The Minister understands that a quota of \$1,500,000 has been allocated to El Salvador under our Lease Lend arrangement. He would like to have the details of the contract, et cetera. Will you please do the necessary.

PHILIP W. BONSAI

816.24/116

Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles), to the Liaison Officer (Wilson)

[WASHINGTON,] November 17, 1941.

MR. WILSON: I have had a further extensive conversation with Mr. Bustamante, the Under Secretary of Finance of El Salvador, who is here negotiating on military purchases. He stated that he is personally recommending the acceptance of our revised form of basic agree-

¹ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics", vol. VI, pp. 133 ff.

² David Castro.

³ Gen. Maximiliano Hernández Martínez.

ment, a copy of which is attached⁴ for your information. He raised a question which he stated that he had mentioned to you and Mr. Young,⁵ that is, the increase from \$1,550,000 to \$1,640,000 in the total. I discussed this at some length with Mr. Bustamante and others and have reached the conclusion that it would be very desirable for us to request the War Department to agree to these small increases. We have some funds available; the Government of El Salvador has obviously made a very careful analysis of its needs and is proceeding on a very business-like basis, and in a number of other requests we are having favorable business arrangements with Mr. Bustamante. I believe from every point of view it would be helpful if we could accede to this small request. I hope consequently that you will feel it possible to take the matter up at once with the War Department and attempt to get their approval within a few days since Mr. Bustamante must and is anxious to get the approval of his Government before signing the basic agreement.

E. G. COLLADO

816.24/118a

The Secretary of State to the Salvadoran Minister (Castro)

WASHINGTON, December 9, 1941.

SIR: I have the honor to invite your attention to the offer made by the Government of the United States in the interest of hemisphere defense to furnish the Government of El Salvador with armament valued at \$1,640,000. The equipment for this purpose would be provided under the terms of the Lease-Lend Act of March 11, 1941.⁶

The Congress of the United States enacted on October 28, 1941 the Defense Aid Supplemental Appropriation Act.⁷ Of the funds appropriated under this act, \$150,000,000 have been set aside for the acquisition of military and naval equipment by the other American republics.

The budgetary limitations, however, require that the funds in question shall be obligated not later than February 28, 1942. In consequence of this, it would be appreciated if your Legation, provided it has not done so already, would be good enough to present to the appropriate authorities of this Government at the earliest possible

⁴ Not attached to file copy; for text of earlier form of basic agreement, see enclosure to letter of June 28, 1941, from the Under Secretary of State to President Roosevelt, vol. VI, p. 138.

⁵ Presumably Philip Young, Assistant Deputy Administrator of the Office of Lend-Lease Administration.

⁶ 55 Stat. 31.

⁷ 55 Stat. 745.

date the official lists of the desired equipment in order that the necessary action may be taken toward the procurement of this material.

Accept [etc.]

For the Secretary of State:

SUMNER WELLES

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR RESPECTING THE DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE MILITARY SCHOOL AND OF THE MILITARY ACADEMY OF EL SALVADOR, SIGNED MARCH 27, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 214, or 55 Stat. (pt. 2) 1305.]

GUATEMALA

AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA RESPECTING DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF POLYTECHNIC SCHOOL OF GUATEMALA, SIGNED MAY 27, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 208, or 55 Stat. (pt. 2) 1267.]

AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA TO COOPERATE ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE, EFFECTED BY EXCHANGE OF NOTES SIGNED DECEMBER 15 AND 16, 1941¹

810.20 Defense/1804

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

No. 2320

GUATEMALA, December 17, 1941.

[Received December 19.]

SIR: I have the honor to refer to the Department's telegram No. 228 of December 13, 8 p. m.² (which was not received at the Legation until December 14, 6 p. m.) and telegram No. 231 of December 14, 1 p. m.³ (which was not received until December 14, 11:30 p. m.) instructing me to discuss with the Minister for Foreign Affairs⁴ and conclude an agreement with the Guatemalan Government with regard to unconditioned military cooperation and the specific privileges set forth by the Department.

This subject was fully discussed with the Foreign Minister on the forenoon of December 15, at which time I was informed that he would get in touch with the President and call me by telephone. At that time I prepared a memorandum to be given to the President himself by the liaison officer designated by the President to provide immediate informal communication between the President and the Legation. In this way, the President was informed without delay of the Department's desires to obtain this cooperation and the privileges specified.

The action taken by the Legation resulted in telephone calls at 7:30 p. m. from both the Minister for Foreign Affairs and the President's

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 110 ff.

² Vol. vi, p. 56.

³ Not printed.

⁴ Carlos Salazar.

liaison officer to the effect that full approval of the Guatemalan Government with regard to the cooperation and the privileges requested was granted. I immediately prepared telegram No. 247, triple priority, of December 15, 8 p. m.,⁵ in which the Department was informed of the Guatemalan Government's full approval and in which the Department was advised that a copy of the communication which I had left with the Foreign Minister and the official answer, both of which would constitute the exchange of written communications contemplated in the Department's telegram, would be forwarded.

I am now enclosing a copy of my Note No. 222 of December 15, 1941, addressed to the Minister for Foreign Affairs, and a copy of his reply (Note No. 17579), together with a translation thereof, which has just been placed in my hands, wherein the Government expresses its full cooperation and grants the privileges specified in both of the Department's telegrams under reference.

Respectfully yours,

DUDLEY G. DWYRE

[Enclosure 1]

*The American Chargé (Dwyre) to the Guatemalan Minister
for Foreign Affairs (Salazar)*

No. 222

GUATEMALA, December 15, 1941.

EXCELLENCY: The provisions of Resolution XV, which was adopted at the Havana Consultative Meeting,⁶ stipulate that should there be an aggression "all the signatory nations or two or more of them according to circumstances shall proceed to negotiate the necessary complementary agreements so as to organize cooperation for defense and the assistance that they shall lend each other." The events envisaged in that resolution have come to pass, and our two nations are working together with a common objective of defeating the nations who have been the aggressors.

It is desired to begin immediately an unconditioned military cooperation and therefore I am instructed by my Government to approach Your Excellency and to conclude an agreement with Your Excellency's Government with regard to the following privileges:

a. Permission to fly over and land on Guatemalan territory, without restriction as to number or type of plane or personnel and armament carried. There would not be the ordinary notice by means of military or diplomatic channels, but only that required for technical reasons,

⁵ Not printed.

⁶ For correspondence concerning the Second Meeting of the Foreign Ministers of the American Republics, held at Habana July 21-30, 1940, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

probably direct to the airport involved, except in cases of emergency and should it be required by military necessity.

b. The stationing of United States Air Corps detachments made up of 15 technicians (8 privates and 7 non-commissioned officers) each at San José and Guatemala. These will be service detachments for the purpose of facilitating aircraft movement.

c. Permission to photograph the territory of Guatemala as found necessary from a tactical standpoint or thought desirable for air navigation charts' compilation.

d. Permission to make use of airports and their facilities, such as repair shops, radio, telephone, and service installations.

e. Authorization allowing military personnel, armed and uniformed, or otherwise, to circulate without restriction, in connection with sending and receiving necessary communications, servicing aircraft, and sheltering and rationing personnel. Included in this permission would be the use of roads next to airports, and permission to arrange for the rationing and sheltering of personnel (at the expense of the United States Government) as found necessary when flights must make a stopover at any airfield.

f. Permission to station one bombardment squadron of 700 men, including ground troops, and 10 planes, at San José.

The United States Government feels confident that continued full cooperation between the two countries' armed forces will be forthcoming for the achievement of our common aims. Should the Government of Guatemala be prepared to grant the privileges mentioned above, a communication signifying its approval will constitute a formal agreement.

Please accept [etc.]

DUDLEY G. DWYRE

[Enclosure 2—Translation]

The Guatemalan Minister for Foreign Affairs (Salazar) to the American Chargé (Dwyre)

No. 17579

GUATEMALA, December 16, 1941.

MR. CHARGÉ: I have had the honor to receive Your Honor's kind Note No. 222 of the 15th of the present month, in which you are good enough to state that there have come to pass the events envisaged in Resolution XV which was adopted at the Havana Consultative Meeting, which stipulates that should there be an aggression "all the signatory nations or two or more of them according to circumstances shall proceed to negotiate the necessary complementary agreements so as to organize cooperation for defense and the assistance that they shall lend each other."

Guatemala and the United States of America are already working together with the common objective of defeating the aggressor na-

tions and, Your Honor informs me, your worthy Government desires to begin immediately an unconditioned military cooperation, for which purpose you have received instructions to enter into an agreement by which the Government of Guatemala might grant the following privileges:

[Here follows descriptive list of privileges given in note No. 222, *supra*.]

Your Honor states, finally, that your Government feels confident that the continued and full cooperation between the armed forces of the two countries will be forthcoming for the achievement of the aims which animate both nations.

In due reply, it is for me a great pleasure to reiterate to Your Honor, and through you, to the friendly Government of the United States of America, that the Government of the Republic of Guatemala is animated by the same objectives and, through its desire to lend the most effective cooperation for continental defense, in accordance with Resolution XV adopted at the Meeting of Havana, is pleased to grant the privileges which are detailed in your kind note, for the duration of the present emergency.

Therefore, in conformity with the statements which Your Honor was good enough to make in your communication now being answered, the present approval of the Government of Guatemala constitutes a formal agreement to that end.

I avail myself [etc.]

CARLOS SALAZAR

HAITI

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND HAITI, SIGNED SEPTEMBER 16, 1941¹

838.24/106

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] July 31, 1941.

Colonel Bessette, of our Military Mission to Haiti, called this afternoon. I discussed with him the various aspects of the plan to provide Haiti with military equipment according to the recommendations of the Joint Military-Naval Advisory Board. He told me that he had already visited the War and Navy Departments and had told Major Johnston and Captain Spears that there had been prepared, under his advice, a list of military and naval matériel to be furnished Haiti during the fiscal year ending June 30, 1942. He has also familiarized himself with the system of requisitions in order to be of assistance to the Haitian Government.

During the conversation, I referred to the basic agreement and to the position which I assumed Colonel Bessette would take with respect to the Haitian authorities. I informed him that while it appeared quite proper for him to advise the Haitian officials with respect to the procurement of armament, it was necessary for the latter to conduct formal negotiations with the United States Government and sign all necessary documents. Colonel Bessette replied that he was fully aware of this.

He showed me lists of war and naval matériel which he had already compiled. The former consisted principally of small arms, with the requisite ammunition, motor trucks, military clothing, and accouterments. The naval matériel did not include any vessels but instead such articles as buoys, lighthouses, a marine railway, etc. I pointed out to Colonel Bessette that it had been my understanding that the amount allotted Haiti for naval expenditures provided for the acquisition of one or two patrol vessels. He replied that the articles he had listed would be of much more value to hemisphere defense. He intimated that Captain Spears had concurred.

¹ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics," vol. VI, pp. 133 ff.

I gathered that both of these lists would soon be put in final shape at Port-au-Prince and then forwarded to the Haitian Legation for delivery to the Department. After they have been transmitted to the War and Navy Departments, they can be handled expeditiously, as no negotiations or discussions will be necessary.

I took advantage of Colonel Bessette's visit to ask his views on the advisability of sending a Haitian Military Attaché to Washington. He replied that the racial problem would not afford occasion for embarrassment as the Haitians understood the situation sufficiently well. A short time ago, two young Haitian officers had taken extensive military courses at Fort Benning, where Colonel Bessette was stationed. No disagreeable incidents occurred, although Colonel Bessette acknowledged that he had kept a very close watch over these young men. He added that Colonel Levelt of the Haitian Guard would not come to the United States in connection with the procurement of military matériel, as had been intimated by the Haitian Minister.

838.24/111½

*Memorandum by the Acting Chief of the Treaty Division (McClure)
to the Secretary of State*

[WASHINGTON,] September 15, 1941.

The agreement which is to be signed by you and the Minister of Haiti Tuesday, September 16, 1941, at 11:30 a. m., has been negotiated under the authority of and in conformity with the "Act to Promote the Defense of the United States", commonly referred to as the Lend-Lease Act, approved March 11, 1941,² and in conformity with the principles proclaimed in the Declaration of Lima approved at the Eighth International Conference of American States on December 24, 1938.³

Under the agreement the United States agrees, upon certain conditions, to supply defense articles and defense information to Haiti, and Haiti agrees, on similar terms, that whenever it is in a position to do so it will make available to the United States defense articles and defense information which the United States in its own defense or in the defense of the Americas shall require.

The agreement becomes effective when signed and will continue in effect until a date to be agreed upon between the two Governments.

WALLACE McCLURE

² 55 Stat. 31.

³ Declaration of the Principles of the Solidarity of America, known as the "Declaration of Lima," approved December 24, 1938, *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189. For correspondence concerning this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

838.24/9-1641

*Lend-Lease Agreement Between the United States and Haiti, Signed
at Washington, September 16, 1941*

WHEREAS the United States of America and the Republic of Haiti declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938, they, together with all the other American republics, are united in the defense of the Americas and are determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America has determined, pursuant to the Act of the Congress of the United States of America of March 11, 1941, that the defense of each of the American republics is vital to the defense of all of them, and for that reason the United States of America proposes to provide certain defense articles and defense information to the Republic of Haiti; and

WHEREAS the United States of America and the Republic of Haiti are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Haiti have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Haiti under the terms of this Agreement armaments and munitions of war to a total value of about \$1,100,000. The United States of America proposes to begin deliveries immediately and to continue deliveries as expeditiously as practicable during the coming twelve months to an approximate total value of \$250,000 for use by the Garde d'Haiti and an approximate total value of \$50,000 for use by the Navy of the Republic of Haiti.

The United States of America, however, reserves the right at any time to suspend, defer, or stop deliveries whenever in the opinion of the President of the United States of America further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

Thereupon the Republic of Haiti shall pay in dollars into the Treasury of the United States of America the total cost to the United States of America of the defense articles theretofore delivered up to a total of \$60,000, less all payments theretofore made, and the Republic of Haiti shall not be required to pay more than a total of \$10,000 before July 1, 1942, more than a total of \$20,000 before July 1, 1943, more than a total of \$30,000 before July 1, 1944, more than a total of \$40,000 before July 1, 1945, more than a total of \$50,000 before July 1, 1946, or more than a total of \$60,000 before July 1, 1947.

ARTICLE III

The United States of America and the Republic of Haiti, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Haiti hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,^{3a} to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

The Republic of Haiti undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Haiti.

^{3a} For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

ARTICLE V

If, as a result of the transfer to the Republic of Haiti of any defense article or defense information, it is necessary for the Republic of Haiti to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Haiti will do so, when so requested by the President of the United States of America.

ARTICLE VI

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Haiti is in a position to supply, the Republic of Haiti will make such defense articles and defense information available to the United States of America on terms similar to those expressed in this Agreement.

ARTICLE VII

This agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed at Washington in duplicate, in the English and French languages, this sixteenth day of September, 1941.

For the United States of America:

CORDELL HULL

*Secretary of State of the
United States of America*

For the Republic of Haiti:

FERNAND DENNIS

*Envoy Extraordinary and Minister
Plenipotentiary of the Republic
of Haiti at Washington*

AGREEMENT BETWEEN THE UNITED STATES AND HAITI RESPECT-
ING A MILITARY MISSION, SIGNED MAY 23, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 213, or 55 Stat. (pt. 2) 1295.]

FINANCIAL RELATIONS BETWEEN THE UNITED STATES AND HAITI;⁴
 AGREEMENT OF SEPTEMBER 13, 1941

838.51/4136 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, January 27, 1941—11 a. m.

[Received 1:05 p. m.]

10. For Finley.⁵ My letter January 24 regarding reduction in interest rate.⁶

Dana Munro⁷ expressed to me yesterday the opinion that the fiscal agent would be obliged to pay interest up to 6% on the April 1 coupon if he has sufficient funds for that purpose. In these circumstances and since funds have already been remitted for the payment of 4% interest on the April 1 coupon the conclusion of an accord prior to February 1 would appear to be urgent so that the fiscal representative may legally withhold further remittances to the fiscal agent on account of the April 1 coupon.

SPARKS

838.51/4136 : Telegram

The Secretary of State to the Chargé in Haiti (Sparks)

WASHINGTON, January 28, 1941—7 p. m.

24. Your 10, January 27, 11 a. m. and your letter to Finley, January 24.⁸ The Department has not been kept informed in detail by your Legation, the Fiscal Representative, or the Haitian Government, regarding the negotiations which have been proceeding with the Foreign Bondholders Council for the desired reduction in interest rate on Haitian bonds. In particular it has not been informed what further steps may have been taken by the Haitian Government, by the Fiscal Representative, or both, since the Council suggested that it was willing to agree to a reduction from 6 percent to 4½ percent.

The Fiscal Representative is aware that the Department has indicated that it believes a reduction from 6 percent to 4 percent reasonable and that he or the Haitian Government, or both, should carry on the necessary negotiations with the Council. If these have not been pursued, the Department is unable to understand the reason for the delay and suggests that negotiations be continued. Until it is informed that a stalemate has been reached, the Department believes

⁴ Continued from *Foreign Relations*, 1940, vol. v., pp. 878-923.

⁵ Harold D. Finley, Assistant Chief of the Division of the American Republics.

⁶ Not printed.

⁷ Vice president of the Foreign Bondholders Protective Council.

⁸ Latter not printed.

that this is a matter for the Haitian Government and not for the Department. It would seem that with both Lescot⁹ and de la Rue¹⁰ in Haiti at this time, the Legation should be able to obtain full information in the premises.

HULL

838.51/4140 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, January 29, 1941—2 p. m.

[Received 3:35 p. m.]

14. Department's telegram No. 24, January 28, 7 p. m. In a conference this morning with the Minister for Foreign Affairs and Finance,¹¹ the Fiscal Representative and myself, President Vincent declared that while Lescot had reported that an understanding had been reached between him and Francis White¹² the Council has not replied to the request of the Haitian Government for a reduction of 2 percent in the interest rate on the 1922 bonds.

Upon questioning as to the nature of the understanding President Vincent believed that it was for a postponement and not a definitive reduction. President Vincent declared that while he considered a definitive reduction essential he would agree to the postponement affecting the April and October coupons but that he hoped that a committee could be formed immediately for the purpose of considering a definitive reduction. Since he is unable to foresee at this time when the postponed interest might be paid he suggested the immediate conclusion of an accord covering interest payments from October 1, 1940 to December 31, 1941 at the rate of 4 percent—the remaining 2 percent to be made the subject of negotiations with the bondholders.

President Vincent expressed the hope that the Department would be willing to use its good offices with the Council.

SPARKS

838.51/4159

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

[WASHINGTON,] January 30, 1941.

It did not appear quite clear from telegram no. 14 from Port-au-Prince that the Haitian Government was aware of the Department's

⁹ Elie Lescot, Haitian Minister to the United States.

¹⁰ Sydney de la Rue, Fiscal Representative of Haiti.

¹¹ Fernand Dennis.

¹² President of the Foreign Bondholders Protective Council.

point of view respecting the reduction of the interest rate on Haitian bonds as expressed in the Department's telegram no. 24. I telephoned Mr. Sparks at Port-au-Prince who assured me that he had made known the Department's viewpoint to President Vincent, the Minister for Foreign Affairs, and the Fiscal Representative yesterday.

I said that that being the case we could not understand why Mr. de la Rue was not forging ahead with the negotiations with the Bondholders Council. We were still in the dark as to what was going on although we continued to receive requests for the use of our good offices vis-à-vis the Council and in behalf of Haiti. Mr. Sparks agreed that the Department had instructed Mr. de la Rue last August to broach the question of the interest rate on Haitian bonds to Mr. White. He said Mr. de la Rue had done this and had then returned to Haiti. Later, when Mr. de la Rue proposed to come to the United States to discuss this question further with the Bondholders Council, he was informed that the Department desired him to remain in Haiti and that it felt M. Lescot could carry on the negotiations. I judge that thereafter, Mr. de la Rue has washed his hands of the whole question, although he has from time to time invited the attention of the Legation at Port-au-Prince to interest payment due on February 1. It was only yesterday, January 29, that Mr. de la Rue had again been requested by the Haitian Government to resume negotiations with the Council. Mr. Sparks did not know what Mr. de la Rue had done since yesterday, nor whether he had telephoned to Mr. White, or written, or anything. He said he would get in touch with Mr. de la Rue and find out.

I told Mr. Sparks that some of us here felt that it would be better from every point of view if the Haitian Government or Mr. de la Rue could persuade the Bondholders Council not to oppose a reduction in the interest rate rather than have the Department intervene at this time. Mr. Sparks said however that, as always, the Haitian Government depended on us to pull their chestnuts out of the fire, to which I replied that, in my opinion, there is far too much call on the Department for services which could be as well performed by the Haitian Government itself or by Mr. de la Rue.

Mr. Sparks then inquired whether we could not merely instruct Mr. de la Rue not to make the interest payment due February 1. I said that it seemed to me that Mr. de la Rue's duty of making the payment arose from the Accord of 1933¹³ which accord could not be unilaterally altered by us. Mr. Sparks then added that he hoped we might authorize Mr. de la Rue to defer making the interest payment due February 1 until February 15 since he understood that the Fiscal Agents would not consider that a default had occurred until that date.

¹³ Signed August 7, 1933, *Foreign Relations*, 1933, vol. v, p. 755.

I replied that Mr. de la Rue was well aware of his responsibility vis-à-vis the Fiscal Agents and I felt sure that nobody in the Department would feel at this time that they could relieve him of these responsibilities, and that Mr. de la Rue would therefore have to use his own judgment.

Mr. Sparks went on to add that M. Lescot has been ill for the last two days and that he had not therefore been able to get in touch with him to understand more clearly how far Lescot's negotiations with the Bondholders Council had gone. He said, however, that M. Lescot was going to the Senate this morning and that he would try to get in touch with him this afternoon.

He said he would also appeal to Mr. de la Rue to hasten his negotiations with the Council.

HAROLD D. FINLEY

838.51/4142 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, January 30, 1941—7 p. m.
[Received 11:55 p. m.]

17. Referring to my telephone conversation with Mr. Finley, Minister Lescot has been ill and I was unable to talk with him before this afternoon.

With regard to the negotiations with the Foreign Bondholders Protective Council he apparently reached no understanding and was awaiting its reply. In fact he did not communicate to the Council the rejection by the Haitian Government of its offer of postponement of 1½ per cent of the interest limiting his action to informing the Department of State.

While I made clear yesterday to President Vincent and the Foreign Minister the position and attitude of the Department as set forth in its telegram 24, January 28, I reiterated it this afternoon to the Minister for Foreign Affairs. He understands it clearly, he is impressed with the urgency and in my presence he authorized the Fiscal Representative to take over the negotiations. The latter was unable to telephone Mr. White this evening but he has arranged to do so tomorrow morning.

SPARKS

838.51/4148a : Telegram

The Secretary of State to the Chargé in Haiti (Sparks)

WASHINGTON, February 1, 1941—4 p. m.

28. In your discussions with the Haitian Government concerning the proposed reduction in the interest rate on Haitian bonds, the De-

partment assumes that you have already made it clear that this course is not being urged upon the Haitian Government. It is felt that in particular the Haitian Government in making its decision should not entirely overlook the possibility that a partial default in the interest payments, even if it were satisfactory to the Foreign Bondholders Protective Council, might prejudice the practical possibility of opening the discussions, in which it is understood the Haitian Government is interested for the revision of the Accord of 1933.

In bringing these considerations to the attention of President Vincent you may say that it is not the intention of the Department to discourage the Haitian Government from proceeding with its negotiations for such a reduction as it deems necessary in the interest rate, but on the other hand, it feels that the Haitian Government should not overlook the consideration above set forth.

HULL

838.51/4160

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

[WASHINGTON,] February 4, 1941.

Mr. Francis White, President of the Foreign Bondholders Protective Council, telephoned me at 4:45 today to say that at the meeting of the Executive Committee of the Council, it had been decided to approve the proposal of Mr. de la Rue that the interest on Haitian bonds during the present calendar year be paid at the rate of 4 percent rather than at 6 percent. Mr. White said that the Council's action was based on Mr. de la Rue's statement that the Haitian situation had become worse since he had last communicated with the Council, in the sense that the British Government had declined to purchase Haitian cotton and sugar. He inquired whether this was correct and I assured him that it was.

Mr. White said that he was telegraphing Mr. de la Rue of the Council's action today and that he supposed it would be necessary for some sort of an agreement modifying the Accord of 1933 to be concluded between the United States and the Haitian Government. I said that I was not certain of this and that we were looking up the point.

HAROLD D. FINLEY

838.51/4186

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

[WASHINGTON,] February 5, 1941.

MR. WELLES: You may recall that at a meeting held in your office last autumn when the Haitian situation was generally discussed, Mr.

de la Rue was authorized, after some opposition had been expressed, to explore with the Foreign Bondholders Protective Council, Incorporated, the question of the reduction in interest rate on Haitian bonds from 6 percent to 4 percent. Mr. de la Rue broached this matter to the Council and upon his return to Haiti, the further discussions were confided to M. Lescot. M. Lescot did not press the matter with the Council, presumably because he foresaw that a partial default in the interest payments by Haiti would prejudice the possibility of a liberalization of our financial control in Haiti which he hopes to bring about if he becomes president.

There the matter stood until two weeks ago when Mr. de la Rue, basing his predictions on Haitian revenues and expenditures during the first three months of the present fiscal year (October 1–September 30), forecast a prospective deficit at the end of the fiscal year of \$135,000. Basing their action on this small estimated deficit, the Legation at Port-au-Prince and Mr. de la Rue have been pressing hard to bring about the reduction in interest rate on Haitian bonds which, if it becomes effective, will approximately take care of the estimated deficit. We are now informed that the Bondholders Council has approved the proposed reduction. Meanwhile, in our telegram no. 28 of February 1 (annexed ¹⁴), we have put it squarely up to the Haitian Government to decide whether it wishes to proceed with the reduction even if it should prejudice the possibility of a modification of our financial control in that country. President Vincent has as yet come to no decision although we have no doubt that Mr. de la Rue will urge the reduction.

It is possible that the approval of the Foreign Bondholders Protective Council was obtained because they preferred this reduction plus maintenance of our present fiscal control to maintenance of the interest rate plus the possibility that the Department would proceed in due course to liberalize our control in Haiti as it has done in the Dominican Republic.

In case the Haitian Government should choose to proceed with the reduction, the operation will, in all probability, have to be consummated by an accord between the United States and the Haitian Governments modifying the Accord of 1933. This accord would be an executive agreement and would not have to be submitted to the Senate for its consideration. It would, however, be published at once in Haiti and doubtless the fact that this Government assented to the reduction would become public knowledge in this country.

During the recent hearings before the Senate Foreign Relations

¹⁴ *Ante*, p. 325.

Committee on the Dominican Convention,¹⁵ both Senator Vandenberg and Mr. Francis White read into the record the following statements made in 1933 by President Roosevelt with regard to Haitian bonds:¹⁶

"This Government is under an unescapable obligation to carry out the Treaty of 1915,^{16a} and the bondholders are entitled to insist on the terms of the treaty under which they loaned their money."

"This obligation of the United States Government is an obligation not to any bank or particular creditor but to the holders of the bonds who have relied upon the good faith of your Government and my Government to carry out with [*the*] provisions of the existing agreements."

You will recall that the Dominican Convention is still before the Senate Foreign Relations Committee, since it has not yet been reported out of the Subcommittee of which Senator Green is the Chairman.

I should like to raise the query whether the announcement at this time that this Government has consented to a reduction in the interest rate on Haitian bonds might create additional opposition to the Dominican Convention in the Senate. If so, should we not suggest to President Vincent the desirability of postponing, for the time being at least, this reduction in the interest rate. As the situation stands at present, President Vincent is free to choose whether he will or will not make the reduction.

HAROLD D. FINLEY

838.51/4149 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, February 6, 1941—2 a. m.

[Received 3:55 p. m.]

20. In the absence of President Vincent I informed the Minister for Foreign Affairs of the substance of the Department's telegram No. 28, February 1, 4 p. m. and left with him a memorandum (see my despatch No. 1240, February 4¹⁷).

The Minister for Foreign Affairs visited President Vincent and after a full discussion of the Department's views he has just informed me that in view of present adverse economic and fiscal conditions

¹⁵ Convention modifying the Convention of December 27, 1924, providing for the assistance of the United States in the collection and application of the customs revenue, signed at Washington, September 24, 1940; Department of State Treaty Series No. 965, or 55 Stat. (pt. 2) 1104. For correspondence regarding this Convention, see *Foreign Relations*, 1940, vol. v, pp. 792 ff.

¹⁶ See letter from President Roosevelt to the President of Haiti, *ibid.*, 1933, vol. v, p. 767.

^{16a} Department of State Treaty Series No. 623; 39 Stat. 1654.

¹⁷ Not printed.

the Haitian Government finds itself obliged to avail itself of the postponement of 2 percent of the interest on the coupons payable April 1 and October 1 which has been accepted by the Foreign Bondholders' Protective Council. Therefore the Haitian Government desires to conclude a supplementary executive agreement to that effect. Subsequent to the conclusion of this agreement it plans to carry on negotiations with the Council for a definitive reduction in the interest rate.

SPARKS

888.51/4149 : Telegram

The Secretary of State to the Chargé in Haiti (Sparks)

WASHINGTON, February 8, 1941—3 p. m.

35. Legation's 31 [20] of February 6 and your telephone conversation with Finley, February 6, regarding postponement of the payment of one-third the interest on Haitian bonds.

The Department believes that it would be desirable for the Haitian Government to formalize its desire for a postponement in a note addressed to you which would set forth the circumstances, enclose copies of correspondence which has passed between the Haitian Government and the Foreign Bondholders Protective Council, and suggest that the two Governments reach an accord modifying the Accord of 1933 so far as to permit the Fiscal Representative to postpone the remittance to the Fiscal Agents of one-third the interest due on the April 1 and October 1, 1941 coupons.

The Department will telegraph you the text of the proposed accord at an early date.

Since the Department, in the interest of the credit of the Haitian Government, attaches considerable importance to the terms by which the conclusion of this accord is announced to the public, it will also forward you the text of a proposed press release which could be given out simultaneously in Haiti and in this country after the signing of the accord.

Please inform the Minister for Foreign Affairs and Finance to this effect and say that the Department confidently trusts that the Haitian Government will be willing to withhold publicity concerning this postponement until the text and the time of the press release has been mutually agreed upon between the two Governments.

HULL

838.51/4154: Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, February 10, 1941—1 p. m.

[Received 3:10 p. m.]

22. Department's telegram No. 35, February 8, 3 p. m. Does the Department consider the note of the Minister for Foreign Affairs transmitted with my despatch 1245, February 7,¹⁸ sufficient for the purpose of formalizing the request of the Haitian Government for a postponement of the payment of one-third of the interest rate? The correspondence exchanged and the conversations had with the Foreign Bondholders Protective Council on this subject are reported in my despatches 1006, September 13, 1109, November 16, 1228, January 31 and 1246, February 8.¹⁹

The Minister for Foreign Affairs will withhold publicity concerning the postponement until the text and the time of the press release have been mutually agreed upon between the two Governments.

SPARKS

838.51/4154: Telegram

The Secretary of State to the Chargé in Haiti (Sparks)

WASHINGTON, February 12, 1941—8 p. m.

39. Your 22, February 10 and telephone conversation with Finley, February 11. The Department has been informed by the President of the Foreign Bondholders Protective Council of its acceptance of a postponement of the payment of one-third of the interest due on the April and October 1941 coupons.

Upon receipt from the Haitian Government of a note which satisfactorily covers the points specified in the Department's 35, February 8, 3 p. m., you are authorized to enter into the following supplementary executive agreement.

"The undersigned plenipotentiaries, duly authorized by their respective Governments, have agreed upon the following Executive Agreement supplementary to the Agreement Between the United States of America and the Republic of Haiti, signed at Port-au-Prince on August 7, 1933.

Article 1

On and after February 1, 1941 and until and including September 30, 1941, all monies received by or for the Haitian Government shall be deposited in the National Bank of the Republic of Haiti to the credit of the Haitian Government with the exception of the following sums which will be deposited to the credit of the Fiscal Representative: 1. the five per centum of customs revenues foreseen in Article IX of the Accord of August 7, 1933, and 2. the amounts needed to pay

¹⁸ Not printed.¹⁹ None printed.

two-thirds of the sums due and payable on the coupons maturing April 1, 1941 and October 1, 1941 on all outstanding bonds issued under the Loan Contracts of October 6, 1922 and May 26, 1925, which amounts shall be credited to the fiscal representative."

Inform Department by telegram when Accord has been signed.

HULL

838.51/4166 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, February 13, 1941—5 p. m.

[Received 5:35 p. m.]

26. Department's telegram No. 39, February 12, 8 p. m. The supplementary executive agreement was signed this afternoon.

SPARKS

[The supplementary agreement between the United States and Haiti further modifying the agreement of August 7, 1933, for the temporary postponement during 1941 of certain interest payments, signed at Port-au-Prince, February 13, 1941 (text quoted in telegram No. 39, page 330), is printed as Department of State Executive Agreement Series No. 201; also, 55 Stat. (pt. 2) 1223.]

838.51/4167 : Telegram

The Chargé in Haiti (Sparks) to the Secretary of State

PORT-AU-PRINCE, February 15, 1941—11 a. m.

[Received 12:33 p. m.]

28. Legation's telegram No. 26, February 13, 5 p. m. Enabling legislation to put into effect the supplementary executive agreement was enacted and promulgated yesterday.

SPARKS

838.51/4213 : Telegram

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

PORT-AU-PRINCE, April 14, 1941—1 p. m.

[Received 4 p. m.]

67. In case of his election as President "which now seems a certainty" Lescot would like to go to Washington as soon after April 15 as practicable to return May 15. He would like to discuss with Department further economic aid to Haiti and Inter-American defense problems. He indicated that he would like a suggestion to this effect to come from Washington giving as a pretext consideration to President Vincent.

Please instruct.

WHITE

838.51/4213 : Telegram

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

WASHINGTON, April 16, 1941—5 p. m.

83. Your 67, April 14, 1 p. m. Please inform President-elect Lescot that both the President and the Department will be most happy to see him in the course of his visit to Washington prior to his assumption of his new office. It is the Department's belief that an exchange of views on matters of mutual interest would be particularly advantageous at this time.

HULL

838.51/4216a : Telegram

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

WASHINGTON, April 16, 1941—7 p. m.

84. Your letter to the Under Secretary April 5.²⁰ Please inform Lescot confidentially and unofficially that the Department plans at an early date to propose the resumption of negotiations with his Government looking toward a modification of the financial setup in Haiti including the elimination of the office of Fiscal Representative.

HULL

838.51/4217 : Telegram

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

PORT-AU-PRINCE, April 17, 1941—1 p. m.
[Received 4:20 p. m.]

71. Department's telegram no. 84, April 16, 7 p. m. With a view to avoiding any undue anticipation or even misunderstanding as to the scope of the contemplated modifications and since they will not improbably form a part of a general scheme of financial relations between the two countries, I respectfully suggest that the (to Lescot presumably) good news be reserved for communication to him at the Department during the exchange of views envisaged in the Department's telegram 83, April 16, midnight [5 p. m.]

WHITE

838.51/4218 : Telegram

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

PORT-AU-PRINCE, April 21, 1941—9 a. m.
[Received 2:15 p. m.]

75. Your 84, April 16, 7 p. m. Secretary of State for Foreign Affairs yesterday volunteered the information that he proposed to

²⁰ Not printed.

take up now in Washington the question of replacing the Fiscal Representative by the Bank on the basis of the Department's original proposition.²¹

I understand that Lescot proposes to present the problem of Haiti's lack of defense against external aggression. The Garde officers now accompanying him, however, are believed to have been selected largely with a view to maintenance of domestic *status quo* during his absence.

WHITE

838.51 Cooperation Program/2

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

[WASHINGTON,] April 24, 1941.

Participants: President-elect Lescot of Haiti;
 Minister of Foreign Affairs Dennis;
 Mr. Duggan;²²
 Mr. Bonsal;²³
 Mr. Finley;
 Mr. Collado.²⁴

M. Lescot stated that in the first place, he wished to assure the Department of his Government's desire to give the United States unlimited cooperation. He intimated that all of Haiti's forces and facilities were at the disposal of this Government; that any plans which this Government may have in mind in connection with defense would be most carefully considered by his Government and with the greatest sympathy.

Modification of the Financial Setup.

M. Lescot said that his Government was most anxious to have the present fiscal setup in Haiti modified while at the same time giving full guarantees to the bondholders. He said that the National Bank of the Republic of Haiti had been purchased from the National City Bank for the express purpose of having transferred to the bank the functions of the Office of the Fiscal Representative. He hoped that this could now be carried out, adding that he was not very familiar with the technical aspects of the matter. He hoped, however, that it could be accomplished in a way which would not "mortify" his country, and that he hoped we would make some effort to "sugar-coat the pill".

²¹ See *Foreign Relations*, 1936, vol. v, pp. 599 ff.

²² Laurence Duggan, Adviser on Political Relations.

²³ Philip W. Bonsal, Acting Chief of the Division of the American Republics.

²⁴ Emilio G. Collado, of the Division of the American Republics.

Mr. Duggan said it would be satisfactory to this Government to proceed at once to study this matter and that he hoped the Department could present M. Lescot with an outline of a plan for such a reorganization on Saturday morning, April 26. If such an outline proved acceptable in principle, we could then proceed as soon as possible to the conclusion of a formal agreement. In the meanwhile, M. Lescot would be in a position to announce upon his return to Haiti that the two Governments had reached an agreement in principle to a modification which would include the setting up of the functions of the Fiscal Representative's Office under the Bank.

[The remainder of the memorandum deals with economic assistance, tourist traffic, penal colonies, naval visits, the J. G. White contract, resettlement of urban dwellers on farms, totalitarian activities, and the military mission to Haiti.]

838.51/4224

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] April 26, 1941.

Participants: President-elect Lescot of Haiti
Foreign Minister Dennis
Mr. Duggan
Mr. Bonsal
Mr. Finley
Mr. Collado
Mr. Barber
Dr. Bressman, Department of Agriculture²⁵

The discussion was opened by some observations by Messieurs Lescot and Dennis regarding the ten-point memorandum for discussion which was handed them.²⁶ The first point to be questioned was the treatment which would be accorded communal revenues by the National Bank of the Republic of Haiti. It was suggested that the Bank might exercise a certain measure of control over the communal revenues and would also make or supervise the ordinary expenditures of the communes, retaining in the National Treasury, through the Bank, any residue.

M. Lescot in commenting on point 6) stated that it was his belief that any funds that were left over after the interest and amortization were paid on the 1922 loan should be placed at the disposal of the Government (there is no provision in point 6) which would for-

²⁵ Earl N. Bressman, Office of Foreign Agricultural Relations, Department of Agriculture.

²⁶ Annex printed herewith.

bid such a practice). Mr. Duggan suggested that after there had been some time to look over the ten points, a further discussion should be helpful and might be held on Monday, April 28. President-elect Lescot said that at first view the plan looked quite attractive.

In answer to a question by Mr. Finley, M. Dennis said that he thought the plan outlined in point 5) to centralize in the Bank the various fiscal and budgetary functions was a good one. It was agreed that there would be further discussion on Monday regarding the make-up of the official personnel of the Bank.

Dr. Bressman then outlined the results of the study of the rubber mission which had recently returned from Haiti. He said that Haiti was one of two places in the Western Hemisphere in which the Department of Agriculture wished to go forward with its experiments and development of rubber production. This would be a long-term program and Dr. Bressman added that it would be six or seven years before returns would come in; he hoped that 90% of the rubber lands would be developed by the peasants and that other products, such as bananas, cacao and subsistence crops should be developed along with the rubber project.

M. Lescot added that plants capable of producing essential oils or perfumes might be developed. Dr. Bressman replied that these possibilities were being explored. M. Lescot repeated his plans for the National Bank to finance a movement of unemployed from the city to the country and to establish them on self-sufficient small farms. Dr. Bressman replied that while he felt that it was perhaps asking too much of the new agricultural development to be handicapped by attempting to work out its plan with non-agriculturists, he did hope that the rubber development would help both the rural people and the town dwellers. Dr. Bressman added that the return per acre in a good rubber project should range between \$60 to \$100 per year. President-elect Lescot asked Dr. Bressman for a memorandum describing the program that he had in mind and the methods of putting it into effect.

It was agreed to meet again on Monday.

[Annex]

*Memorandum of Points for Discussion Handed to the
President-elect of Haiti (Lescot)*

FOR DISCUSSION

[Here follow points 1-4, which are the same as corresponding numbers in the draft agreed upon April 30, printed on page 341.]

5) The Board of Directors of the National Bank of the Republic of Haiti to control and be responsible for

- (a) The formulation and operation of the budget;
- (b) The operation of the Government's accounting system;
- (c) The collection of customs, internal revenues and communal revenues.

6) During the first ten days of each month, the Board of Directors to transmit to the Representative of the holders of the bonds of 1922 the amount necessary to service the outstanding bonds. The Bank to receive irrevocable orders that no payment for the account of the Haitian Government may be made until the amount necessary to service the debt has been transmitted to the Representative of the Bondholders, and until the salary of the Board of Directors has been paid.

[Here follow points 7-10, which are the same as points 10-13 in the draft agreed upon April 30.]

838.51/4226

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] April 28, 1941.

Participants: President-elect Lescot of Haiti;
Minister of Foreign Affairs Dennis;
Dr. Bressman;
Mr. Fennell;²⁷
Mr. Bonsal;
Mr. Finley;
Mr. Collado;
Mr. Barber.

Mr. Lescot opened the discussion by suggesting that under point five of the bases for discussion it might be possible to work out a detailed system of accounts in the National Bank of the Republic of Haiti for the communes. Each commune would have a special account and its budget and expenditures would thus be subject to a certain amount of supervision by the Bank and by the national government.

President Lescot then went on to the question of payment on the bonds and the expenses of the bank. He suggested that if there were a surplus in any one month over the budget expenditures and one-twelfth of the annual payment for the bonds, the directors of the Bank would decide what portion of the surplus to set aside in order to establish reserves for lean months and what portion to set aside

²⁷T. A. Fennell, Agricultural Adviser to the Haitian Government.

for additional amortization payments. M. Lescot also suggested that the directors of the Bank might fix the global budget and that subsequently transfers could be made by the different departments of the government according to exigencies that might come up. He added that he felt that certain items which had previously been annually budgeted, such as traveling expenses for the president, allowances for the celebration of national holidays, et cetera, might well be omitted from the regular budget and when such expenditures would be needed they could be made from the reserved funds mentioned above.

Comment: Although M. Lescot made a very attractive presentation of this idea, it might be considered as the opening wedge in the breakdown of the regular budget system.

Mr. Collado commented that the question of transfer of accounts within the global budget was a matter of bookkeeping details and appeared to allow for a certain amount of flexibility. He saw no objection to it in principle, nor to the setting up of reserves in good months which should ease the situation when seasonal fluctuations in government revenues appeared.

President Lescot then mentioned the additional \$500,000 which the Haitian government expected would be made available for a continuation of the J. G. White projects. Messrs. Bonsal and Collado pointed out that the directors of the Export-Import Bank had not yet passed on the \$500,000 and while it was hoped that favorable action could be obtained there was nothing definitive to be said on that point today.

M. Lescot then reviewed the question of the construction of tourist hotels and the advantages that would accrue to Haiti in the event of an increased tourist trade. At this juncture he repeated his suggestion that a highway be constructed from Môle St. Nicolas to Cap-Haïtien and that this route, continued to Port-au-Prince and connected with a highway to the Dominican frontier, would permit tourists to make a tour of the island. Mr. Fennell stated that as he understood it, the J. G. White program already had plans for an expenditure of an additional \$250,000 for road building if the additional \$500,000 were made available. Mr. Fennell stated that if the proposed agricultural corporation should develop rubber some additional feeder roads would be needed in the rubber producing areas.

M. Lescot said that he had been reading in the press about defense activities of the United States in other islands of the Caribbean and to him it was "shocking" that apparently the United States was taking no defense measures in the Republic of Haiti. He would like to find out what the defense program of the United States would have in store for his country. Mr. Bonsal replied that this matter was being

studied but that there was nothing to be said about it at the present time beyond the fact that approximately \$200,000 was going to be expended in the improvement of Bowen Field.

Mr. Bonsal suggested that the Department might issue a statement which would cover in principle the following points:

- (a) An agreement to revise the Accord of 1933 and to terminate the Office of the Fiscal Representative;
- (b) An extension of an additional credit by the Export-Import Bank; and
- (c) An agricultural plan emphasizing the optimistic prospects, based on recent surveys, of rubber production.

After MM. Lescot and Dennis left a further brief consultation was held in which it was agreed that Dr. Bressman and Mr. Fennell would prepare the section of the statement which would deal with agricultural plans, and would prepare a more detailed memorandum which could be handed to M. Lescot before he left the country.

Mr. Collado felt that it would be necessary to get Mr. Jesse Jones'²⁸ approval of the statements regarding the agricultural plan as well as the Export-Import Bank credit. Mr. Finley expressed as his opinion, which was concurred in by Mr. Collado, that the matter of the hotel construction and management should be developed further, although they did not see the necessity for some of the road building plans that M. Lescot had proposed. Mr. Barber suggested the possibility that the statement might take the form of a White House press release, or a joint statement issued by Presidents Roosevelt and Lescot.

833.51/4232

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] April 29, 1941.

Participants: President-elect Lescot of Haiti;
Minister of Foreign Affairs Dennis;
Dr. Bressman;
Mr. Fennell;
Mr. Bonsal;
Mr. Finley;
Mr. Collado;
Mr. Barber.

M. Lescot opened the meeting by discussing briefly some of the points in a memorandum, copy of which is attached.²⁹ Mr. Finley

²⁸ Federal Loan Administrator and Secretary of Commerce.

²⁹ Not printed.

observed that there appeared to be a difference between M. Lescot's memorandum and the earlier "Bases of Discussion" regarding the preparation and control of the budget. A general conversation ensued during which President Lescot stated that the Haitian government could not be placed in the position of losing its sovereignty by subjecting itself to a veto over budget matters by the Directors of the National Bank. Mr. Barber pointed out that there did not appear to be any loss of sovereignty, as the Bank was a part of the government of Haiti and the question of arranging the budget would be a matter of cooperation and coordination of efforts of one branch of the government, that is, the Ministry of Finance, and another branch, namely, the National Bank.

Mr. Collado thought that it might be possible to establish an arrangement whereby the chief responsibility for the revenue side of the budget would be placed upon the Bank and the chief responsibility for the expenditure side of the budget would be placed upon the Finance Minister. Of course it would be necessary for the two to agree upon a final project of a law which would go through the usual procedure and would be submitted to the legislature. Mr. Finley referred to the language appearing in Article 13 of the Accord of 1933 as describing the function of the Bank in preparing the estimates for the budget. M. Lescot felt that the language of that article approximated his idea of the new setup closer than the outlined point five of the bases of discussion.

Mr. Bonsal suggested that a substitute for point five (*a*) be found. Mr. Collado left the room to dictate the new formula, copy of which is attached,³⁰ which was then the subject of further discussions. It was suggested that throughout the new formula the phrase "the Minister of Finance" might be substituted for the phrase "Government of Haiti" in order to bear out the thought that an agreement regarding budget matters was being reached within the Haitian government. After a further exchange of views, Mr. Bonsal intimated that details could be arranged later after an agreement had been reached in principle regarding the main point at issue.

M. Dennis thought that it would be preferable to have the Minister of Finance named as the official responsible for the transmission of the funds for the service of the bonds rather than the Board of Directors of the National Bank. This change would be made, for example, in point six of the "Bases for Discussion".

After considerable further discussion it was agreed that :

1. The Bank would estimate the global expenditures, the expenditures for each department and the revenues.
2. The salaries of the Haitian members of the Board of Directors

³⁰ Not printed.

of the Bank would be fixed by the Haitian government and the salaries of the American members would be arranged by an accord between the two governments.

3. The government of Haiti would pay the full 6% interest on its bonds next year.

M. Lescot had no further objection to any of the other points of "Bases of Discussion".

Mr. Collado pointed out that it was expected that the American members of the board of directors of the Bank would also perform other functions, such as manager of the commercial division, and that each American director would be a full time official of the Bank.

Mr. Finley passed around copies of the draft of a press release which would summarize the agreement in principle which had been reached regarding the National Bank, the abolition of the Office of the Fiscal Representative, et cetera. A few minor changes in phraseology were suggested, but no final decision was taken as to when the press statement would be issued.

Mr. Collado then explained that the officials of the Export-Import Bank, and specifically Secretary of Commerce Jones, were currently studying the proposed Export-Import Bank credit and that he hoped a decision would be reached in order to inform President-elect Lescot when he returned to the Department tomorrow morning. Another press release would be prepared on this subject giving in general outline (if the Bank approves) the agricultural development plan prepared by Messrs. Bressman and Fennell and additional extension of credits for the J. G. White program. It was agreed to meet again on Wednesday morning.

838.51/4240

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] April 30, 1941.

Participants: President-elect Lescot of Haiti;
Minister of Foreign Affairs Dennis;
Dr. Bressman;
Mr. Fennell;
Mr. Bonsal;
Mr. Finley;
Mr. Collado;
Mr. Barber.

Incorporating the changes agreed upon as the result of yesterday's meeting, Mr. Finley presented a new draft 4 of the "Bases for Discussion" which was then briefly discussed and agreed upon.

M. Lescot inquired if the press release had been prepared and Mr. Finley submitted a press statement covering the agreement in principle regarding a revision of the Accord of 1933. MM. Lescot and Dennis agreed that it would be highly desirable to issue the press statement simultaneously in Washington and Port-au-Prince.³¹ It was decided to make the release available for the morning newspapers of May 6. It was further agreed that the "Bases of Discussion" was not to be released to the public.

A second press statement regarding the extension of credits by the Export-Import Bank and the cooperative plan for agricultural development was also briefly reviewed and agreed upon.

President-elect Lescot then proceeded to the Under Secretary's office, where the (draft 4) "Bases of Discussion" was initialed.

838.51/4239

*Bases of Discussion Agreed Upon by the President-elect of Haiti
(Lescot) and the Under Secretary of State (Welles)*

[WASHINGTON,] April 30, 1941.

DRAFT No. 4

- 1) The Executive Agreement of August 7, 1933 to be supplanted by a new agreement.
- 2) The Office of Fiscal Representative and Deputy Fiscal Representative to be abolished.
- 3) The National Bank of the Republic of Haiti to be the Sole Depository of Haitian government funds.
- 4) The National Bank of the Republic of Haiti to be under the control of a Board of Directors organized as follows:

<i>Haitian</i>	<i>American</i>
The Minister of Finance;	An official to represent the
An agriculturalist;	holders of the bonds of
A businessman;	1922;
A lawyer.	An economist;
	A commercial banker.

The Minister of Finance and the Representative of the Bondholders to be Co-Presidents of the Board of Directors. Decision of the Board of Directors to require 5 assenting votes in which the two Co-Presidents may vote.

In the absence of the Representative of the Bondholders, the American commercial banker to be the Acting Representative.

³¹ For texts of press releases, see Department of State *Bulletin*, May 10, 1941, pp. 567-568.

Appointments of the Haitian members of the Board of Directors to be made by the President of Haiti; of the American members by mutual agreement between the two Governments.

Vacancies in the Board of Directors to be filled in the same manner as the original appointments.

5) The Haitian budget of income and expenditure to be formulated for presentation to the Legislature of the Republic cooperatively between the Government and the Bank as follows:

(a) The Government of the Republic to estimate in detail the expenditures envisaged for each of the various ministries, including the Garde d'Haiti, within the limits suggested by the Board of Directors of the National Bank.

(b) The Board of Directors of the National Bank to estimate the revenues, estimate the global expenditures which can be envisaged with the ways and means available, suggest limits within which the various ministries, including the Garde d'Haiti, should operate, and fix the expenditures necessary for the operation of the Bank and its services.

6) The Board of Directors of the National Bank to control and be responsible for:

(a) The carrying out of the Haitian budget formulated as in (5) above in accordance with existing budgetary laws to remain in effect except as they must be modified to conform to this agreement.

(b) The operation of the Government's accounting and disbursing systems including the preaudit.

(c) The collection of customs and internal revenues.

(d) A new system to be devised for the handling of communal revenues, including the following:

(1) Collection by internal revenue service;

(2) Disbursements by the National Bank of the Republic of Haiti.

(3) Communal budgets to be drawn up and approved by the Government of the Republic of Haiti in mutual agreement with the National Bank of the Republic of Haiti.

(4) Municipal services of the communes in so far as possible to be paid from communal revenues.

(5) A separate non-fiscalized account to be kept for each commune in the National Bank of the Republic of Haiti.

7) During the first ten days of each month, the Minister of Finance to transmit to the Representative of the holders of the bonds of 1922 the amount necessary to service the outstanding bonds. The Bank to receive irrevocable orders that no payment for the account of the Haitian Government may be made until the amount necessary to service the debt has been transmitted to the Representative of the Bondholders, and until the salary of the Board of Directors has been paid. After the setting aside of reserves considered necessary by the Board

of Directors of the National Bank of the Republic of Haiti, surplus funds to be held at the disposal of the Government of Haiti for any necessary public expense.

8) Additional amortization to be paid in accordance with Article VII of the bond contract of 1922.

9) The salaries to be paid to the members of the Board of Directors of the National Bank of the Republic of Haiti to be mutually agreed upon between the two Governments.

10) The property of the Fiscal Representative's Office to become the property of the National Bank of the Republic of Haiti when the agreement enters into effect.

11) Necessary legislation to be passed by the Haitian Government.

12) Controversies arising out of the agreement to be settled through diplomatic channels if possible; if not so settled, the procedure stipulated in the Inter-American Arbitration Convention signed at Washington on January 5, 1929³² to be invoked, notwithstanding the provisions of Article IIa thereof.

12) [13)] The agreement to become effective on the first day of any month mutually agreed upon by the two Governments.

E[LIE] L[ESCOT]

S[UMNER] W[ELLES]

838.51/4257

Memorandum of Conversation, by Mr. Willard F. Barber of the Division of the American Republics

[WASHINGTON,] May 23, 1941.

Participants: Mr. Francis White of the Foreign Bondholders' Protective Council, Incorporated;

Mr. Duggan;

Mr. Bursley;

Mr. Finley;

Mr. Collado;

Mr. Barber.

At Mr. Duggan's request Mr. Finley outlined the points which had been discussed in the Department with President-elect Lescot and Foreign Minister Dennis during their recent conversations in Washington. During and following this explanation Mr. White asked the following questions:

1. Would the Board of Directors of the Bank have control over customs?

2. Would all decisions of the Board of Directors be by vote of five members?

³² *Foreign Relations*, 1929, vol. I, p. 659.

3. Would the Accord of 1933 be changed by an executive agreement or by a treaty?
4. Would the appointment of the Board of Directors be by joint accord of the two Governments?
5. Who would be the personnel of the Board of Directors and who would be the Co-Presidents of the Bank?
6. Would the new accord lapse with the retirement of the bonds?

Mr. White was informed that the Board of Directors would exercise supervision over customs matters and that decisions of the Board would be taken with the approval of five members. He was also told that it was not yet known whether the new agreement would have to take the form of a treaty. It was also stated that the appointment of the American members of the Board of Directors was to be by the joint accord of the two Governments. Mr. Duggan was certain that there would be no difficulty in reaching agreement on the designation of the American members. Regarding the personnel of the Directorate, several names were mentioned but it was stated that no definite arrangements had yet been made. It was also expected that the new agreement would terminate upon the retirement of the bonds.

Mr. Finley also pointed out that under the new plan, it was felt that there would be a more efficient handling of communal budgets which would be under the supervision of the Bank, and that in this way as well as in the expected impetus to Haiti's economy arising out of the new agricultural plan, it was felt that the bondholders' prospects were favorable. Mr. White said that his chief request, which if accepted would bring about the approval of the Bondholders' Council, would be a provision to the effect that if the new system broke down and interest payments to the bondholders were not made, that there should be a reversion to the *status quo ante*. Mr. Barber inquired if Mr. White meant by this a reestablishment of the Office of the Fiscal Representative. Mr. White replied in the affirmative. Mr. Collado inquired if Mr. White had in mind a reversion to the previous system in case (a) the administration of the new plan were ineffective, or if (b) the general economic situation or the Haitian fiscal situation did not permit bond payments to be met. Mr. White intimated that he was really aiming at point (a).

Mr. White also raised the question, although he apparently considered it as of secondary importance, as to whether or not bonds now held by the Haitian Government could be disposed of in order to make up for the amortization payments which had not been made in the last two or three years. He also expressed the hope that means would soon be found to restore the amortization payments.

In conclusion Mr. Duggan and Mr. Collado said that careful consideration would be given to Mr. White's suggestion. It was

thought that with President Lescot just being inaugurated and as the new Haitian Minister had not yet arrived in Washington a month's time might elapse before serious conversations would again be held.

838.51/4252 : Telegram

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

PORT-AU-PRINCE, June 2, 1941—noon.

[Received 2:11 p. m.]

107. The President and the Minister for Foreign Affairs^{32a} have both expressed the desire that in order to accelerate the conclusion of the agreement regarding new fiscal arrangements the negotiations should be carried on here the more so as the date of departure of Dennis to the United States^{32b} may be delayed.

Please cable how soon the Department will be ready to continue negotiations and whether the above Haitian suggestion is agreeable.

WHITE

838.51/4252 : Telegram

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

WASHINGTON, June 10, 1941—9 p. m.

127. Your 107, June 2. You may inform the President and the Foreign Minister that the suggestion for the continuation of negotiations at Port-au-Prince is agreeable to this Government.

For your own information: While the Department is desirous of continuing the negotiations at an early date, as a matter of procedure the Department will wish to prepare a draft agreement based on the memorandum agreed to at the time of Lescot's visit to Washington, which would be submitted to the Haitians only after your observations, and those of other interested parties, have been received and considered. Accordingly, the precise date on which discussions are to begin cannot be fixed with certainty at the present time although the Department is giving the matter current attention with a view to proceeding promptly.

HULL

^{32a} Charles Fombrun became Minister for Foreign Affairs on May 15, 1941.

^{32b} Fernand Dennis, former Minister for Foreign Affairs, had been named Minister to the United States.

838.51/4252

The Acting Secretary of State to the Minister in Haiti (White)

No. 125

WASHINGTON, July 19, 1941.

SIR: Reference is made to the Department's telegram no. 127 of June 10, 1941, and previous correspondence regarding the agreement which was reached in principle on April 30, 1941 for a revision of the Accord of August 7, 1933. Subject to the preliminary steps hereinafter mentioned, the Department stands ready to conclude an executive agreement with the Government of Haiti along the lines of that agreement in principle.

There are enclosed for your information and consideration three copies of a draft of a new executive agreement styled "Draft D, July 7, 1941".³³ You are requested to transmit to the Department by air mail as soon as practicable your views on the provisions of this draft agreement together with those of Mr. Williams of the National Bank of the Republic of Haiti. As the enclosed draft does not have the approval of this Department for submission to the Haitian Government for negotiation, you will please make it clear to Mr. Williams that the document is shown to him in strict confidence and its contents should not be divulged to anyone.

You will note that in Articles II and III it is provided that the Haitian Government will enact and maintain legislation and executive and administrative regulations necessary to put the provisions of the new agreement into force. You are requested to submit a statement regarding such legislation and regulations as may, in your opinion and that of Mr. Williams, be appropriate for this purpose. In this connection will you please recommend those measures which you believe to be necessary to be enacted before the signing of the executive agreement, and those which should be enacted simultaneously with or subsequent to the signing of the agreement. However at the present time it is not desired to bring this, or any other aspect of the proposed agreement to the attention of the Haitian Government.

In the enclosed draft additions have been introduced into the "Bases of Discussion" of April 30 in order to clarify certain points, notably the statement in Article VII that the bonds of the 1922 loan constitute an irrevocable first lien upon all Haitian Government revenues, and that until the amortization of the bonds has been completed the public debt of the Republic of Haiti shall not be increased except by previous agreement between the Governments of the United States and Haiti. It is felt that this article should be satisfactory to the Haitian Government in lieu of the several provisions of the accord of August

³³ Not printed.

7, 1933 which tend to limit the freedom of action of the Haitian Government in this regard.

The stipulation in Article VIII to the effect that there shall be applied to the sinking fund for the redemption of bonds for the 1922 loan, 10% of Haitian Government revenues in excess of \$7,000,000 is for the purpose of increasing the benefits to the bond holders in the event of improved revenues by the Haitian Government. The benefits which would obviously accrue to the Haitian Government as the amortization payments are increased and the life of the loan is reduced, do not require comment.

The Department is of the opinion that it will not be necessary or desirable to mention in the proposed executive agreement the notes held by the Export-Import Bank of Washington. The guarantee made by the Haitian Government in connection with the notes issued for the J. G. White Engineering Company's credit, as well as the guarantee by the Haitian Government of the notes which are expected to be issued by the proposed Haitian-American Agricultural Development Corporation constitute a positive pledge of the Haitian Government in respect to such credits.

It is felt that such questions as the amount of Directors' fees, the names of the members of the Board of Directors and other details of the organization and administration of the National Bank of the Republic of Haiti may appropriately be agreed upon by separate exchanges of notes. Any further observations which you may care to make on these questions in addition to those made in your despatches 115 and 132 of May 20 and 29, 1941,³⁴ respectively, will be given full consideration by the Department.

As the Haitian fiscal year closes on September 30 it is hoped that the preparation of the proposed agreement will be expedited in order that it may be presented to the Haitian Government and be put into effect, and that the Office of the Fiscal Representative be terminated by that date.

Very truly yours,

SUMNER WELLES

838.51/4295a

*The Under Secretary of State (Welles) to the Minister in Haiti
(White)*

No. 161

WASHINGTON, August 16, 1941.

SIR: Reference is made to your despatch no. 263 of July 23, 1941³⁵ and to other correspondence exchanged between your Legation and the Department on the new financial relations between Haiti and the

³⁴ Neither printed.

³⁵ Not printed.

United States. There are now enclosed (1) the final draft of the Agreement between Haiti and the United States to replace the Accord of August 7, 1933, and (2) copies of the proposed exchange of notes relating to the members of the Board of the National Bank of the Republic of Haiti and their compensation.⁸⁶

The terms of the Agreement and of the notes have received the concurrence of the Haitian Minister of Finance, M. Abel Lacroix, and the Haitian Minister to the United States, M. Fernand Dennis. The discussions conducted by the Department with these officials have been most amicable and satisfactory.

The Department requests you to report by telegraph your comments as to the proper rate of compensation for the voting members of the Board of Directors of the reorganized National Bank.

The Department will, as soon as a decision is made, telegraph to you the names of the three proposed American members of the Board. However, it is not anticipated that a decision in this respect will be taken before August 18.

Upon agreement with the Haitian Government on these two matters, and after you have compared the French text, prepared by the Haitian Government, with the English, and are satisfied with the accuracy of the translation, you are authorized, in behalf of this Government, to sign the Agreement, drawn up in both languages, and to exchange the notes in question.

This instruction may be exhibited to the Haitian Foreign Minister as your full powers.

You will please give the Department proper advance notice with regard to the ceremony of the signing and of the publicity which will be given it.

The Department looks forward to a very satisfactory relationship between the Governments of Haiti and the United States under the terms of the new Agreement.

Yours very truly,

SUMNER WELLES

838.51/4305 : Telegram

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

PORT-AU-PRINCE, September 2, 1941—5 p. m.

[Received 5 : 35 p. m.]

161. Haitian Government has decided to pay one-third interest coupons deferred April 1st and full payment coupons due October 1st.

Whenever you obtain the formal notice I respectfully suggest that you assist Haitian Government to obtain proper publicity.

WHITE

⁸⁶ None printed.

838.51/4317 : Telegram

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

PORT-AU-PRINCE [undated].

[Received September 13, 1941—12: 13 p. m.]

Bank Accord signed.

WHITE

[For text of agreement between the United States and Haiti to replace the agreement of August 7, 1933, signed at Port-au-Prince September 13, 1941, and the exchange of notes, see Department of State Executive Agreement Series No. 220, or 55 Stat. (pt. 2) 1348.]

838.51/4322

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

No. 198

WASHINGTON, September 20, 1941.

SIR: Reference is made to your despatch no. 397 of September 15, 1941 transmitting a copy of a note dated September 13³⁷ from the Haitian Foreign Minister requesting an extension of the moratorium on the sinking fund payments for Haiti's dollar bonds.

An officer of the Department has been orally informed by the President of the Foreign Bondholders Protective Council that it is expected that at the next meeting of the Executive Committee of the Council favorable action will be taken by that body regarding the Haitian Government's request. A copy of a memorandum of a telephone conversation held on September 18 on this point is enclosed for your further information.³⁸

You are requested to acknowledge the receipt of Minister Fombrun's note of September 13, and to state that you are authorized, and authorization is hereby given you, to sign an Executive Agreement extending for one year the moratorium on the payment of amortization charges that was agreed to and signed at Port-au-Prince on September 27, 1940.³⁹ However, you should make it clear to the appropriate officials of the Haitian Government that the new Agreement which you are authorized to sign is to supplement Article VI of the Haitian-American Executive Agreement of September 13, 1941, and that it should be stipulated that a token amortization payment of 100,000 gourdes will be made in the coming fiscal year.

Very truly yours,

For the Secretary of State:

A. A. BERLE, JR.

³⁷ Neither printed.³⁸ Not printed.³⁹ Supplementary agreement modifying the agreement of August 7, 1933, regarding Haitian finances. For text, see Executive Agreement Series No. 183, or 54 Stat. (pt. 2) 2411. See also *Foreign Relations*, 1940, vol. v, pp. 923 ff.

838.51/4352 : Telegram

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

PORT-AU-PRINCE, September 30, 1941—5 p. m.

[Received October 1—9:58 a. m.]

185. Your instruction number 198, September 20. Amortization Moratorium Agreement signed today.

WHITE

[For the text of Supplementary Financial Agreement between the United States and Haiti, signed at Port-au-Prince, September 30, 1941, see Executive Agreement Series No. 224, or 55 Stat. (pt. 2) 1385.]

838.51/4356 : Telegram

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

PORT-AU-PRINCE, October 1, 1941.

[Received 3:08 p. m.]

186. Executive agreement of September 13, 1941 to replace the accord of August 7, 1933 is due to enter into force today at 4 p. m.

WHITE

ATTITUDE OF THE UNITED STATES WITH RESPECT TO PROPOSED CONVENTION BY WHICH HAITI WOULD GIVE PREFERENTIAL CUSTOMS TREATMENT TO IMPORTS FROM THE DOMINICAN REPUBLIC

638.3931/5

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

No. 224

WASHINGTON, October 7, 1941.

SIR: Reference is made to the Legation's despatches nos. 340, 347, 349 and 373 of August 25, 27 and 28, and September 5, 1941, respectively, and to the Department's telegram of September 10,⁴⁰ with regard to a proposed commercial convention between Haiti and the Dominican Republic.

After reviewing the unofficial text of the proposed convention as reported by the Legation, it is the opinion of the Department that it contains no provisions which would specifically prevent the Government of Haiti from fulfilling its obligations to the United States under the most-favored-nation clause of the trade agreement with this country.

⁴⁰ None printed.

However, it is noted from the despatches under reference that certain statements were made to you by the Minister of Foreign Affairs of Haiti, and by the Minister of Foreign Affairs of the Dominican Republic, implying that the proposed convention was being negotiated in accordance with a contractual formula for preferential customs treatment to contiguous countries recommended by the Inter-American Financial and Economic Advisory Committee. This formula, which was recommended by the Advisory Committee on September 18, 1941, provides in substance that any tariff preferences between contiguous countries must be made effective through trade agreements embodying tariff reductions or exemptions; that the parties to such agreements must reserve the right to reduce or eliminate the customs duties on like imports from other countries; and that any such regional tariff preferences should not be allowed to stand in the way of any broad program of economic reconstruction involving the reduction of tariffs and the scaling down or elimination of tariff and other trade preferences, with a view to the fullest possible development of international trade on a multilateral unconditional most-favored-nation basis.

The statements made to you by the two Foreign Ministers lead the Department to believe that the Haitian Government has misunderstood the nature and significance of the formula outlined above and may therefore intend to withhold from imports of similar products originating in the United States the tariff reductions to be accorded by Haiti under the proposed convention to certain imports from the Dominican Republic.

If you learn upon inquiry that such is the intention of the Haitian Government, you are requested to bring to the attention of the Haitian Foreign Minister the following points:

(1) In the opinion of the Government of the United States, the contractual formula for tariff preferences between contiguous countries recommended by the Inter-American Financial and Economic Advisory Committee does not automatically qualify the most-favored-nation provisions of existing treaties or agreements between the United States and any of the other American republics.

(2) Therefore, the Government of the United States would expect that any other American republic with which it has reciprocal most-favored-nation obligations would consult with the Government of the United States before undertaking to extend preferential tariff treatment to any articles imported from a contiguous country.

(3) In view of the foregoing, and of the provisions of paragraph (1) of Article VII of the trade agreement between Haiti and the United States⁴¹ providing for reciprocal unconditional most-favored-

⁴¹ Signed March 28, 1935; for text, see Department of State Executive Agreement Series No. 78, or 49 Stat. (pt. 2) 3737. For correspondence regarding the negotiation of the agreement, see *Foreign Relations*, 1935, vol. iv, pp. 642 ff.

nation treatment, the Government of the United States would expect that Haiti would consult with it before undertaking to extend preferential tariff treatment to any article imported from the Dominican Republic.

(4) The Government of the United States would, however, give earnest consideration to such proposals as the Haitian Government might wish to make, with reference to the most-favored-nation obligations in the trade agreement with the United States, in regard to the tariff preferences it may desire to grant on certain articles imported from the Dominican Republic.

The following background information may be helpful to you in discussing this matter with the Haitian Foreign Minister. The desirability of avoiding any publicity whatever concerning this information should be pointed out, particularly in view of the fact that the formula is an outgrowth of our trade-agreement negotiations with Argentina,⁴² not yet concluded.

During the exploratory discussions prior to the public announcement of intention to negotiate a trade agreement with Argentina of May 13, 1941, the Argentine Government requested that preferential tariff treatment accorded by it to contiguous countries be exempted from the scope of the most-favored-nation clause, and in support of its request called to the attention of this Government Resolution LXXX of the Seventh International Conference of American States at Montevideo, approved December 24, 1933.⁴³

Although extremely reluctant to agree to relax in any way the application of the unconditional most-favored-nation principle, this Government indicated that, in the light of its approval of Resolution LXXX, it would accede, under certain conditions, to the Argentine request. Agreement was finally reached to effect an exchange of notes simultaneously with the conclusion of the trade agreement, providing that if, pursuant to Resolution LXXX, the Inter-American Financial and Economic Advisory Committee should recommend a contractual formula for preferences to contiguous countries identical with the one submitted to that Committee on July 31, 1941 jointly by the Governments of Argentina and Brazil, the Government of the United States would not invoke the provisions of Article I (unconditional most-favored-nation treatment) of the proposed trade agreement between the United States and Argentina for the purpose of obtaining the benefit of tariff preferences conforming to the contractual formula which Argentina might accord to a contiguous country.

⁴² For correspondence regarding the negotiation of the reciprocal trade agreement between the United States and Argentina, see vol. vi.

⁴³ For text of Resolution, see Department of State Conference Series No. 19: *Report of the Delegates of the United States of America to the Seventh International Conference of American States, Montevideo, Uruguay, December 3-26, 1933* (Washington, 1934), p. 275; for correspondence concerning this Conference, see *Foreign Relations, 1933*, vol. iv, pp. 1 ff.

However, this agreement on the part of the United States was conditional upon the inclusion in a Final Minute of the negotiations assurances by the Argentine Government that, prior to according any such preference with respect to any product of interest to the United States, it would in practice afford the Government of the United States adequate opportunity for consultation. Furthermore, in the draft exchange of notes the understanding was recorded "that if any such preference should be extended by Argentina to any noncontiguous country it would be extended immediately and unconditionally to the United States."

You are requested to continue to keep the Department currently informed with respect to any conversations in regard to this matter which you may have with officials of the Haitian Government and, in general, with respect to any other developments that may take place in connection with the proposed convention.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

638.3981/13

The Chargé in Haiti (Sparks) to the Secretary of State

No. 479

PORT-AU-PRINCE, October 21, 1941.
[Received October 24.]

SIR: With reference to the Department's instruction no. 224 of October 7, 1941, concerning the Commercial Convention signed between Haiti and the Dominican Republic at Port-au-Prince on August 26, 1941,⁴⁴ I have the honor to report that an opportunity was afforded me yesterday afternoon in a conversation with President Lescot to inquire as to the present status of the convention. The President replied that nothing further had developed but that he intended to send officially to the Legation a copy of the Convention for the comment of the American Government. He explained that he had no direct interest in the consummation of the agreement but that the Dominicans desired it and were pressing him for action. I inquired if it had been his thought that the advantages granted to the Dominican Republic as a contiguous country would be withheld from like products originating in the United States. President Lescot replied that it had been his understanding that this was the purpose of the Resolution at the Montevideo Conference, as amplified at later meetings, particularly those of the Inter-American Financial and Economic Advisory Committee. I informed President Lescot that I would furnish the Minister for Foreign Affairs with information on this aspect of the question. However, it occurred to me that the

⁴⁴ *British and Foreign State Papers*, vol. CXLIV, p. 754.

more serious aspect, as concerned Haiti, was whether or not it was in a position to relinquish approximately 1,000,000 gourdes per annum of its customs receipts.

In a conversation this morning with the Minister for Foreign Affairs relative to the reported closing of the Honorary Danish Consulate at Gonaïves, I took the opportunity to refer to the Commercial Convention between the Republic of Haiti and the Dominican Republic. Minister Fombrun stated categorically that when the Convention had been signed he had made it clear to the Dominican negotiators that it was an *ad referendum* agreement—namely that before it could be ratified by Haiti it would be necessary to obtain the approval of the Haitian Congress and to consult with the Government of the United States with regard to its effects upon Haitian finances. He showed to me a note which he addressed on this subject to the Haitian Minister in Port-au-Prince in the first days of September confirming this understanding. He added that in these circumstances the Haitian Government has treated the Convention as a secret agreement and has given it no publicity, and that the consultations to date have been purely informal (*officieux*) and not official. He will, however, submit the Convention officially to the National Bank for approval. It will be of interest to the Department that Minister Fombrun recognized the necessity of obtaining the approval of the National Bank before ratification could be made.

I also inquired of Minister Fombrun whether it was his intention to withhold from imports of similar products originating in the United States the tariff reductions to be accorded by Haiti under the Convention to certain imports from the Dominican Republic. Minister Fombrun also referred to the Resolution at the Montevideo Conference and to subsequent resolutions and actions the intention of which appeared to him to warrant some relaxation in the application of the unconditional most-favored-nation clause as concerns the interchange of products between contiguous countries. I pointed out to him that it was the opinion of my Government that the contractual formula for tariff preferences between contiguous countries recommended by the Inter-American Financial and Economic Advisory Committee does not automatically qualify the most-favored-nation provision in the Trade Agreement between the United States and Haiti and, therefore, my Government would expect compliance with the existing trade arrangements between our two countries. I added that it was my understanding, however, that there had been a departure in the recent agreement concluded between the United States and Argentina with respect to the strict application of the unconditional most-favored-nation clause in the trade arrangements

between Argentina and contiguous countries. In these circumstances, my Government would expect that Haiti would consult with it before undertaking to extend preferential tariff treatment to any articles imported from the Dominican Republic, and it would be prepared to give earnest consideration to such proposals as the Haitian Government might wish to make. I agreed to furnish the Foreign Minister with a memorandum on this subject which I will do tomorrow, a copy of which is enclosed herewith.⁴⁵

I then informed Minister Fombrun that while my Government would be prepared to give earnest consideration to such proposals as the Haitian Government might wish to make with reference to the unconditional most-favored-nation obligations in the Haitian-American Trade Agreement, it seemed to me that the possible effects upon Haitian revenues of the Commercial Convention between Haiti and the Dominican Republic merited a serious and detailed study. I recalled that the preliminary study made by Mr. Pixley⁴⁶ had revealed that the operation of the Commercial Convention would involve a diminution in Haitian customs revenues of slightly more than 1,000,000 gourdes. I added that if the American Government consented to the modification of the rights granted by the unconditional most-favored-nation clause in the Haitian-American Trade Agreement, it was conceivable that the preferential tariff treatment accorded like articles from the Dominican Republic would, to a great extent at least, shift the source of supply of those articles from the United States to the Dominican Republic. Thus there would be entailed the same loss of slightly more than 1,000,000 gourdes of Haitian customs duties as would be the case if the United States insisted upon compliance with its present trade agreement arrangements. I further pointed out that in these circumstances it would be necessary to reduce by a corresponding amount the estimate of revenues for the current fiscal year. I added in this connection that my conversations with the Co-President of the National Bank seemed to indicate that this would not be possible if the Haitian Government proceeded with the restoration of the salary discounts in effect during the past fiscal year. Moreover, it did not appear that there were any other immediately available sources of revenue which might replace the reduction in import duties which must be expected. Minister Fombrun had no suggestions to offer.

During the course of the conversation, the Foreign Minister mentioned that the Minister for Finance, Abel Lacroix, was very opposed

⁴⁵ Not printed.

⁴⁶ Rex A. Pixley, Deputy Fiscal Representative of Haiti. The preliminary study referred to, dated September 3, was sent to the Department by the Minister in Haiti in despatch No. 373, September 5, not printed.

to the Commercial Convention on the grounds that Haiti could little afford to relinquish approximately 1,000,000 gourdes of its revenues from customs duties. He also stated that the Dominican reductions on empty sisal bags was simply in anticipation of the establishment in Haiti at some future date of a factory for the manufacture of sisal bags for coffee and possibly sugar. As concerns the concession on Haitian rum, he admitted that this would affect only the superior grades of Haitian rum the production of which is very small. In this connection also, he was not certain as to whether the "15 centimes", or in Spanish "15 centavos", meant three cents American or fifteen cents American. The other articles upon which Haiti would receive preferential treatment do not appear to be of any considerable importance.

I later discussed the matter with Mr. Williams of the National Bank who confirmed that the Minister for Finance opposed the Commercial Convention on the grounds that Haiti could not afford to relinquish such a considerable amount of its customs revenues. Mr. Williams was not familiar with the terms of the agreement, but he stated categorically that he was unable to see how the National Bank could give its agreement to the ratification of the Convention.

The difficulty of the situation is that the Dominican authorities are pressing for ratification—so much so that, according to the Foreign Minister, the convention has already been approved by the Dominican Congress, and the Dominican Government is now prepared to exchange ratifications. Apparently, the Dominican Minister in Port-au-Prince has made frequent inquiries as to the status of the Convention and has urged prompt action by Haiti. On the other hand, the Haitian Government realizes how strongly the Dominicans desire the ratification of the Convention and it is desirous of making some contribution to an improvement in the commercial relations between the two countries. I feel convinced that if the estimated contribution, in the sum of 1,000,000 gourdes, is to be made by reducing in this amount Government salaries and operating expenses, the present attitude of reluctance upon the part of the Haitian Government will become one of unwillingness. However, as the situation now stands the responsibility for the failure of Haiti to ratify the Convention is unfortunately and unfairly placed squarely upon the United States.

I shall continue to report any conversations that I may have on this subject.

Respectfully yours,

EDWARD J. SPARKS

688.3931/14

The Chargé in Haiti (Sparks) to the Secretary of State

No. 535

PORT-AU-PRINCE, November 5, 1941.

[Received November 8.]

SIR: With reference to my despatch no. 479 of October 21, 1941, reporting my conversations with President Lescot and Foreign Minister Fombrun relative to the Commercial Convention signed by Haiti and the Dominican Republic, I have the honor to report that the Foreign Minister showed to me this morning unofficially a draft of a note that he wished to send me as soon as it had been approved by President Lescot.

The note, as drafted, would submit officially to the American Legation a copy of the Commercial Convention between Haiti and the Dominican Republic for comment by the American Government with respect to the unconditional most-favored-nation clause in the Haitian-American Trade Agreement of March 28, 1935, in the light of the contractual formula recommended by the Inter-American Financial and Economic Advisory Committee on September 18, 1941. The note then refers to the fact that Article XX of the Accord of August 7, 1933,⁴⁷ namely "the Government of Haiti agrees not to reduce the tariff nor to modify the taxes and internal revenues in such a manner as to reduce the total amount thereof without the accord of the Fiscal Representative", has not been incorporated in the Executive Agreement signed on September 13, 1941.⁴⁸ The Foreign Minister then declares in his note that the Haitian Government does not consider that the preferential treatment granted in the Commercial Convention between Haiti and the Dominican Republic is contrary to the Haitian-American Trade Agreement of March 28, 1935, nor that it is contrary to the provisions of the Executive Agreement to Replace the Accord of August 7, 1933, signed on September 13, 1941.

I told the Foreign Minister that two problems would be presented, namely (1) the attitude that the American Government might assume with respect to the preferential treatment that Haiti proposed to grant the products originating in the Dominican Republic vis-à-vis the unconditional most-favored-nation treatment provided for in Article VII of the Trade Agreement of March 28, 1935; and (2) the effects that the operation of the Commercial Convention might have on Haitian fiscal revenues.

⁴⁷ *Foreign Relations*, 1933, vol. v, p. 755.

⁴⁸ Executive Agreement Series No. 220, or 55 Stat. (pt. 2) 1348; for correspondence leading to the signing of this agreement, see pp. 322 ff.

With regard to point one, I explained to the Foreign Minister that in my memorandum of October 21, 1941,⁴⁹ (enclosure no. 1, despatch no. 479 of October 21, 1941) I had set forth that my Government was prepared to give earnest consideration to such proposals as the Haitian Government might wish to make, with reference to the most-favored-nation obligations in the Trade Agreement with the United States, in regard to the tariff preference it may desire to grant on certain articles imported from the Dominican Republic. Therefore, if the Foreign Minister addressed me on this point I would be pleased to transmit his proposal to my Government for consideration. At this point the Foreign Minister referred to the provision in paragraph 6 of Article VII of the existing Trade Agreement relative to advantages accorded "to adjacent countries in order to facilitate frontier traffic" and expressed the view that this provision would seem to cover the point. I reminded the Foreign Minister that in the Commercial Convention signed between Haiti and the Dominican Republic there was a separate protocol which referred exclusively to frontier traffic and that it was my understanding that the paragraph in our Trade Agreement, quoted above, covered only border exchanges of products. Also, in view of the confusion under which the Foreign Minister seemed to labor with respect to the recent exceptions made by the American Government in the Trade Agreement concluded with Argentina with regard to preferential treatment granted by the latter to contiguous countries, I pointed out that the exception made in the exchange of notes between the two Governments, which was pursuant to the contractual formula for tariff preference to contiguous countries recommended on September 18, 1941, by the Inter-American Financial and Economic Advisory Committee, was the result of negotiations between the United States and Argentina. In the contractual arrangements between the United States and Haiti provision had not been made for such an exception and therefore it was necessary that the Haitian Government should submit to the American Government for its consideration such proposals as it might wish to make for tariff preferences to the Dominican Republic.

With regard to point two, I expressed the personal view—since I had not yet consulted my Government and had not yet been informed of its views—that my Government would probably not wish to express an opinion as to what effects the operation of the Commercial Convention between Haiti and the Dominican Republic would have upon Haitian fiscal revenues. I suggested that my Government would not necessarily have sufficient information available to reach a conclusion as to the economic effects nor might it be sufficiently informed as to

⁴⁹ Not printed ; the memorandum was based on Department's instruction No. 224, October 7, p. 350.

the political advantages which the Haitian Government might hope to derive from the operation of this Commercial Convention. In these circumstances, again expressing my purely personal views, I ventured to say that my Government would suggest that this is a matter which might more properly be submitted to the Board of Directors of the National Bank of the Republic of Haiti for study and opinion.

At this point the Foreign Minister recalled that Article XX of the Accord of August 7, 1933, relative to the powers exercised by the Fiscal Representative, had been canceled and that a like provision had not been included in the Executive Agreement of September 13, 1941. I agreed with the Foreign Minister that "the language employed in Article XX of the Accord of August 7, 1933, did not seem to be incorporated in the Executive Agreement of September 13, 1941, for the reason that the two Governments had decided to confer this duty of the Fiscal Representative upon the Board of Directors of the National Bank consisting of three American and three Haitian members." In this connection I referred to Article V of the Executive Agreement of September 13, 1941, which required that the "budget shall be prepared cooperatively by the Government of the Republic and by the National Bank of the Republic of Haiti" in the manner described therein. Since the Board of Directors must estimate the expected revenues and the global expenditures and since the Government of the Republic must estimate the expenditures "within the limits suggested by the Board of Directors of the National Bank", and since both estimates for the current fiscal year had been made and agreed upon by the Government and the National Bank, it would seem that the latter should be consulted before the consummation of the Commercial Convention which, from preliminary investigations, would entail a sizeable loss of Government revenues. I pointed out further that if the Commercial Convention were consummated and it were established that Haitian custom revenues were substantially reduced as a result thereof, it would then be incumbent upon the National Bank to take the steps necessary to reduce the expenditures of the Government so as to bring them within the revenues that might be available. The Foreign Minister argued that the operation of the Commercial Convention would not impair the validity or the compliance of the Haitian Government with its obligations to the bondholders since if it proved that the loss of revenues were too great reductions could be made in other expenditures of the Government and the Commercial Convention itself could be denounced within a period of five or six months.

The difficulty in this whole problem is the fact that the Foreign Minister is convinced that if the Commercial Convention were submitted to the Board of Directors of the National Bank the latter

would advise against ratification of the Convention. I have been informed that Finance Minister Lacroix is opposed to ratification of the Commercial Convention because of the adverse effect which it would have on Haitian custom revenues. I am also informed that Mr. Williams is opposed for the same reason and the fact that he is unable to see how this loss of revenues might be replaced by other sources. In these circumstances, I believe, Foreign Minister Fombrun desires to obtain directly the consent and approval of the American Government, then proceed with the ratification, and finally present the measure to the National Bank as a *fait accompli*.

I recognize fully the desirability and necessity of improving the economic and political relations between the Republic of Haiti and the Dominican Republic. I believe that the conclusion of a sound commercial arrangement between the two countries might well contribute to an improvement in those relations. However, I do believe that both the spirit and the terms of the Executive Agreement of September 13, 1941, might very well be vitiated if the American Government undertook, without consultation with the Board of Directors of the National Bank of the Republic of Haiti, to pass upon independently the possible effects of the operation of the Commercial Convention on Haitian fiscal revenues. Moreover, it would seem unfortunate if at the very inception of the Executive Agreement of September 13, 1941, the Haitian Government were unwilling to consult and work out with the National Bank a commercial arrangement with the Dominican Republic which would reflect not only the economic but the political aspirations of Haiti.

As I have indicated above, I confined myself to an expression of purely personal views in the premises, for the reason, *inter alia*, that the Foreign Minister had consulted me purely informally prior to obtaining the approval of President Lescot to submit the Commercial Convention formally to the Legation for the opinion and comment of the American Government. Two courses are now open. If the Department agrees with the personal views expressed by me, I could confirm them officially to the Foreign Minister and President Lescot and thus possibly avoid the presentation of the contemplated note. This would seem to be the best course so as to avoid the necessity at this time formally to interpret the provisions of the Executive Agreement of September 13, 1941. Certainly it seems to me that the question of the economic and political advantages in the Commercial Convention between Haiti and the Dominican Republic is a matter which should be thrashed out by the Haitian Government with the Board of Directors of the National Bank so that it may be fully informed of the possible consequences that the Convention might cause.

Respectfully yours,

EDWARD-J. SPARKS

638.9931/16

*The Haitian Minister for Foreign Affairs (Fombrun) to the
American Chargé in Haiti (Sparks)*⁵⁰

[Translation]

PORT-AU-PRINCE, November 7, 1941.

MR. CHARGÉ D'AFFAIRES: Considering, on the one hand, the recommendation of the Inter-American Financial and Economic Advisory Committee on the date of September 18, 1941, relative to tariff preference between contiguous countries and, on the other hand, the bilateral agreements existing between the United States of America and Haiti, specifically the Trade Agreement of March 28, 1935, and the Executive Agreement to Replace the Accord of August 7, 1933, and signed on September 13, 1941, I have the honor to forward to your Legation a copy of the Treaty of Commerce signed August 26, 1941, between the Dominican Republic and the Republic of Haiti, requesting you to inform me whether your Government is in accord with the Haitian Government with regard to the terms (*conformité*) of this Treaty.

In this connection, it is pertinent to set forth that reservations had been made verbally in the name of the Haitian Government upon the signing of the Treaty in question and confirmed in writing September 8, 1941, to the Minister of the Dominican Republic in Port-au-Prince, because of the financial agreements existing between the United States and Haiti, rather than in consideration of the effects of the most-favored-nation clause with respect to the tariff preference which the two contracting countries reciprocally granted each other.

In effect, according to the terms of the Haitian-American Trade Agreement of March 18 [28], 1935, Article VII, paragraphs 6 and 7, the tariff preferences between contiguous countries do not fall within the scope of the said agreement insofar as concerns the application of the most-favored-nation clause, in accordance with the spirit of the recommendation of the Inter-American Committee relative thereto, provided that the granting of these preferences do not eventually stand in the way of the execution of a general program of economic reconstruction.

Moreover, you will wish to consider well that the reservations were made and confirmed on the part of Haiti when Haitian-American financial relations were still practically governed by the Accord of August 7, 1933, which required the agreement of the American Government for modification of Haitian customs tariffs which might affect the guarantee of the foreign debt contracted

⁵⁰ Copy transmitted to the Department by the Chargé in his despatch No. 553, November 11; received November 14.

in the United States. But the new system instituted by the Agreement of September 13, 1941, substituting the National Bank of the Republic of Haiti for the Fiscal Representative, has otherwise provided the guarantee of the interest of the holders of the Haitian foreign debt and does not contain a clause of this nature.

In these circumstances, it appears to the Haitian Government that the provision of tariff preference to the Dominican Government is not contrary to the recommendation of the Inter-American Advisory Committee, at least for the time being, nor the Haitian-American Agreements of March 28, 1935, and September 13, 1941, already mentioned.

Nevertheless, desiring to act with the American Government always in perfect agreement as to views, the Haitian Government would like to know the opinion or the observations of your Legation in this connection in order to be able to comply with the formalities with a view to the ratification of the diplomatic instrument under consideration.

Please accept [etc.]

FOMBRUN

638.3931/16

The Department of State to the Haitian Legation

MEMORANDUM

Reference is made to the Treaty of Commerce between the Republic of Haiti and the Dominican Republic signed on August 26, 1941, to the memorandum on this subject presented by the Chargé d'Affaires ad interim of the United States at Port-au-Prince to the Minister of Foreign Affairs of Haiti on October 21, 1941,⁵¹ and to the note from the latter to the former dated November 7, 1941.

It is the understanding of the Government of the United States that by the Treaty of Commerce Haiti undertakes, *inter alia*, to grant to the Dominican Republic, with respect to a specified list of import products, percentage reductions in customs duties ranging from thirty-three to fifty percent; and that an examination of the provisions of paragraphs six and seven of Article VII of the trade agreement of March 28, 1935, between Haiti and the United States, in the light of the recommendation of September 18, 1941 of the Inter-American Financial and Economic Advisory Committee, relating to tariff preferences between contiguous countries, has led the Government of Haiti to believe that the tariff reductions in accordance with the treaty would not be subject to the most-favored-nation provisions of the first paragraph of Article VII of the trade agreement, which require that such tariff reductions be extended to like articles imported into Haiti from the United States.

⁵¹ Not printed; see despatch No. 479, October 21, p. 353.

The Government of the United States is unable to find in the provisions of the trade agreement cited by the Government of Haiti language which would exempt from the scope of the most-favored-nation clause tariff reductions granted by Haiti to the Dominican Republic.

Paragraph six of Article VII of the trade agreement provides as follows:

“The advantages accorded or which may hereafter be accorded by the United States of America or the Republic of Haiti to adjacent countries in order to facilitate frontier traffic, and advantages resulting from a customs union to which either the United States of America or the Republic of Haiti may become a party, shall be expected from the operation of this agreement.”

The term “frontier traffic” in the paragraph quoted above is interpreted by the Government of the United States, and by governments generally, to mean local trade within a zone extending for a limited distance on each side of the frontier for the benefit of the inhabitants of that zone. Ordinarily the latter may not extend beyond 15 kilometers (10 miles) on either side of the frontier, while the trade must be purely local trade between the inhabitants of the zone in question for their own needs; that is, the movement of goods must begin and end within the zone. Trade with inhabitants of other portions of either country transacted within the frontier zone or transacted by persons living in the zone, would not be considered frontier traffic entitled to exemption from the most-favored-nation clause.

This interpretation is in accord with the meaning given frontier traffic in recommendations of the League of Nations approving the exemption of such traffic from the most-favored-nation clause. In justifying such exemption, the League’s recommendations state that “the strict maintenance of a customs barrier between two adjacent countries is . . . clearly hampering to the inhabitants of the frontier districts . . .”⁵² and an agreement allowing freedom of trade within a restricted zone on each side of the frontier is justifiable.” With reference to the extent of the zone, the League’s recommendations remark that “some recent treaties allow a contiguous state certain favours with a view to facilitating trade in particular frontier districts, not extending as a rule beyond 15 kilometers on either side of the frontier, besides granting privileges for the inhabitants of these districts”.

It is clear that the tariff reductions embodied in the Treaty of Commerce between Haiti and the Dominican Republic are not ad-

⁵² Omissions indicated in the original memorandum.

vantages accorded to facilitate frontier traffic as defined above, but relate to the trade between the entire territories of each of the two countries, including sea-borne trade. This view is confirmed by Article seven of the treaty making frontier traffic the subject of an additional protocol, which protocol was signed on the same day as the treaty.

Paragraph seven of Article VII of the trade agreement, also cited by the Government of Haiti, likewise fails to exempt tariff reductions granted by Haiti to products of the Dominican Republic from the most-favored-nation clause of the trade agreement. This paragraph reads as follows:

“The advantages now accorded or which may hereafter be accorded by the United States of America, its territories and possessions and the Panama Canal Zone to one another or to the Republic of Cuba shall be excepted from the operation of this Agreement. The provisions of this paragraph shall continue to apply in respect of any advantages now or hereafter accorded by the United States of America, its territories or possessions or the Panama Canal Zone to the Philippine Islands irrespective of any change that may take place in the political status of the Philippine Islands.”

This paragraph furnishes additional evidence that it was the intention of the negotiators of the trade agreement to make certain that all exceptions to the operation of the trade agreement would be expressly stated therein. The failure to specify as an exception trade between contiguous countries, other than frontier traffic, therefore, is further evidence that there was no intention on the part of either Government to except such trade.

With regard to the recommendation of the Inter-American Financial and Economic Advisory Committee of September 18, 1941, relating to tariff preferences between contiguous countries, it will be recalled that recommendations of the Advisory Committee are not instruments having legal force and effect, and consequently do not automatically qualify the provisions of existing treaties or agreements between the Governments of the American republics. Each Government must decide to what extent and in what manner it wishes to adopt the recommendation in practice. The Governments of Haiti and the United States are not, therefore, released from their reciprocal obligations under the most-favored-nation provisions of the trade agreement in respect of trade between contiguous countries solely by virtue of the Advisory Committee's recommendation.

To summarize, it is the view of the Government of the United States that trade between Haiti and the Dominican Republic is not excepted from the operation of the trade agreement between the United States and Haiti, either by provisions of the trade agreement

itself or by virtue of the Advisory Committee's recommendation, but on the contrary, that under the most-favored-nation provisions of the trade agreement, the United States is entitled to the benefit of such tariff reductions as may be granted by Haiti to products imported from the Dominican Republic or any other country.

Nevertheless, the Government of the United States recognizes the special situation of trade between Haiti and the Dominican Republic, and is now giving further study to the treaty under reference with a view to determining to what extent it would be warranted in waiving its rights under the most-favored-nation provisions of the trade agreement in the light of the recommendation of the Advisory Committee.

The Government of the United States will communicate further in this regard with the Government of Haiti as soon as possible.

WASHINGTON, December 5, 1941.

638.3931/16

The Secretary of State to the Chargé in Haiti (Sparks)

No. 302

WASHINGTON, December 11, 1941.

SIR: Reference is made to your despatches numbers 479, 535, and 553 dated October 21, November 5 and 11, 1941,⁵³ to the Department's instruction no. 224 of October 7, and to previous correspondence regarding the proposed Commercial Convention between Haiti and the Dominican Republic.

In reply to the request of the Haitian Government, reported in despatch no. 553 of November 11, and repeated at the Department by the Haitian Minister at Washington, the latter has received a statement of the Department's views regarding the Convention in a Memorandum dated December 5. Two copies of the Memorandum are enclosed⁵⁴ for your information and the files of the Legation, and for transmission to the Haitian Foreign Office.

Your attention is directed to the arguments adduced in the attached Memorandum, which sets forth this Department's interpretations of the American-Haitian Trade Agreement of 1935 and of the September 18, 1941 recommendations of the Inter-American Financial and Economic Advisory Committee.

The Department's attitude on this question, it may be pointed out, is not based upon the interpretation of the Executive Agreement of September 13, 1941, to which you referred at page five of despatch no. 535 of November 5. (The Department has observed that your

⁵³ Despatch No. 553, November 11, not printed.

⁵⁴ *Supra*.

conversation with the Foreign Minister, reported in that despatch, was confined to an expression of purely personal views.) Specifically, the Department prefers not to advance the theory that "the language employed in Article XX of the Accord of August 7, 1933, did not seem to be incorporated in the Executive Agreement of September 13, 1941, for the reason that the two Governments had decided to confer this duty of the Fiscal Representative upon the Board of Directors of the National Bank consisting of three American and three Haitian members".

However, as the Department continues to make further studies of the trade between Haiti and the Dominican Republic, mentioned in the penultimate paragraph of the December 5 Memorandum, it wishes to have the benefit of the views of the National Bank of the Republic of Haiti, particularly regarding the effects which the Convention might be anticipated to have upon Haitian revenues. The Legation's despatch no. 553, of November 11, stated that the Bank had undertaken, on its own initiative, a study of this aspect of the Commercial Convention.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

ARRANGEMENT BETWEEN THE UNITED STATES AND HAITI REGARDING THE DEVELOPMENT OF HAITIAN AGRICULTURE AND ECONOMY

888.51 Cooperation Program/3

Press Release Issued by the Department of State, May 5, 1941

The Governments of the United States of America and the Republic of Haiti announce that agreement has been reached in principle regarding a long-term program of cooperation in the development of Haitian agriculture and economy. The central feature of this program will be a broad plan of rubber developments; an increase in banana plantings; the planting of oil crops, spices, drug plants, food plants, and fiber plants, cacao improvement; the development of Haitian forestry resources; and the stimulation of small handicraft industries. Although details for the carrying out of the project are yet to be worked out, it is contemplated that the development will begin at carefully selected central plantations from which a small grower industry may be stimulated and directed, and technical information and assistance provided. The program is based on numerous surveys and long experience of the United States Department of Agriculture, which has already established in Haiti breeding gardens for rubber plants and an experiment station.

This cooperative program will also involve an extension in the amount of up to \$500,000 in the existing contract entered into in 1938 by the Export-Import Bank and the J. G. White Engineering Corporation, to permit the completion of certain highway and irrigation projects now in process and to provide adequate transportation facilities to the areas suitable for the rubber and general agricultural development.

Discussions which have led to the agreements in principle in the above sense have been conducted between the appropriate agencies of the Government of the United States and His Excellency Elie Lescot, Haitian Minister to Washington and President-elect of the Republic of Haiti.

888.51 Cooperation Program/20

The Secretary of State to the Haitian Minister (Dennis)

WASHINGTON, September 6, 1941.

SIR: I have the honor to acknowledge the receipt of your note of August 26, 1941⁵⁵ relating to the contract between the Société Haitiano-Américaine de Développement Agricole⁵⁶ and the Export-Import Bank of Washington, in the District of Columbia, signed August 15, 1941 and referring to the policy of the Government of the Republic of Haiti with respect to the ownership or right to acquire the stock of the Société Haitiano-Américaine de Développement Agricole, in which you confirm your Government's understanding of the arrangement in the following terms:

The Government of the Republic of Haiti undertakes that the ownership of the stock of the aforesaid corporation or the right to acquire such stock or to obtain control of the Société Haitiano-Américaine de Développement Agricole and of its operations, shall be reserved to the Governments of the United States and of the Republic of Haiti, or to their duly authorized agents, except upon agreement to the contrary between the two Governments.

Your statement represents my understanding of the arrangement and is satisfactory to the Government of the United States of America.

Accept [etc.]

CORDELL HULL

⁵⁵ Not printed.

⁵⁶ Corporation set up to handle the agricultural program referred to in the Department of State press release of May 5 printed *supra*.

HONDURAS

AGREEMENT BETWEEN THE UNITED STATES AND HONDURAS TO CO-OPERATE ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE, EFFECTED BY EXCHANGE OF NOTES SIGNED DECEMBER 18 AND 26, 1941¹

810.20 Defense/1836

*The American Minister in Honduras (Erwin) to the Honduran Minister for Foreign Affairs (Aguirre)*²

Note 504

TEGUCIGALPA, December 15, 1941.

EXCELLENCY: Resolution XV adopted at the consultative meeting at Havana³ provided that in the event of aggression, "all the signatory nations, or two or more of them, according to circumstances, shall proceed to negotiate the necessary complementary agreements so as to organize cooperative defense measures and the assistance that they shall lend each other." The contingency foreseen in that Resolution has now taken place and our two countries are now engaged in a common effort to defeat the aggressor nations.

I have the honor therefore to inform Your Excellency of my Government's desire to initiate at once certain types of military cooperation namely:

A. Permission to fly over and land on Honduran territory without limitation as to number or type of plane or personnel and arms carried. There would not be the usual notification through diplomatic or military channels, but only such as is required for technical reasons, probably direct to the airport involved, except in the emergency cases or should military necessity require it.

B. Permission to use Honduran airports together with their facilities, such as servicing, installations, repair shops, radio, etc.

C. Permission to photograph all territory of Honduras as may be necessary from a tactical and strategic point of view or as may be desirable for the compilation of air and navy charts. This Government is confident that there will be full and continuing cooperation

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 130 ff.

² Copies of this and the following two notes transmitted to the Department by the Minister in Honduras in his despatch No. 1731, December 26; received December 29.

³ For correspondence concerning the Second Meeting of the Foreign Ministers of the American Republics, held at Habana, July 21-30, 1940, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

between the armed forces of the two countries for the attainment of the common objective.

In the event that Your Excellency's Government is prepared to grant the above privileges and wishes to formalize the agreement, I have been authorized to exchange the necessary written communications with Your Excellency.

Please accept [etc.]

JOHN D. ERWIN

810.20 Defense/1836

The Honduran Minister for Foreign Affairs (Aguirre) to the American Minister in Honduras (Erwin)

[Translation *]

No. 878

TEGUCIGALPA, December 18, 1941.

MR. MINISTER: I have the honor of acknowledging to Your Excellency the receipt of your courteous note No. 504 dated the 15th of the current month, with respect to that part in which you indicate that the Resolution XV adopted at the Consultative Assembly of Habana, provides that in the case of an aggression "all the signatory nations or two or more of them, according to the circumstances, will proceed to negotiate the necessary complementary agreements to organize the cooperative methods of defense and the assistance which should be afforded one to another"; that the contingency foreseen in this Resolution has occurred and our two countries are now enveloped in a common effort to defeat the aggressor nations, for which reason the Government of Your Excellency desires to know if the Government of Honduras is disposed to initiate immediately a type of military cooperation which Your Excellency suggested in your note referred to before.

In answer I am pleased to inform Your Excellency that my Government with great pleasure will concede the privileges which are specified in the note to which I have referred before and in order to formalize the arrangement which is proposed, this Ministry in my charge, awaits from your Legation the communications, in writing, necessary for completing the exchange of notes which will establish the military cooperation which the Government of Honduras will give to the United States of America.

I take advantage of the opportunity to renew to Your Excellency the testimony of my highest esteem and distinguished consideration.

SALVADOR AGUIRRE

* Supplied by the editors.

810.20 Defense/1836

*The American Minister in Honduras (Erwin) to the Honduran
Minister for Foreign Affairs (Aguirre)*

No. 519

TEGUCIGALPA, December 26, 1941.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's kind communication No. 878 dated December 18, 1941 stating that the Government of Honduras will be pleased to cooperate with my Government in an effort to defeat the aggressor nations and that Your Excellency's Government with that end in view, kindly consented to the following points which were first enumerated in my Note No. 504 of December 15, 1941:

[Here follow the points enumerated in Note No. 504, printed on page 368.]

With this exchange of notes it may be considered that this agreement has now been formalized and is in force.

Please accept [etc.]

JOHN D. ERWIN

MEXICO

GENERAL SETTLEMENT OF OUTSTANDING QUESTIONS BETWEEN THE UNITED STATES AND MEXICO¹

711.12/1559½

The Mexican Ambassador (Castillo Nájera) to the Secretary of State

[Translation]

The Ambassador of Mexico presents his compliments to His Excellency the Secretary of State and has the honor to place in his hands a memorandum in which the Mexican Government makes a brief exposition of the various problems which are awaiting settlement between Mexico and the United States and of the different forms which the cooperation between the two countries, which it is desirable to intensify, could take in the near future.

WASHINGTON, February 17, 1941.

[Enclosure—Translation]

The Mexican Embassy to the Department of State

On October 7, 1940 the Honorable the Under Secretary of State of the United States of America was good enough to deliver to the Mexican Ambassador at Washington a memorandum² which contained certain proposals made with the intention of achieving the settlement of various problems pending solution between the two Republics.

In accordance with the study which was then made the Mexican Ambassador—at a call made on Under Secretary Welles on November 16, 1940—in his turn delivered to him, pursuant to instructions from his Government, a memorandum³ in which the following questions were particularly dealt with: claims, monetary stabilization, petroleum, silver and international waters.

The exchange of the said documents gave rise to a series of conversations between the Honorable the Under Secretary of State of the United States and the Mexican Ambassador at Washington. At one of them, held on January 4 [24?], 1941, Mr. Sumner Welles was good enough to suggest the desirability of the Mexican Govern-

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 1040 ff.

² *Ibid.*, p. 1048.

³ *Ibid.*, p. 1056.

ment's studying the manner of paying in petroleum the amount which, under the heading of indemnization, is due to the enterprises expropriated on the basis of the decree of March 18, 1938.⁴ At the same conversation, Under Secretary Welles expressed the opinion that the settlement of the petroleum question would be a most important factor—from the viewpoint of American opinion—in assuring the success of the negotiations which are being carried out.

The Mexican Government, animated by the best will to reach an understanding which would be just, honorable and definitive regarding the points under controversy, believes that the moment is particularly propitious for presenting to the American Government a general project for the solution of the said problems. The project in question includes not only the bases for settling the petroleum question, the payment of the general and agrarian claims and the use of the international waters, but also the principles of a commercial, banking and financial cooperation capable of favoring the development of Mexican economy in the manner which the evolution of the country renders desirable, and in the proportion required, also, not only by the necessity of carrying out the undertakings implied in the agreements to which the two Republics may arrive, but the intention of responding to the obligations deriving, in the field of continental defense, from the declarations signed at the conferences of Panama⁵ and of Habana,⁶ and to those obligations which the future may present for meeting the contingencies of these uncertain times.

For the purpose mentioned, the Mexican Ambassador at Washington has the honor to present to the Department of State, pursuant to instructions from his Government, the following

MEMORANDUM

I. The expropriation of the petroleum companies affected by the decree of March 18, 1938 was carried out in accordance with the principles of our constitution, in the exercise of our national sovereignty, and in virtue of the fact that the respective enterprises had been defying in a constant and deliberate manner the application of the laws in force in the country and opposing the social progress and the just revindications of the laboring classes and endeavoring to foment every kind of international difficulties; this latter to the

⁴ See telegram No. 58, March 19, 1938, 4 p. m., from the Ambassador in Mexico, *Foreign Relations*, 1938, vol. v, p. 725.

⁵ Meeting of the Foreign Ministers of the American Republics for Consultation under the Inter-American agreements of Buenos Aires and Lima, held at Panama September 23–October 3, 1939; for correspondence, see *ibid.*, 1939, vol. v, pp. 15 ff.

⁶ Second meeting of the Foreign Ministers of the American Republics held at Habana July 21–30, 1940; see *ibid.*, 1940, vol. v, pp. 180 ff.

special detriment of the cordiality of relations maintained by Mexico with the nations said by the stockholders of the said companies to be their countries of origin.

Absolutely legal from the national viewpoint, the measure adopted by the Mexican Government is in harmony with the principles maintained on the subject by various foreign states and particularly by the American Supreme Court of Justice both as regards the expropriation of the petroleum wealth of the subsoil, as to the instalments for the indemnification, and to the manner of payment therefor.

As the intention of the Mexican Government, in accordance with the principles of our country, is to grant an adequate indemnification in the cases of expropriation, there are not mentioned here the writs of execution which might be invoked on the plane of a juridical discussion of the subject; nor do we insist on the points of view which very distinguished writers on law (such as Barthelemy, Deguit, Rolin, Alvarez and Strupp) have maintained in studying—for example—the agrarian reform of Rumania, in the sense that there is no international rule establishing for a given state the obligation of paying a compensation to the nationals of other states when it is a matter of expropriations similar to that which was carried out on the basis of the Decree of March 18, 1938.

Mexico repeats on this occasion that it does not cherish the slightest desire of failing to pay the expropriated petroleum companies an acceptable and just compensation; but it does have an interest in emphasizing that in taking such decision it does so with absolute liberty and with full knowledge of the manner in which other states have resolved analogous problems; whereby it sets on record once and for all that it is animated by the purpose of adjusting its conduct to the broadest interpretations of the canons of International Law in harmony with a proven manifestation of international good will.

II. Once the expropriation was made, the process of the diplomatic claims could not be adjusted on bases of rapid solution. Nevertheless such bases are evident—Mexico has the necessary means to meet any undertaking of indemnization derived from reasonable and equitable settlements. There is in the first place the petroleum wealth itself; not only that of the expropriated companies but that of the zones exploited originally by the nation. The present yield of petroleum is rising considerably. If the subject should be settled therefore by strictly commercial criteria, it would be practicable to arrive at a conclusion on payment with solid guarantees, since the production of Mexican petroleum would offer such guarantees of undeniable amplitude.

The foregoing appears to have been properly judged by the American Department of State for on January 4 [24th], 1941, during a

conversation maintained on the subject by Mr. Sumner Welles with the Mexican Ambassador at Washington, the former of the officials mentioned indicated, as a new course to be followed by the negotiations, the direct and confidential settlement between the Chancelleries of the two countries; a settlement which would have as its basis the possibility of compensating in petroleum for the loss suffered by the American companies on March 18, 1938.

With reference to this matter, it is necessary to point out that in the conversation referred to Mr. Welles limited himself to contemplating the possibility of payment in petroleum, without defining what basis would have to be taken for the purpose of fixing the amount of the compensations, so that it must be understood that although the valuation by our courts has not been objected to in principle by the Department of State, it is desired to avoid a process which has been and can be the cause of slow and vexatious controversies respecting the amount owed, with designation of experts and lamentable loss of time for both parties. Precisely in order to avoid such difficulties, the Mexican Government has studied a formula of compensation which in the course of the present document will be set forth with the necessary details and which eliminates any contention respecting the amount of the appraisements.

Mexico will have no objection to accepting the course proposed by Mr. Welles—that is to say: the previous conversations between our Embassy at Washington and the Department of State—provided that in case a solution is reached, the latter be published after the settlement, as a result of a direct understanding between the Mexican Government and the petroleum companies. If, because of refusal on the part of the latter, the arrangement concerted between the Mexican Embassy at Washington and the American Department of State should not be capable of crystallization into a practical and immediate formula, it will be understood that the Department of State will desist from any future diplomatic action regarding the said subject, and that the American Government will declare publicly that it withdraws its interest from the question, leaving the companies to face the consequences of their attitude.

As regards the manner of compensation in petroleum, the system is deemed in every way acceptable. At the present time our country has a very important petroleum production. Those stocks will be assigned in part to the meeting of the necessities of domestic consumption; but the excess, which is considerable, cannot and should not be lost, for it would mean an appreciable prejudice to the national economy.

With reference to this matter—and pending the reaching of an integral solution of the petroleum problem—it is opportune to recall that the Mexican Government has refused to sell the excess referred

to to those countries which eventually might be enemies of the American continent; but this attitude, founded on the basis of our international doctrine, the practice of which the United States of America will not hesitate to appreciate and acknowledge, implies serious sacrifices which merit the special attention of the American Department of State. The latter point should lead to the consideration of the fact that the United States market is at present unilaterally protected by a duty on the importation of oil, which makes the sending of our products prohibitive in practice. The reduction of fifty percent from the duty referred to on the amounts imported under the quota system diminishes only slightly the prejudice indicated, since the quota fixed for Mexico is very low and the increase granted for 1941 (1,000,000 barrels) is not in proportion to what Mexico might have expected from the American authorities, as a demonstration of their desire to treat the general problem of the pending negotiations within the framework of a wide and equitable economic understanding.

III. The present moment in international affairs appears to be propitious for the United States of America to examine the importance of aiding Mexico, now that certain reserves have disappeared, in settling a problem which, for many reasons, is disturbing—to the detriment of good inter-American collaboration—to our full economic development. The desire for cooperation which inspires Mexico and the abundance of elements at her disposal for reaching a just agreement, enhance the necessity for both parties to approach the question in a spirit of goodwill that can be translated at once into actual and constructive efforts.

The slowness in the proceedings for reaching an acceptable solution harms not only the conflicting interests—Mexico and the oil companies—but raises a material obstacle for the complete understanding of two friendly countries, and deplorably weakens the strength of any future Pan American action.

In fact, there are to be taken into account not only friction arising out of the very fact that the conflict goes on without settlement, but also the circumstance that Mexico is consequently rendered incapable of assuming with all the power of her economy the obligations which her continental position marks out for her.

The campaign which the affected companies have carried on and are continuing to carry on in the United States, the distrust inspired by the notes and the pending claims, and the lack of full financial collaboration between the two nations mean a sluggishness in the economic evolution of Mexico and an impoverishment which deprive our country of resources essential to meeting certain obligations, among which figure the possible construction of naval and air bases in its territory, and the necessity for providing its armed forces with modern and expensive armament.

The present moment is, from all standpoints, the most favorable for the initiation of a new era in the history of the international relations of Mexico and the United States.

In view of the European tragedy and the abuse of power by the totalitarian countries, the Mexican people—faithful to the international policy of equality, fraternity and good neighborhood—, not only perceives with genuine sympathy the continental objectives which will be imposed upon its efforts in the future, but it also feels, in an extraordinarily positive way, the advisability of a joint action in defense of Democracy with the other American republics and in particular with the United States of America.

An effective, rapid and just settlement of the matters pending between the two nations would consolidate very happily the power of the Pan American doctrine and would give a character of lasting cordiality to the relations between the two governments. For this, the Government of Mexico is disposed to employ all its modest resources and all its full desire to eliminate occasions for controversy, adjusting itself to a broad spirit of collaboration and concord. In expressing this to the Department of State, it ventures to believe that, on its part, the Government of the United States of America will likewise be inspired by the same sentiments of good neighborhood and just cooperation.

IV. On the basis of all the foregoing, the Department of Foreign Relations, being desirous of obtaining within the shortest possible period a practical result from the negotiations which have been pending for years between Mexico and the United States of America, has the honor to submit to the consideration of the Department of State the following bases for an understanding:

1. *Claims.* The Mexican Government accepts the first point of the plan submitted on October 7, 1940 to Ambassador Castillo Nájera by Mr. Sumner Welles, that is: It accepts as the total amount for the agrarian claims and those arising out of the General Claims Convention the sum of \$40,000,000 (Forty Million Dollars), which will be paid in the following way:

a. A deposit of \$3,000,000 upon the conclusion of the respective agreement;

b. Annual payments of two and one-half million dollars until the debt is entirely liquidated.

The Mexican Government authorizes that of the United States to announce—when the agreement referred to has once been concluded—that the total sum mentioned above will be divided into various parts corresponding to the different types of claims (agrarian claims—presented in accordance with the Convention of November 1938;—agrarian claims arising between July 31, 1939 and October 7,

1940; general claims and those for properties not included in the three categories named above).

For accounting purposes, Mexico is in agreement that the United States hold in separate accounts the funds received and those delivered to it subsequently.

2. *Mexican-American Commission on Continental Defense.* Mexico has repeated on various occasions—and, on one of them, by the authoritative voice of the President of the Republic, General Avila Camacho,—that she is disposed to comply with all the undertakings which ensue, from the international standpoint, from her presence as an active member of the Pan American Union.

In conformity with the recommendation made in the third paragraph of the Fifteenth Declaration⁷ issued at Habana by the Meeting of Ministers of Foreign Relations, Mexico agrees to constitute, within the shortest time possible, a Mexican-American Defense Commission. The Mexican Commissioners would be the Military, Naval and Air Attachés assigned to the Embassy at Washington and the establishment of the Commission would be made public by means of a simultaneous declaration of the Governments of Mexico and the United States.

With respect to the possibility of acquiring for the Mexican Army equipment, airplanes and military material from that produced by the United States of America, Mexico appreciates the opportunity which for this purpose is afforded her by the authorities of your country and declares that the Mexican members of the Defense Commission mentioned in the preceding paragraph will in good time consider what number of airplanes, hydroplanes, machine guns, motors, cannon, tanks and other elements of defense the Mexican Republic may be able to purchase or lease.

3. *The Oil Question.* Regarding the oil question, the Government of Mexico believes that an understanding may be reached with the expropriated American companies, by means of a payment of the compensation requested through the establishment,—during a period to be determined by joint agreement,—of a percentage on the production of all the wells which are producing in the fields which the companies referred to had in operation prior to the Decree of March 18, 1938, which percentage shall be extended to the production of the wells which may be drilled in the same fields in future.

The above-mentioned percentage will be fixed during discussions held for this purpose and shall be paid in oil placed at the disposal of the companies at a Mexican port, free of any charge. The oil administration shall continue to be regulated by the Mexican Gov-

⁷ For text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

ernment, but this condition does not exclude the possibility of special representatives of the oil companies having a consultative voice and exercising technical and financial supervision in the process of production, and also in the work necessary for new drilling, so that the companies may be convinced of the proper operation of the industry and the suitable management of the funds invested.

With respect to the American companies which did not have any oil production, it will be necessary to concert an agreement on the value of their properties in order to pay them, in oil, an amount equal to the value thereof.

4. *Foreign Debt.* In connection with the circumstances under which the problem of the Foreign Debt of Mexico now finds itself, the Department of Foreign Relations takes pleasure in communicating to the Department of State that the Mexican Government is prepared to concert an equitable and practical settlement of the said question. On its part, the Department of the Treasury and Public Credit will receive with pleasure any suggestion submitted to it by the holders of bonds of the Mexican Debt, through the International Committee of Bankers.

5. *International Waters.* With respect to the situation existing on the subject of international waters,—a situation that has brought about a dissatisfaction which can be easily understood from what is stated in Note 4983 presented to the Department of Foreign Relations on December 28, 1940 by the Chargé d'Affaires ad interim of the United States of America,⁸—the Government of Mexico expresses to that of the United States its desire to reach a general solution of the problem as soon as possible, which solution, because of the very nature of the difficulties that have arisen, cannot and should not be limited to a border zone, nor to the course of one of the rivers, nor to formulas of mere temporization. In order to obtain such an objective, without reaching which Mexico would feel that her vital interests had been injured,—both those of the present and those of the future,—the Mexican Government is disposed to concert a treaty in which there shall be taken fully into account the rights of both countries, which shall be given concrete form along the following general lines:

a. Amendment of the articles relative to navigation in the Treaties of 1848⁹ and 1853,¹⁰ and renunciation by the two contracting parties of any claim for nonobservance of the provisions contained in the said articles.

b. Obligation—for both governments—of constructing international dams on the course of the Rio Grande, within the periods and with

⁸ Not printed.

⁹ Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 5, p. 207.

¹⁰ *Ibid.*, vol. 6, p. 293.

the distribution of costs which they may accept by joint agreement, and the distribution of the waters held by such dams, approximately in the proportion of fifty percent to each country.

c. Delivery to Mexico of an annual volume of the waters of the Colorado River determined by the proportion between the amounts now used, the urban and farm requirements existing in the valley of the river in the territory of the two countries, and the reasonable and just possibilities of extension of the said requirements in the future.

d. Settlement of the problem of obstructions of the lower Colorado River and construction of international defense works in that region.

e. Establishment of a Mixed Commission on International Waters, with consultative, administrative, executive and jurisdictional powers, and the establishment of general regulations for the labors of the commission referred to.

f. Amendment of Article 2 of the Convention for the Distribution of the Waters of the Rio Grande, concluded in 1906.¹¹ Such amendment is proposed with the desire that the monthly delivery be made to Mexico in conformity with the proportional volume which the Mexican Commissioner on Boundaries and International Waters may indicate at the proper time, so that the amount received by the Mexican farmers may be utilized in the best way possible, in accordance with the needs of the crops, and without any injury to American users being produced thereby.

g. A declaration by both governments to the effect that the surplus waters running in the section of the Rio Grande—between Ciudad Juárez, El Paso, and Fort Quitman—shall be the subject of an equitable distribution between the two countries, which shall be determined exactly in one of the clauses of the General Treaty.

h. As a consequence of the acceptance of the foregoing stipulations, confirmation of the present uses—Mexican and American—both on the Colorado River and also on the Rio Grande.

As in the problem of international waters the interests affected by the concerting of a convention of general character are of considerable importance, and as the organic defense thereof may imply in the United States some resistance in internal politics, capable of diminishing the rapidity of the procedure which it is desirable to give to the remainder of the negotiation which gives rise to the present memorandum, the Department of Foreign Relations has the honor to communicate to the Department of State that,—reserving the right to examine with due care the clauses of the Treaty which it proposes,—it would be satisfied for the present to be informed that the American Government accepts, in principle, the initiative referred to and is disposed to consider it without limitation to the course of merely one of the rivers or a part of their valleys.

In proposing a general Treaty, Mexico takes technical and legal reasons into account. From the latter point of view, the partial solu-

¹¹ Signed at Washington, May 21, 1906, *Foreign Relations*, 1906, pt. 2, p. 1128.

tions—proposed on former occasions—do not satisfy the principle of International Law by virtue of which a country, in the exercise of its sovereignty, must not cause harm to its neighbor, a thing which has occurred, in the case of Mexico, as a result of the use which the United States of America has been making, thanks to the utilizations made.

Furthermore, from the technical point of view, an equitable distribution of the waters may be effected only by means of studies and projects carried out jointly by the two countries.

6. *Economic Cooperation.* The obligations which Mexico is prepared to assume in its plan to settle the oil problem, to honor the Foreign Debt of the country and to liquidate the amount of the general claims and those of agrarian origin, would unilaterally affect the economic conditions of its development if the United States did not contribute on its side all the necessary good will for establishing international cooperation, capable of improving commercial intercourse between the two republics and of giving to Mexico the opportunity to increase its exports to the extent made necessary, not only by the fact of contracting the obligations of which it is a question, but also by the desire to assume very energetically the responsibilities accruing from the agreements in matters of continental defense.

With regard to oil production, on previous pages of this memorandum there has already been pointed out the necessity of there being granted a suitable increase in the quotas fixed for Mexico for the exportation of oil to the United States of America, since the limit set for 1941 is excessively reduced, and places our country in a situation which does not correspond with the proposal—loyally respected by our Government—not to deal in the said product, nor in others such as scrap iron, etc., by taking advantage of the opportunities offered it by certain countries, which,—in view of the present international situation—might in the future be prejudicial to the interests of the American continent.

7. *Quota for the Importation of Mexican Oil.* With the considerations which appear in pertinent paragraphs of the present document as a basis, the Department of Foreign Relations takes the liberty of insisting upon the necessity of obtaining from the American authorities an amplification of the quota set for the current year and, in addition, the promise that such amplification will be preserved so long as there exists the protection which the United States Government has fixed by means of a duty upon the importation of oil.

8. *Sale of Silver.* In view of the financial obligations of a permanent character which, as has been said in other paragraphs of this memorandum, the Mexican Government is about to contract, the country will have to guarantee the continuity of its mineral production, which is so important to its general economy. For such purpose,

Mexico will need to have the assurance, at least for a period of four years, of the purchase of silver by the American Treasury at a reasonable price. To this end, the Department of Foreign Relations expresses the sincere hope that the American Government, by virtue of the authorization which present laws of the United States give to the Treasury Department, will be disposed to contract for the purchase of a quantity of Mexican silver equivalent to the total amount which our country could deliver within a period of four years, through monthly shipments of six and one-half million ounces, of recent production, with the understanding that the delivery of the silver would be made by our Government in equal monthly quantities during the next four years, at a price analogous to that which is now being paid to American producers. The sales contract should be signed for the above-mentioned total and payments would be made monthly in conformity with the proposed periodical shipments.

The suggested equalization is based upon the fact that, as a consequence of the European War, Mexico has lost her markets for some of her industrial metals, which at present are being sold in the United States after payment of heavy import duties. The cancellation or reduction of these would be difficult to arrange because it would doubtless give rise to many protests, but there might be found a just compensation—which would not raise the same obstacles—by increasing the purchase value of the silver, which would equalize the position of Mexican producers of this metal, who are likewise producers of the industrial metals referred to.

It may be added that, in the event of the arrival at the agreement relative to the sale of Mexican silver on the conditions indicated in the preceding paragraphs, Mexico would be willing that the difference between the value of forty-five cents per ounce and the price fixed for the product should be applied to the construction and conditioning of naval bases, air-fields and, in general, to material works intended to perfect the defensive system of the territory.

9. *Stabilization Credit.* The collaboration of the United States could manifest itself, likewise, through an agreement signed by the American institution which may be considered best suited and the Bank of Mexico, whereby a credit would be opened in favor of the latter up to an amount of \$30,000,000.00 (thirty million dollars) in a current account, with the right, on the part of the said Bank of Mexico, to make dollar deposits in that account, a reciprocal interest of 1½ percent on the balances being established.

The availability of the fund thus constituted would serve for monetary and exchange regularization, with the understanding that it would in no way mean a declaration, on the part of Mexico, that it would maintain a fixed rate of exchange, since a relative stability

would be sought, our country being authorized to modify the rate of exchange in the manner it might consider to be most advantageous, when the economic conditions of its balance of payments may so require.

In the event that the proposed agreement is arrived at, it would be completed by means of a stipulation to the effect that if—after being in force for five years—the agreement is not extended, by mutual agreement, the liquidation of the balances would be proceeded to and it would be agreed that the balances against Mexico would be paid in twenty-year 3 percent bonds, with yearly amortizations, our country reserving to itself the option of paying in silver.

This agreement would contain, in addition, a clause whereby the dollars—in any balance—shall be computed at the rate of \$35.00 (thirty-five dollars) per ounce of gold.

10. *Construction of Highways.* It is the intention of the Mexican Government, among its other aims, to give special attention to the construction of new highways and to the improvement of those which already exist. For the purpose indicated, it is proposed to effect an issue of road bonds which it hopes to place entirely within the country. However, if the latter should not be possible, it would wish to count on the prospect of a credit up to \$60,000,000.00 (sixty million dollars), opened in some American institution—whichever one may be chosen by the Government of the United States;—it being understood that such amount would be equivalent to 60 percent of the total issue and that the bonds intended to cover the credit referred to would have the benefit of interest at 3 percent and would be liquidated within a period of from ten to fifteen years, by means of semi-annual amortizations with payment of principal and interest, in such manner that the value of the bond would decrease as the date of its maturity approached.

11. *Treaty of Commerce.* In his memorandum of October 7, 1940, the Under Secretary of State of the United States was good enough to state (Paragraph 11, Section *c*) that, at the time of announcing agreement on the settlements relative to the oil question “the Governments of Mexico and of the United States would begin conversations looking toward the increase of trade exchanges, by means of a Treaty”. The Department of Foreign Relations is giving to the suggestion of the Department of State all the attention that it merits and takes pleasure in communicating to it that it agrees to initiate, as soon as possible, the preparatory work for the conclusion of a Treaty of Commerce, which, on equitable bases, would make it possible to give the greatest possible increment to the interchange between the two countries.

V. Taking into account the circumstance that the plan for a general settlement, defined in the foregoing pages, presupposes the adoption of various resolute measures concerning technical problems of the greatest importance, the Government of Mexico states that, in case its proposals are accepted, in principle, it is most willing to assign to its Embassy in Washington, in the character of Minister Counselors or of Technical Advisers, those legal, financial or other experts which it may be necessary to commission for the rapid progress of the negotiation, in the understanding that it is its desire that the latter be effected through the customary diplomatic channels and not within the framework of a special conference.

Finally,—the several points which are examined in this memorandum being closely related to each other,—the Government of Mexico states that the solution to which it aspires ought, in so far as possible, to be a general one.

711.12/1588a : Telegram

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

WASHINGTON, April 27, 1941—5 p. m.

196. Please seek an early appointment with President Avila Camacho and say that the Department feels that satisfactory and rapid progress is being made in the preparations for the early successful termination of the general negotiations. As to the specific problems, you may make the following observations:

Claims. Since the two Governments appear to be substantially in agreement, the differences between our original proposals and the Mexican counterproposals of February 17 should be readily adjusted.

Defense. This Government has been favorably impressed by the progress made in joint discussions and by the adoption of the Convention relating to military aircraft.

Oil. Very confidentially and informally this Department has been exploring through oil experts of the Interior Department who are in touch with a representative of *Petróleos Mexicanos* the possibilities of arriving at a formula for the solution of the oil controversy. Progress in the studies is being made about as rapidly as could be expected and it is hoped they may lead to a satisfactory formula. The oil question appears to be the most difficult of those under consideration.

Foreign Debt. While this Government has not been a party to negotiations involving past agreements, the Department has been interested to learn of resumption of discussions between Señor Suárez and Mr. Lamont, and it is hoped that they will work out a mutually

satisfactory solution of this problem. If the Department can assist in this matter it will be glad to exercise its unofficial good offices.

International Waters. This difficult question has been given much careful thought. The following statement is strictly confidential but you may convey it to President of Mexico for his own information: We have been endeavoring in confidential conversations with certain United States interests to find a solution and expect to have a response from these interests soon.

Economic Cooperation. Arrangements have already been made for Treasury Department experts to begin discussions possibly in the near future with Mexican representatives concerning mutual monetary problems with specific reference to stabilization and silver.

Quota for Importation of Mexican Oil. It will be difficult to approach this problem before the two countries enter upon negotiations for a reciprocal trade agreement.

Highway Construction. We expect to be prepared soon to discuss the matter of cooperating in financing of Mexican highway construction.

Trade Agreement. Our present feeling is that public notification of intention to negotiate should be deferred until a formal solution of the oil expropriations matter has been found. Our preliminary studies have virtually been completed. It is suggested Mexico likewise prepare for later discussions on this subject.

HULL

812.6363/7346½

*The Mexican Embassy to the Department of State*¹²

[Translation]

WASHINGTON, July 22, 1941.

MEMORANDUM

With reference to the conversation which the Mexican Ambassador had with Messrs. Duggan and Bursley of the Department of State on July 14, 1941,¹³ regarding the arrangements necessary for the solution of the problem which calls for the payment of compensation to the American petroleum companies expropriated (*sic*) in conformity with the Decree of March 18, 1938, there is furnished below, following careful study by the Mexican Government of the plan proposed by the representatives of the Department of State, explanation of the point of view of the Government of Mexico.

I. The setting up of a Mexican-American commission is not considered opportune and the Mexican Government states immediately

¹² Handed to the Adviser on Political Relations by the Mexican Ambassador on July 26, 1941.

¹³ Memorandum of conversation not printed.

that it cannot accept the designation of a third person who would serve as umpire of the expert officials since the American experts, who have been studying the matter, know it perfectly and their report should represent for the Government of the United States the expression of an impartial opinion which would be just and technically satisfactory.

In this regard it may be recalled that the designation of an arbiter was not included in the initial proposal formulated by Under Secretary Welles in his memorandum of October 7, 1940 (VI-a.)¹⁴ The proposals contained in the said memorandum of the Government of the United States by implication discarded the arbitral system, a circumstance which precisely made possible the initiation (of discussions) for the direct settlement between the Government of Mexico and the United States.

II. It is not possible to accept the idea of constituting a commission such as that which Mr. Duggan suggested in the conversation held with the Ambassador of Mexico on July 5, 1941,¹⁵ because the proceedings would involve great slowness in the transaction of this matter and a purely unfortunate situation in Mexican public opinion which, for months, has been awaiting an equitable solution which the Mexican Government is desirable to agree to and to facilitate.

The Government of the United States may rest assured that the Government of Mexico understands its desire to be absolutely guaranteed, not only with regard to the expropriated companies but before the public opinion of its country, but it is of the opinion that the authority of the official experts who participated in the conversations with Engineer Zevada¹⁶ is incontestable and that, on the other hand, the proposed trip of the said experts to Mexico in the near future with the object of verifying the data upon which their report is based, will be sufficient to give to American public opinion the assurances that their report is based strictly upon the facts (*realidad*). In this regard, the Government of Mexico proposes to that of the United States that it will authorize for the American technicians all the facilities in the Republic of Mexico in order that they may check the books and examine the expropriated properties.

The Government of Mexico considers it indispensable that the experts of the two Governments terminate their work, already begun in Washington, within the briefest period and suggests that they be given a period of two months.

¹⁴ *Foreign Relations*, 1940, vol. v, p. 1048.

¹⁵ Memorandum of conversation not printed.

¹⁶ Manuel J. Zevada had held conversations with officials of the Department of the Interior.

The experts will submit a joint report in which they will set forth their points of difference in case there are any.

III. In this event, the Governments of Mexico and the United States, within the month following the receipt of the report of the experts, will discuss the points of difference and will agree upon the final figure of indemnity through diplomatic negotiations.

IV. The Government of Mexico agrees to make a deposit of \$9,000,000 on account of the total of the indemnity with the understanding, nevertheless, that the making of this deposit will take place only when the Government of Mexico knows exactly the economic and financial advantages upon which it may count in order to face not only this new commitment (*compromiso*) but also those which will arise from the arrangement regarding claims. These advantages can be understood upon the conclusion of the negotiations now in progress with the Department of State, that of Treasury and the Export-Import Bank of the United States.

V. For the period in which this deposit is not applied to the compensation agreed upon, the sum of \$9,000,000 will draw interest at the rate of . . . percent annually. In case the diplomatic negotiations referred to in point III above do not succeed in determining the definitive indemnity, the deposit of \$9,000,000 will be returned to the Government of Mexico.

VI. The exchange of notes by which this arrangement is made and the treaties regarding the payment of claims, the money stabilization and other arrangements, shall be signed simultaneously.

VII. If any balance remains for the total payment of the indemnity which is definitively determined in accordance with the foregoing points, it will be paid by the Government of Mexico by means of percentages of petroleum production which shall be delivered during a period to be determined by the experts referred to in point II above, the Government of Mexico reserving the right to increase the annual deliveries in such form that the liquidation of the debt will be made in a briefer period if, in its opinion, circumstances so permit.

VIII. The Government of the United States agrees to increase the quota actually permitted by the importation of Mexican petroleum and its derivatives into the United States enjoying the exemption of 50% of import tax to a minimum of 25,000,000 barrels annually beginning with December 1, 1941.

[Annex]

Draft of Press Statement

The Government of Mexico and the Government of the United States have each named an expert who jointly and separately will

examine all available data, visiting the oil fields and the physical properties of the expropriated companies with a view to seeing and estimating their value and consequently determine definitively the total amount of the indemnity that the Mexican Government shall pay to the American oil companies which have not yet made separate settlements with the Government of Mexico. The experts may employ such assistants as they deem necessary.

The Government of Mexico will establish in the Treasury of the United States a deposit of \$9,000,000 which shall be applied to the full or partial payment of the indemnity according to the total which shall be definitively fixed for this purpose as a result of the work of the experts and the agreement of the Governments of Mexico and the United States.

In the unlikely event that the experts designated by both Governments find differences in their estimates, the Governments of Mexico and the United States agree to resolve these differences by diplomatic negotiations.

412.11 (41) Agreement/69

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

[WASHINGTON,] October 6, 1941.

Participants: Dr. Roberto Córdova, Mexican Embassy,
Mr. English,¹⁷
Mr. Bursley.

Dr. Córdova was requested to call at the Department after the Under Secretary had informed Mr. Bursley that the Department was not in a position to give to Mexico written assurances that this Government would not extend protection to those American citizens who in the future purchased farm lands in Mexico.

It was explained to Dr. Córdova that the Department had gone to great lengths in recent days to meet the Mexican Embassy with regard to five or more points it had raised but that it was not practicable to give the assurance desired unless it were practicable for the Mexican Government to comply with a somewhat similar request of this Government that there would be no further expropriations of American owned property without the payment of prompt compensation.

A lengthy conversation ensued in which Messrs. Córdova, English and Bursley repeated statements which had been made in previous conversations.

¹⁷ Benedict M. English, Assistant to the Legal Adviser.

Dr. Córdova then sought to make it appear that Messrs. Duggan and Bursley had practically agreed to the giving of the written assurances desired by Mexico. Messrs. English and Bursley stated that in all the conversations in which they had participated (and these included those conducted by Mr. Duggan) the position taken by the Department's representatives had been that the Department could certainly not agree to include such assurances in the Convention, that the Department would give consideration to the possibility of an exchange of notes but could not promise that even this would be feasible, but that in any event, even were there to be an exchange of notes, there would have to be provision for bona fide cases of inheritance, court judgments, et cetera.

Dr. Córdova went through all the motions of being greatly upset over this situation although neither Mr. English nor Mr. Bursley had the slightest thought that this development was at all surprising to Dr. Córdova. Dr. Córdova said that it was his understanding that agreement upon our part to this Mexican desire was a *sine qua non* and said that he would have to consult with the Ambassador. He left the meeting for this purpose and said that he would consult with us further.

It is only within the past few days that the Mexican negotiators have laid this much stress upon the question of the desired assurances. While they are undoubtedly desired for reasons of Mexican domestic politics, including the question of the relationship between the present President of Mexico and his predecessor, there is reason to question that the Mexicans will insist upon this to the last. There is every indication that the Mexican Government badly needs the signing of the contemplated agreements with the United States. Moreover, the financial arrangements contemplated must appear very attractive to the Mexican Government. It might risk a collapse of the negotiations but this is to be doubted.

Possibly, as a compromise measure, it might be worthwhile considering whether the Department would accept the filing by the Mexican Ambassador of a confidential memorandum stating that it understood that the Secretary or the Under Secretary would not regard it as an unfriendly act for Mexico to prohibit the acquisition of agricultural lands in Mexico by foreigners. (Without commitment, a suggestion along these lines was made to Dr. Córdova, every effort being made to bring out that this was primarily a Mexican domestic matter and was one which could be handled by Mexico without intervention by this Government.)

HERBERT S. BURSLEY

412.11 (41) Agreement/68

The Mexican Embassy to the Department of State

[Translation]

WASHINGTON, October 6, 1941.

MEMORANDUM

1. In the memorandum presented by the Ambassador of Mexico to Mr. Sumner Welles, Under Secretary of State, on November 16, 1940,¹⁸ in the chapter relative to the negotiations proposed on the claims question, it was said:

"c) The arrangement shall contain a clause in which the United States Government will agree to refrain from resorting to diplomatic action in those cases in which the agrarian legislation is applied, in the future, to lands belonging to Americans who have acquired said lands subsequent to the date of the agreement in negotiation.

"With respect to this last paragraph the explanation should be made that the Government of Mexico has serious reasons to fear that, in a more or less near future, lands which now belong to Mexican owners or to foreigners of nationality other than American, may pass, by real or fictitious sales, into the possession of United States nationals, in an attempt thus to seek the protection of the Washington Government and bring up a problem similar to the one which we are now trying to settle. In order to avoid the difficulty pointed out, which would involve further friction between the two Governments, the Government of Mexico considers it desirable that, after this arrangement has been concluded, the lands which at the present time do not belong to American nationals, if they are subsequently the object of expropriations, shall be subject to the general law and, therefore, that diplomatic action shall not be proper in those cases in which, through real or fictitious transfer, such lands appear as owned by Americans."

2. On July 15, 1941, Mr. Laurence Duggan transmitted to the Ambassador of Mexico a draft Claims Convention,¹⁹ which was the subject of immediate preliminary observations by the Embassy.²⁰ The third observation was expressly formulated in the following terms:

"There must be inserted in the Convention a clause stating: 'The Government of the United States agrees not to interpose diplomatic action in favor of any of its nationals because of the application of the agrarian legislation of Mexico, in those cases in which the owners have acquired the affected properties subsequent to the date of signature of this Convention.'"

This observation, together with all the other preliminary ones made by the Embassy to the Department's Draft, were discussed

¹⁸ *Foreign Relations*, 1940, vol. v, p. 1056.

¹⁹ Not printed.

²⁰ Memorandum of observations not printed.

on July 26, 1941, by Mr. Castillo Nájera, Ambassador, Mr. Córdova, Legal Counselor, Mr. Laurence Duggan, Political Adviser of the Department, and Mr. Bursley, Chief of the Mexican section. At this meeting, according to the notes which are retained by the Ambassador and Legal Counselor Córdova, Mr. Bursley expressed his belief, which he qualified as being personal and entirely unofficial, that the points raised in the Embassy's observations would not involve difficulties of a serious character as, of course, he thought that some of them would win complete approval. It was agreed at this meeting that the above-mentioned Mr. Bursley would confer with Lic. Córdova in the first part of the following week. The Department of State made the translation into English of the observation which has just been transcribed as follows:

“(3) There must be inserted in the (Claims) Convention a clause stating:

“The Government of the United States agrees not to interpose diplomatic action in favor of any of its nationals because of the application of the agrarian legislation of Mexico, in those cases in which the owners have acquired the affected properties subsequent to the date of signature of this Convention’.”

3. The Ambassador of Mexico, on August 18, 1941, together with a letter of that date, transmitted to Mr. Duggan a Memorandum²¹ explaining the additions, modifications and suppressions which the Mexican Counter-Draft of the Claims Treaty introduced in the United States Draft of July 15, 1941. In that Memorandum it was said textually:

“The Government of Mexico insists on the inclusion in the Convention of Article 7, which appears in the attached Counter Draft and which has to do with an undertaking by the Government of the United States not to present any claim in the future based on the application of Mexico's agrarian laws which might result in damage or injury to properties acquired by nationals of the United States after the signing of that Convention. In this regard, it is recalled that in the Memorandum of November 16, 1940, presented by the Ambassador of Mexico to Under Secretary Welles, which, together with that which the latter had, in turn presented on October 7, 1940,²² constitutes the basis of the present negotiations, special mention was made of the fact that the settlement of claims should contain a clause under which the Government of the United States would agree ‘to refrain from resorting to diplomatic action in those cases in which the agrarian legislation may be applied, in the future, to lands or properties of Americans acquiring them subsequent to the date of the Agreement which may be concluded.’ In the same memorandum, the reasons were given on which the Government of Mexico bases its attitude and which it continues to consider absolutely justified.”

²¹ Neither printed.

²² *Foreign Relations*, 1940, vol. v, p. 1048.

Article 7 of the Mexican Counter-Draft, to which the memorandum of August which has just been transcribed refers, is conceived in the following form :

“ARTICLE 7

“The Government of the United States of America agrees not to present, directly, indirectly or in any way, any claim to the Government of the United Mexican States, because of the application of Mexican agrarian legislation, which might result in damage or injury to properties acquired after the signature of the present Convention by nationals of the United States of America in the territory of the United Mexican States.”

4. On September 2, 1941, a conference was held between the Legal Counselor of the Embassy and Messrs. Herbert Bursley and Benedict English of the Department of State in which the question of diplomatic protection was taken up.²³ The gentlemen representing the Department of State objected to the inclusion in the Convention of a clause containing the waiver of such protection, suggesting the possibility of an exchange of notes simultaneous with the signing of the Claims Convention; they expressed the necessity that, in any case, those notes should not be made public, and they also expressed their desire that the Mexican Government should agree to exceptions to such waiver, for the cases of Americans acquiring real property subsequent to the signature of the Convention through a title other than that of purchase, as, for example, by inheritance, judicial adjudication, etc. Counselor Córdova at once stated that he considered it possible to make the above-mentioned exceptions, whenever it was a question of acquisitions more or less involuntary on the part of Americans, and in good faith. Messrs. English and Bursley told Counselor Córdova that the question of the waiver of diplomatic protection, requested by Mexico, was undoubtedly one of the difficulties which the Department had under study, but that the Government of Mexico could depend upon the complete good will of the officials of the State Department to accede to its desires.

5. On September 15th a conference took place attended by the Ambassador of Mexico, the Legal Counselor of the Embassy, Mr. Duggan, Political Adviser, Mr. Bursley, Assistant Chief of the Division of American Republics, and Mr. English, the three last mentioned being from the Department of State.²³ The Ambassador advised the American officials that on Saturday, the 13th, in the afternoon, the Embassy had received new instructions from the Department of Foreign Relations of Mexico with reference to the Draft Claims Convention, and that the purpose of the interview was to propose some amend-

²³ Memorandum of conversation not printed.

ments to the said Draft. Counselor Córdova read the proposed modifications and additions and then each one of them was considered separately. On the question of the waiver of diplomatic protection, it was made known to the representatives of the Department of State that the Government of Mexico appreciates the reasons of the American Government for not including in the Convention the seventh article of the Mexican Counter-Draft and is therefore in accord with making it the subject of an undertaking by means of an exchange of notes simultaneous with the signature of the Convention. The draft notes were then read which the Government of Mexico proposed on this subject, and copies of the said drafts were left in the hands of the Department of State representatives. Mr. Bursley pointed out that, in the last part of the draft note from the Department of State to the Embassy, as proposed by the Government of Mexico, it only spoke of "inheritance based on blood relationship", without taking into account conjugal inheritance. The Ambassador of Mexico agreed to the addition of this case, and it was understood that, after the texts had been approved by Mr. Hull, the final decision on the proposed texts would be made known to the representatives of the Embassy.

6. On September 16, 1941 Mr. Bursley requested an interview with Legal Counselor Córdova²⁴ at which the representative of the State Department set forth, with complete exactitude, the respective positions of his Department and of the Embassy on the negotiation of the Claims Treaty, which explanation limited to four the questions then pending for satisfactory solution:—(a) the amount of the annual instalments; (b) the payment of the interest on unpaid instalments; (c) the survival of five patrimonial claims originating prior to October 5, 1940 and officially presented to the two Governments after that date; and finally, (d) (the extinction of the personal claims arising after March 1, 1924, and prior to January 1, 1927).

Since September 15, 1941 the Department of State had not again made any reference to the question of the exchange of notes in which the waiver of diplomatic protection was to be made, and on the contrary, the entire negotiation was confined to the possibility of Mexico's waiving its pretension to exclude the Banco San Lorenzo claim from the extinctive effects of the proposed Convention. Only after a satisfactory solution had been found, in principle, for the San Lorenzo question has the problem of the exchange of notes, which since September 15 seemed to have been settled, likewise in principle, again arisen in an unexpected form. This reopening of the question is all the more unexpected because now the Embassy is advised of the inability of the Department of State to agree to waive diplomatic protection for the cases of Americans acquiring real property in Mexico

²⁴ Memorandum of conversation not printed.

subsequent to the signature of the Convention, which inability had never even been mentioned by the representatives of the Department of State.

711.12/1649¹/₂₁

The Mexican Embassy to the Department of State

INFORMAL MEMORANDUM

I

An informal study made recently by United States Treasury and Mexican officials showed how very unfavorable is Mexico's balance of payments. The heavy loss of gold and dollars by the Bank of Mexico in recent months proves that conclusion. The underlying causes of this situation are, of course, a decrease in Mexican exports because of the war, and an increase in the value of Mexico's imports from the United States.

II

As Mexico has undertaken to pay to the United States certain obligations, and as additional foreign obligations will have to be met sooner or later, it is reasonable to expect that Mexico's balance of payments will tend to become more and more unfavorable as time goes on, unless something is done quickly to strengthen the Mexican economy.

III

In order to meet this very serious menace, without disrupting Mexican-American trade through monetary devaluation, tariff walls or other arbitrary methods, there can be but one logical policy for Mexico: to increase production of goods, both for the domestic and the United States markets. Aware of this fact, the Mexican Government has approved and is now carrying out an economic plan. This plan includes, among other things:

1. To increase the production of tropical and sub-tropical products, such as oil seeds and bananas, both for the local and the United States markets;
2. To stimulate the production of manufactured goods, such as cellulose and rayon, which were previously imported into Mexico from countries outside the Hemisphere, and which cannot be supplied by the United States;
3. To stimulate the production of semi-manufactured goods such as steel sheets and plates, of which there is a scarcity even in the United States and which are vital to Mexican industry;
4. To develop one or several bodies of high-grade iron ores in order to ship such ores to the United States where they are sorely needed;
5. To establish plants for the production of heavy chemicals and fertilizers;

6. To increase the capacity of electrical power plants. There is a chronic deficiency of power which has held back Mexico's economic development during the last ten years;

7. To build one or more dry-docks to repair and build Mexican shipping. At present Mexico does not have such facilities nor can she avail herself of American dry-docks, because of the present emergency;

8. To increase the efficiency of the Mexican railroad system, through the acquisition of new material and equipment, so that said system can take care of the increased volume of freight resulting from new trade with the United States and within Mexico;

9. To finish, in the shortest possible time, the dams and irrigation projects which were started by previous Administrations;

10. To complete Mexico's road system with a view both to finish the Mexican section of the Pan American highway and to open up the West Coast to automobile traffic.

IV

The advantages of this plan, both to Mexico and the United States cannot be over-estimated. Through its realization, not only would Mexico's foreign-trade balance become favorable, but also the standard of living of the Mexican people would be raised considerably. For the United States this program would mean, in the short run, an increasing volume of the so-called critical materials from Mexico, and, in the long run, the greater capacity of Mexicans to consume American manufactures.

V

However, Mexico cannot even hope to accomplish the realization of this program without the full cooperation of the United States. Much of the machinery and equipment that Mexico will buy need not be entirely new, for even during the present emergency usable second-hand plants are still available. But Mexico will also need the cooperation of the American Government in order to be able to purchase some new equipment. On the other hand, a fair portion of the capital necessary to carry out this economic program can and will be readily furnished by Mexicans and the Mexican Government, but still another portion has to be borrowed by Mexico from the United States.

VI

Should the U. S. Government find it possible to cooperate with the Mexican Government towards the realization of the economic scheme herein outlined, it is respectfully suggested that the United States Government, through one of its agencies, appoint a liaison officer devoted exclusively to:

a.—Discuss the plan with Mexican authorities;

- b.*—Advise them on priorities and export licenses related to the carrying out of the plan;
- c.*—Cooperate with them on the technical and financial aspects of the program;
- d.*—Discuss with them such questions as affect the economic defense of both countries;
- e.*—Cooperate with them in general in economic and financial matters of interest to both Governments.

WASHINGTON, October 7, 1941.

412.11 (41) Agreement/77

Memorandum by the Legal Counselor of the Mexican Embassy (Córdova), the Assistant Chief of the Division of the American Republics (Bursley), and the Assistant to the Legal Adviser (English)

The Legal Counselor of the Embassy of Mexico, Roberto Córdova, and the representatives of the Department of State, Herbert S. Bursley, Assistant Chief of the Division of the American Republics, and Benedict M. English, Assistant to the Legal Adviser, after exchanging their points of view on the Claims Convention now being negotiated between Mexico and the United States, herewith summarize their understanding with regard to the effects of the provisions of the said Convention.

The stipulations of the said Convention include exclusively claims which have or have had as their object the specific protection of one or more of the nationals of Mexico or the United States of America, presented, or not presented, by either of the Governments to the other and which have not been the subject of any international arbitral award, with the exception of the claims decided by the General Claims Commission, in accordance with the Convention of September 8, 1923²⁵ and the Protocol of April 24, 1934,²⁶ which are included in the Convention being negotiated.

The representatives of the Embassy of Mexico and of the Department of State have agreed to record their understanding in this Memorandum, done in duplicate, in English and Spanish, and which they sign on the 14th day of October 1941, at Washington, D. C., United States of America.

R. CÓRDOVA
HERBERT S. BURSLEY
BENEDICT M. ENGLISH

²⁵ *Foreign Relations*, 1923, vol. II, p. 555.

²⁶ *Ibid.*, 1934, vol. V, p. 470.

711.12/1683a : Telegram

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

WASHINGTON, November 18, 1941—9 p. m.

683. The agreements with Mexico that have been under negotiation will be signed tomorrow (Wednesday) afternoon. Copies of the texts relating to claims and the petroleum expropriation will be sent you by air mail tomorrow. The text of the note on petroleum expropriations will be made public. A brief résumé only will be made public of the claims convention.

HULL

[For summary of the agreements reached between the United States and Mexico, November 19, 1941, see Department of State *Bulletin*, November 22, 1941, page 400. For text of the Claims Convention between the United States and Mexico, signed at Washington, November 19, 1941, see Department of State Treaty Series No. 980, or 56 Stat. (pt. 2) 1347. For the exchange of notes regarding expropriation of petroleum properties, see Department of State Executive Agreement Series No. 234, or 55 Stat. (pt. 2) 1554.]

412.11 011/2

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

WASHINGTON, November 19, 1941.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note of today's date reading as follows:

"I have the honor to refer to our recent conversations regarding the scope of the Claims Convention signed today as well as of the notes exchanged today with reference to compensating the nationals of the United States of America whose properties, rights or interests were affected to their detriment by acts of expropriation or otherwise by the Government of Mexico subsequent to March 17, 1938.

It is my understanding that any claims which may have arisen between August 30, 1927 and March 17, 1938 in connection with petroleum properties, rights or interests of nationals of the United States of America within the United Mexican States are not affected by the above-mentioned convention and notes.

It is also understood that such claims of said nationals against the Government of Mexico, or of that Government against said nationals or their rights, properties or interests, which arose between August 30, 1927 and March 17, 1938, will be the subject of a future agreement."

In reply, I have the honor to inform Your Excellency that my understanding of the matters discussed in the note quoted above is in accordance with your own.

Accept [etc.]

CORDELL HULL

412.11 011/13

The Mexican Ambassador (Castillo Nájera) to the Secretary of State

[Translation]

WASHINGTON, November 19, 1941.

MR. SECRETARY: I have the honor to remit to Your Excellency, herewith, a draft in the amount of \$9,000,000.00 (nine million dollars), currency of the United States of America, signed by Licenciado Eduardo Suárez, Secretary of the Treasury and Public Credit, and by me, on the Banco de México, S. A. I make this remittance in execution of the second paragraph of article 16 of the Agreement contained in the notes exchanged on this date, on account of the indemnification of nationals of the United States of America whose properties, rights or interests were affected by acts of the Government of Mexico, after March 17, 1938.

The above-mentioned sum constitutes the deposit stipulated in said article 16, and is therefore subject, as to its application or possible return to the Government of México, to the terms of the said Agreement and, especially, to articles 15 and 16 thereof.

I shall be grateful to Your Excellency if you will be so good as to acknowledge the receipt of the draft which I send herewith and I avail (etc.)

F. CASTILLO NÁJERA

711.12/1662 : Telegram

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

MEXICO, November 21, 1941—10 a. m.

[Received 4:42 p. m.]

642. The press reacted enthusiastically at the signing of the agreements in Washington. President Avila Camacho stated "this is a great event in the friendship between Mexico and the United States of America and not only for them but also for all the countries of the Americas. It confirms the Good Neighbor policy". Padilla in a longer statement said in effect that the conclusion of the agreements marks a new milestone in the history of Mexican-American relations; that it shows that Mexico knows how to perform its international

duties while maintaining all of its rights of sovereignty; that Mexico and the United States are practising a policy of inter-American good neighborliness and of solidarity in the defense of democratic institutions; that the settlement of outstanding questions between the two countries will permit a better and more intimate solidarity between the two peoples and will promote intense and just friendship between them which is in accordance with their destinies.

Editorial comments will be forwarded by air mail.

McGURK

711.12/1683 : Telegram

The President of Mexico (Avila Camacho) to President Roosevelt

[Translation]

MEXICO, November 22, 1941—2 p. m.

[Received 5:25 p. m.]

On the occasion of the conclusion between Mexico and the United States of America of the various agreements signed in the city of Washington on the 19th instant, I wish to state to Your Excellency my sincere appreciation of the spirit of loyal cooperation which constantly directed the diplomatic negotiations which were indispensable to achieve, by common agreement, a settlement of problems which, although they never endangered the bonds of firm friendship which unite our nations, did nevertheless long occupy the attention of our chancelleries. I have an intimate conviction that the agreements signed will be of real benefit to the two countries and I am sure that they will mark a point of departure, within the work of continental solidarity which our Governments are pursuing, for a fuller understanding between Mexico and the United States. I am also convinced that the conclusions which we have reached will necessarily give a new opportunity to the American countries accurately to estimate the advantages of friendly action, of mutual understanding and respect, as established by the good neighbor doctrine which Your Excellency has defined in terms which are an exhortation to the world for nations to live together in peace and are a solid guarantee for the future of democracy in America.

I renew [etc.]

MANUEL AVILA CAMACHO

711.12/1683 : Telegram

President Roosevelt to the President of Mexico (Avila Camacho)

WASHINGTON, November 26, 1941.

In thanking you for your telegram ²⁷ on the occasion of the signing of the agreements between Mexico and the United States on November 19, I desire to express my concurrence with your view of the great potentialities for constructive achievement represented by the agreements.

Your generous statement regarding the Good Neighbor policy is most gratifying to me especially since that policy now prevails so generally throughout the Americas.

The agreements establish for future generations an anniversary which they may celebrate with pride in the demonstration of what may be accomplished by two friendly nations in seeking mutually beneficial resolution of problems which have perplexed them for many years.

Accept [etc.]

FRANKLIN D. ROOSEVELT

711.12/1660

The Department of State to the Mexican Embassy

MEMORANDUM

Reference is made to the memorandum of the Ambassador of Mexico of October 7, 1941 regarding a cooperative program embracing the immediate expansion of production in Mexico of certain strategic and critical materials and products needed in the defense program of the United States and a longer run development of the natural resources and industry of Mexico. The memorandum suggests that such cooperation could be furthered by the appointment by the Government of the United States of a liaison officer to work closely with the Mexican authorities in planning and carrying out the program.

The Government of the United States has given careful consideration to this matter and believes that the cooperation suggested offers a most promising opportunity for important and constructive action of benefit to both the United States and Mexico. It is prepared, accordingly, to make available every facility at its disposal for the careful examination of the various individual projects which would be included in a broad program of the sort described in the Ambassador's memorandum. It proposes, therefore, to appoint a well-qualified and experienced representative, to be assisted where neces-

²⁷ *Supra.*

sary and desirable by appropriate technical experts, to proceed to Mexico to carry out this work in cooperation with the Mexican authorities.

It is suggested that the most efficient results might be obtained by the appointment by the Government of Mexico of a representative to work directly with the representative of the Government of the United States and to furnish direct liaison with the appropriate Mexican agencies.

WASHINGTON, November 26, 1941.

412.11 OH/22

The Secretary of State to the President of the Standard Oil Company of New Jersey (Farish)

WASHINGTON, December 6, 1941.

MY DEAR MR. FARISH: I refer to your letter of November 13, 1941,²⁸ with further reference to the plan for the appraisal and payment of compensation for properties, rights, and interests of American nationals in the Mexican petroleum industry affected by the Mexican Decree of Expropriation dated March 18, 1938, or by other acts of the Mexican Government.

Since this plan was discussed with you and other representatives of American interests on September 27²⁹ and October 28³⁰ and in the Department's letter of October 28 [29], with enclosure, as well as in your letter of October 8 and your letter under acknowledgment,³¹ it is scarcely necessary in this letter to enter into any further discussion of the plan. As you know, the Department on November 19 signed an agreement with the Mexican Ambassador adopting a plan substantially identical with that in question. There are enclosed for convenient reference copies of my statement to the press on November 19³² and of the Department's general press release of the same date.³³

It was a source of very deep regret to the Department that your company did not agree with it concerning the desirability of proceeding with the agreement just signed. For the reasons with which you are familiar, the Department believes that the agreement is a constructive step forward toward the final solution of the petroleum dispute.

²⁸ Not printed.

²⁹ Memorandum of conversation not printed.

³⁰ No record of conversation of October 28 found in Department files.

³¹ None printed.

³² Department of State *Bulletin*, November 22, 1941, p. 399.

³³ *Ibid.*, p. 400.

As you have been informed, the Department will have a very definite interest in the evaluation proceedings as provided in the agreement and it is desirous that the American expert have at his command all pertinent data. The agreement contains provision for the submission by the various American interests to the experts to be appointed of all data deemed by them to be proper for those experts to take into consideration in determining the value of the respective claims. The Department hopes that your company will take full advantage of this opportunity to file with the American expert the necessary information and such arguments as it may think proper in order that he may intelligently perform his functions in support of your interests in evaluation proceedings.

In conclusion, I assure you of the Department's desire to be of whatever assistance it properly can in obtaining adequate compensation for the affected American interests.

Sincerely yours,

CORDELL HULL

412.11 OH/27

*The President of the Standard Oil Company of New Jersey (Farish)
to the Secretary of State*

NEW YORK, December 29, 1941.

[Received December 30.]

DEAR MR. SECRETARY: I have for acknowledgment your letter of December 6 and the enclosures therewith relating to the Department's plan for the appraisal and payment of compensation for the properties, rights and interests of American nationals in the Mexican petroleum industry affected by the Mexican decree of expropriation dated March 18, 1938, and by other acts of the Mexican Government. We have learned more recently through press reports of your further action in this matter, namely, the appointment of Mr. Morris Llewellyn Cooke as the United States expert designated in accordance with the agreement signed by you and the Mexican Ambassador on November 19.

In compliance with your request, this company will cooperate with the Department of State and with the American expert in the submission of data and appropriate arguments to assist Mr. Cooke in the performance of his duties.

Since the principles involved in the Mexican problem vitally affect the security of all investments abroad, we are hopeful that you will instruct the American expert to adhere to the established principles of international law so clearly set forth by your Department as applicable to this controversy.

Very respectfully yours,

W. S. FARISH

412.11 OH/27

*The Secretary of State to the President of the Standard Oil Company
of New Jersey (Farish)*

WASHINGTON, December 31, 1941.

MY DEAR MR. FARISH: I have received your two letters of December 29, 1941,³⁴ regarding the forthcoming evaluation proceedings established by the exchange of notes on November 19, 1941, between the Governments of the United States and Mexico whereby each of those Governments has appointed an expert whose duty it shall be to determine the just compensation to be paid the nationals of the United States of America whose properties, rights or interests in the petroleum industry in the United Mexican States were affected to their detriment by acts of the Government of Mexico subsequent to March 17, 1938.

I am sincerely appreciative of the cooperative position taken by the Company as set forth in your communications under acknowledgment.

Mr. Morris Llewellyn Cooke, the American expert designated by the President of the United States, has been fully informed by the Department of its views and policies with regard to the compensation due from the Mexican Government to the affected nationals of the United States.

Mr. Cooke is leaving tonight for Mexico City for exploratory conversations with the Mexican expert. He has informed the Department that he does not contemplate holding any formal hearings while in Mexico but that upon his return to the United States towards the end of January he would welcome full conversations with you and the presentation by you of any data or representations you may care to submit. If, under these circumstances, however, you desire to have any of your representatives call upon Mr. Cooke for informal discussions, he will be glad to receive them, in Mexico.

Sincerely yours,

CORDELL HULL

711.12/1660

The Department of State to the Mexican Embassy

MEMORANDUM

Further reference is made to the memorandum of His Excellency the Ambassador of Mexico, dated October 7, 1941, regarding a cooperative program embracing the expansion of the natural resources and industry of Mexico, and to the Memorandum of this Government, dated November 26, 1941, which stated the opinion that such

³⁴ One of these letters not printed.

collaboration would be of essential and strategic benefit to both the United States and Mexico. It was also stated that this Government was accordingly prepared to make available every facility for the examination of the individual projects composing the broad program outlined in the Ambassador's Memorandum, and to this end would designate a well qualified and experienced representative, to be assisted, where necessary and desirable, by appropriate technical experts, who would proceed to Mexico to carry out this work in co-operation with the Mexican authorities.

Careful consideration is being given to the selection of the representative referred to, and it is expected that the designation will be made in the near future. Meanwhile, Dr. Alan M. Bateman has been designated by this Government as the technical expert to assist in matters pertaining to the production of minerals. The brief biography attached³⁵ clearly indicates, it is believed, Dr. Bateman's high qualifications for this important work.

It is expected that Dr. Bateman will proceed to Mexico within the next two or three weeks, and it is hoped that by the time he reaches Mexico the Mexican Government will have designated the minerals expert with whom he will cooperate.

WASHINGTON, January 16, 1942.

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO REGARDING CONTROL OF EXPORT OF CRITICAL AND STRATEGIC MATERIALS

811.20 Defense (M)/1438a : Telegram

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

WASHINGTON, March 13, 1941—7 p. m.

101. The Department is preparing a circular³⁶ to all our missions in the American republics regarding the establishment by the American republics of a system of export control over materials imported from the United States by the other American republics and subject to export control by the United States, and strategic materials and materials important in our national defense program and for the general defense of all the American republics which are produced in the other American republics. In this connection an especially difficult situation has arisen with regard to the supply of zinc. There is a shortage of zinc in connection with our national defense program,

³⁵ Not attached to file copy.

³⁶ Dated April 1, vol. VI, p. 151.

and commercial contractors as well as the Government of the United States are anxious that all possible supplies of zinc be made available to the United States.

The American Smelting and Refining Company has informed us that it has contracts entered into last July for the delivery of some 3,000 tons of zinc to Japan. With production in progress at the Rosita plant it proposes to furnish this metal to Japan during the next 3 months, shipping to the United States the rest of its production over and above Mexican requirements.

It would be extremely helpful to the United States if the Mexican Government felt it possible to take some action in these circumstances, prior to the full consideration and working out of the system of export control proposed in the Department's circular instruction.

Please discuss this situation with the Minister for Foreign Affairs and report to the Department.

HULL

811.20 Defense (M)/1544

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

No. 12463

MEXICO, March 26, 1941.

[Received March 28.]

SIR: I have the honor to refer to the Department's confidential telegram No. 101 of March 13, 7 p. m., 1941, requesting that I discuss with the Minister of Foreign Affairs of the United Mexican States the question of an export control by the Mexican Government. I also have the honor to refer to my despatch No. 12398 of March 17, 1941,³⁷ in answer to the Department's forementioned Telegraphic Instruction No. 101. At the request of the Under-Secretary of Foreign Affairs, Lic. Jaime Torres Bodet, I, accompanied by the Commercial Attaché,³⁸ called on the Under-Secretary on the morning of March 26th, and received from him an informal memorandum regarding the question of establishing an export control. As enclosures hereto, you will find the Spanish text and translation of the informal memorandum in question.³⁷ I would like to point out to the Department the very friendly tone of the memorandum as well as the wholesome desire expressed therein to cooperate with us.

In a nutshell, the essence of the informal note in question is as follows:

1.—The Mexican Government is willing and has the legal means to exercise an export control, but, prior to doing so, it feels that it is

³⁷ Not printed.

³⁸ Thomas H. Lockett.

indispensable to receive from the United States the assurance that it could sell the products under control in the American market under conditions favorable to its economy and that the prices of such products would not be inferior to those prevailing in North American markets.

2.—If the above assurance can be given, then, the Mexican Government will enact the laws necessary for the export control of some articles.

3.—The Mexican Government feels that the above agreement could be made by a simple exchange of notes and that discussions between the Mexican Department of Foreign Relations and the Embassy could determine the characteristics of the agreement and the products to be included.

4.—The Mexican Government will not find it inconvenient to prohibit the re-exportation from Mexico of articles imported from the United States and which are subject to United States export control.

5.—However, the Mexican Government points out its need for continuing to receive with regularity and promptness many articles which are on the United States Export Control List with particular reference to iron (ingots and scrap) and machinery and would welcome the assurances of the American Government in this respect.

Apart from the contents of the informal memorandum from the Foreign Office, the Sub-secretary brought up the question of petroleum. He said that shipments to Japan had been completely discontinued since last December and that the only existing outlet for Mexican petroleum of any consequence is now in the United States. Mr. Bodet said that the Mexican quota under the Venezuelan Treaty was increased only 1,000,000 barrels for this year over last year. He said that his Government felt that in view of the very close cooperation between our Governments, it was hoped the United States would reconsider the oil quota to Mexico and enlarge it materially. The Under-Secretary emphasized quite strongly the necessity for Mexico to find a larger petroleum market in the United States.

The Under-Secretary also said that any suggestions from the American Government in reference to the characteristics of an export control would be welcome.

In summary, the informal memorandum from the Under-Secretary means that Mexico is ready to exercise an export control after the products are agreed upon and assurances have been given to the effect that the United States will absorb the controlled products under favorable conditions and at prices prevailing in the North American markets. I await your further advice in this matter.

Respectfully yours,

JOSEPHUS DANIELS

811.20 Defense (M)/1544: Telegram

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

WASHINGTON, May 10, 1941—7 p. m.

218. Reference is made to the Embassy's despatch no. 12463 of March 26, 1941. The Federal Loan Agency has now indicated its willingness to enter into an agreement with the Mexican Government on the following terms:

1. The Mexican Government would agree to establish a system of export control. Such export control would prohibit the exportation to countries other than the United States and the other American republics, which have established parallel systems of export control, of the following materials: antimony, arsenic, bismuth, cadmium, cobalt, copper, fluorspar, graphite, henequen, lead, manganese, mercury, mica, molybdenum, tin, tungsten, vanadium, zinc.

2. The Federal Loan Agency, through its subsidiaries, will agree to purchase all the Mexican supplies of these materials available for export which may not be absorbed by the American market through ordinary commercial channels. The amounts of the exportable surplus will be specified in the agreement at a figure slightly higher than the present exportable surplus.

3. The price to be paid for each of the materials would be negotiated with the Mexican Government.

4. It is contemplated that the contract would be for a term of 2 years. In addition, it is suggested that provision be made for the extension of the period at the option of the Federal Loan Agency.

In order to proceed as rapidly as possible with negotiations, the Federal Loan Agency is prepared to send immediately a representative to Mexico City with full power to negotiate an agreement covering the above points with the Mexican Government.

Please inform the Department by telegraph whether the Mexican Government is willing to have a representative of the Federal Loan Agency proceed at once to Mexico City.

HULL

811.20 (D) Regulations/2399: Telegram

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

MEXICO, May 20, 1941—3 p. m.

[Received May 21—4:30 a. m.]

220. Reference to Department's telegram no. 218, May 10, 7 p. m. Mexican Government generally agrees to contents of Department's telegram no. 218 and my note no. 5146 of May 12 to the Foreign Office.⁴⁰ Note from Foreign Office of May 19 indicates desire of Mexican Government to apply export control not only to products

⁴⁰ Latter not printed.

mentioned in Department's telegram no. 218 but to all products on the United States export control list which are produced in Mexico. Note from the Foreign Office states that Mexico is selecting its representative and is only awaiting the arrival in Mexico City of the representative of the United States to begin conversations. Spanish text and translation of note are being sent by air mail today.

DANIELS

811.20 (D) Regulations/3275 : Telegram

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

MEXICO, July 11, 1941—3 p. m.

[Received 11:02 p. m.]

301. From Douglas and Boal⁴¹ for Feis⁴² and to be communicated to Clayton.⁴³

Following is translation of the text of the decree submitted to President Avila Camacho for signature yesterday. It is planned that this would be published on July 15 and become effective then:

“Manuel Avila Camacho, Constitutional President of the United Mexican States, to its inhabitants, know ye:

That based on fraction 5 of article 12 of the organic law, of article 28 of the Constitution,⁴⁴ and on article 22 of the customs law in effect; and considering:

That it is the decision of the Mexican Government to follow the tendencies established in the Habana Conference to achieve the tranquility and safety of the American countries;

That the exportation is inadvisable to the safety and tranquility of Mexico of certain products to countries which are not subject to a system similar to that established in this decree, or to legal systems the practical results of which are similar to those herein sought;

At the request of Mr. Boal, I have seen fit to issue the following.

Decree:

1. The exportation is prohibited of the following products to all those countries which may not be considered as countries of the Americas, and shall cease further, to any other country which has not established export limitations the practical results of which are similar to those sought by this decree:

a. Henequen; istle of lechuguilla, of maguey of mezcal and of palm; pita; similar fibers; binder twine and cables and cords manufactured with the above-mentioned fibers;

b. Antimony, arsenic, bismuth, cadmium, zinc, cobalt, copper, fluorspar, tin, graphite, manganese, mercury, mica, molybdenum, lead, tungsten and vanadium, whether in material, concentrated or metallic form.

⁴¹ Walter Douglas, former president of the Southern Pacific of Mexico, and Pierre de L. Boal, Minister in Nicaragua, temporarily in Mexico as U. S. representative in the export control discussions.

⁴² Herbert Feis, Adviser on International Economic Affairs.

⁴³ William L. Clayton, Deputy Federal Loan Administrator.

⁴⁴ For translation of Constitution, see *Foreign Relations*, 1917, p. 951.

2. The Department of National Economy, after consultation with the Department of Foreign Relations, shall determine which countries are those not comprised within the prohibition established in the preceding article; and shall fix the rules necessary for compliance with this decree.

Article 3. The exportation of products not included in the list contained in article 1 paragraphs *a* and *b* is free to any country and shall continue to be effected under the limitations and legal conditions which have been followed to the present time.

Article 4. This decree shall become effective on the day of its publication.

Make this known, published and complied with.

Given in the Palace of the Federal Executive Power on the 10th day of the month of July 1941.

The Constitutional President of the United Mexican States. The Secretary of Foreign Relations Ezekiel Padilla. The Secretary of Finance and Public Credit Eduardo Suarez. The Secretary of National Economic [*Economy*], Francisco Javier Gaxiola Junior.[""]

[Douglas and Boal]

DANIELS

811.20 (D) Regulations/3275: Telegram

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

WASHINGTON, July 16, 1941—6 p. m.

352. For Boal from Feis. Please confirm by telegraph the Department's understanding that Douglas' letter to Wiechers⁴⁵ is dated July 15, 1941 and that the decree establishing export control was actually signed on July 10 and published on July 15⁴⁶ in the form transmitted to the Department in your 301 of July 11, 3 p. m. [Feis.]

WELLES

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO TO FACILITATE THE RECIPROCAL TRANSIT OF MILITARY AIRCRAFT, SIGNED AT WASHINGTON, APRIL 1, 1941

811.2312/151

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

WASHINGTON, April 7, 1941.

MY DEAR MR. SECRETARY: For your convenient information there is enclosed a copy of the Department's press release of April 1, 1941⁴⁷

⁴⁵ Luciano Wiechers, economic adviser of the Bank of Mexico, and Mexican representative in the export control discussions.

⁴⁶ On July 18 the Department received confirmation of its understanding. The decree and letter, which constitute agreement, were published in the newspaper *El Nacional* on July 15, 1941.

⁴⁷ Department of State *Bulletin*, April 5, 1941, p. 437.

relating to the agreement signed that day between the United States and Mexico ⁴⁸ to facilitate the reciprocal transit of military aircraft. Copies of the agreement have already been informally furnished the War and Navy Departments for their strictly confidential information. It will be recalled that as a result of conversations between officers of the War and Navy Departments and Mexican Army and Navy officers, decision was reached in principle for the agreement in question. Thereafter, the Mexican Embassy presented to this Department a draft of agreement which, with modifications, became the agreement just signed. Officers of the War Department and the Navy Department were consulted by this Department in connection with the draft and changes made therein.

The Department of State views the agreement as an important step in the development of friendship, cooperation and defense collaboration between the two countries, and it is further believed that the reaching of the agreement reflects most favorably upon the good neighbor policy, as well as upon the tact and skill of the Army and Navy officials of the two countries who made this agreement possible.

In view of the fact that an agreement of this character presents a number of difficult and delicate Mexican domestic political problems and also in the interest of the harmonious working and continuance of the agreement, I venture to recommend most strongly that your Department omit no step to prevent any untoward incidents arising from the use of the facilities referred to in the agreement. For instance, it is felt that at least in the first few weeks of operations under the convention, every effort should be made to hold to a minimum the number of flights over and landings in Mexico. It is particularly important that the officers and men participating in the flights be very tactful in their dealings with Mexican officials and civilians with whom they may come in contact. Likewise, I am confident that any Mexican flights entering the United States under the agreement will receive the most courteous treatment and the benefit of all facilities which this country may properly extend.

It might be desirable to have the first flight under the agreement, after its ratification, made into the United States by Mexican aircraft in order that it may be demonstrated to the Mexican public that the agreement works both ways. At the time of such a flight, if arranged, the War or Navy Department may see fit to arrange appropriate ceremonies of a modest character symbolical of the friendship, and brotherhood in defense, of the military forces of the two countries.

A similar communication has been addressed to the Secretary of the Navy.

Sincerely yours,

For the Secretary of State:
SUMNER WELLES

⁴⁸ Department of State Treaty Series No. 971; or 55 Stat. (pt. 2) 1191.

NICARAGUA

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA, SIGNED OCTOBER 16, 1941¹

817.24/10-1641

Agreement Between the United States and Nicaragua Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington, October 16, 1941

WHEREAS the United States of America and the Republic of Nicaragua declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938,² they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,³ and the President of the Republic of Nicaragua have determined that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Nicaragua are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Nicaragua have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

¹ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics," vol. vi, pp. 133 ff.

² For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

³ 55 Stat. 31.

ARTICLE I

The United States of America proposes to transfer to the Republic of Nicaragua under the terms of this Agreement armaments and munitions of war to a total value of about \$1,300,000. The United States of America proposes to begin deliveries immediately and to continue deliveries as expeditiously as practicable during the coming twelve months to an approximate total value of \$250,000 for use by the Nicaraguan Army and an approximate total value of \$50,000 for use by the Nicaraguan Navy.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Nicaragua similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Nicaragua, the defense needs of the Republic of Nicaragua or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

Thereupon the Republic of Nicaragua shall pay in dollars into the Treasury of the United States of America the total cost to the United States of America of the defense articles theretofore delivered up to a total of \$900,000 less all payments theretofore made, and the Republic of Nicaragua shall not be required to pay

more than a total of \$150,000 before July 1, 1942,
more than a total of \$300,000 before July 1, 1943,
more than a total of \$450,000 before July 1, 1944,
more than a total of \$600,000 before July 1, 1945,
more than a total of \$750,000 before July 1, 1946, or
more than a total of \$900,000 before July 1, 1947.

ARTICLE III

The United States of America and the Republic of Nicaragua, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided

all fiscal obligations of the Republic of Nicaragua hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,⁴ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Nicaragua is in a position to supply, the Republic of Nicaragua will make such defense articles and defense information available to the United States of America.

ARTICLE V

The Republic of Nicaragua undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Nicaragua.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Nicaragua, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the Republic of Nicaragua of any defense article or defense information, it is necessary for the Republic of Nicaragua to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Nicaragua will do so, when so requested by the President of the United States of America.

⁴ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Nicaragua who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Nicaragua.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed at Washington in duplicate, in the English and Spanish languages, this sixteenth day of October, 1941.

For the United States of America

CORDELL HULL

*Secretary of State of the
United States of America*

For the Republic of Nicaragua

LEÓN DEBAYLE

*Envoy Extraordinary and Minister
Plenipotentiary of the Republic of
Nicaragua at Washington*

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA RESPECTING THE DETAIL OF A U.S. ARMY OFFICER TO SERVE AS DIRECTOR OF THE MILITARY ACADEMY OF THE NATIONAL GUARD OF NICARAGUA, SIGNED MAY 22, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 217 or 55 Stat. (pt. 2) 1327.]

PANAMA

NEGOTIATIONS BETWEEN THE UNITED STATES AND PANAMA RELATING TO THE LEASING OF DEFENSE SITES IN PANAMA;¹ TWELVE-POINT REQUEST BY THE PANAMANIAN GOVERNMENT

711F.1914/168 : Telegram

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

PANAMA, January 7, 1941—3 p. m.

[Received 8 : 24 p. m.]

6. My telegram No. 4, January 6, 4 p. m.² This morning the Minister for Foreign Affairs³ handed me an *aide-mémoire*⁴ in reply to the Department's recent *aide-mémoire*⁵ regarding the leases. It is a lengthy statement of the Panamanian position largely along the lines already known to the Department. I shall transmit the text and a translation by direct air mail due in Washington Friday morning. The essential points are as follows: The Panamanian Government hopes that the Department will reconsider its offer and grant Panama a reasonable price for the leases more in consonance with the burdens, dangers, and moral sacrifices which they entail for Panama. It insists that the United States shall have jurisdiction only over military personnel. It states that if the grant of new lands is made in the spirit of articles II and X of the 1936 treaty⁶ it follows that once the unforeseen contingency or threat of aggression disappears the lands are no longer required and revert to Panama; that it is inconceivable that the unforeseen contingency or threat of aggression last more than 6 years and that consequently leases for a longer period would not be justified; but that if they did still exist the leases could

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 1072 ff. See also Almon R. Wright, "Defense Sites Negotiations Between the United States and Panama, 1936-1948", Department of State *Bulletin*, August 11, 1952, pp. 212-219.

² Not printed.

³ Raúl de Roux.

⁴ *Infra*.

⁵ See telegram No. 196, December 28, 1940, 2 p.m., to the Ambassador in Panama, *Foreign Relations*, 1940, vol. v, p. 1085; for Spanish translation of *aide-mémoire*, as presented on December 30, 1940, by the American Embassy to the Panamanian Foreign Office, see Panama, *Memoria que el Ministro de Relaciones Exteriores Presenta a la Asamblea Nacional en sus Sesiones Ordinarias de 1943 (1940-1942)*, p. 166.

⁶ General treaty of friendship and cooperation between the United States and Panama, signed at Washington, March 2, 1936. For text, see Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807; for correspondence, see *Foreign Relations*, 1935, vol. iv, pp. 889 ff.

surely be extended and that in such an event no Panamanian Government would object to their extension.

Immediately after receiving the *aide-mémoire* I had a long personal interview alone with President Arias. I referred to the seriousness of the world situation as set forth in President Roosevelt's recent speeches, to the great urgency of providing for the defense of the Canal, and to recent unfavorable comments concerning Panama in the American press. I urged upon him the extreme desirability of early action not only because of the existing emergency but also in order to place Panama in a better light. I told the President that the *aide-mémoire* which I had just received would prove very disappointing to the Department and that I had hoped to be able to advise it that the Panamanian Government was prepared to include [*conclude?*] the leases on terms satisfactory to the United States. He said that as respects the *aide-mémoire* it was a [statement of?] Panama's position which the Government must place on record for its own and the country's protection. Speaking unofficially, he said that it was fully agreed in principle that Panama would make the tracts available, that we would of course obtain them, that he realized fully that if necessary we would proceed to occupy them, and that I could telegraph the Department that the Panamanian Government was prepared to negotiate leases on mutually satisfactory terms.

He said that he would like to have the new Panamanian Ambassador in Washington ⁷ have an opportunity to discuss the whole matter with the Department and if possible with President Roosevelt. He said that he had never thought for a minute of holding us up in connection with the leases but that as a patriotic Panamanian he considered it his duty to defend to the utmost the interests of his little country. Speaking with great frankness he stated that he did not see how he could go before the National Assembly and propose leases based on the Department's recent terms, but that on the other hand if he were in a position to tell the Assembly that Panama is to receive some further advantage, not necessarily in the form of direct compensation for the leases, he was confident that matters could be arranged rapidly and that with the Assembly's approval authorization could be granted the Army to undertake preliminary work on the preparation of defense positions without awaiting formal conclusion of the leases. As possible concession for the Department's consideration the President mentioned the improvement of that portion of the national highway lying between Sona and David.

DAWSON

⁷ Carlos N. Brin.

711F.1914/171

*The Panamanian Ministry for Foreign Affairs to the American Embassy in Panama*⁸

[Translation]

AIDE-MÉMOIRE

1. The arrangement between the United States and Great Britain involving United States destroyers⁹ of a value of several millions of balboas does not appear to represent only the fair value of the privately-owned land within the leased areas. Other considerations of a wider scope are those which have weighed in the minds of both Governments and explain and justify the agreements signed. These considerations are very similar to those which at present motivate the request made by the Government of Washington of the Government of Panamá for the establishment of air bases and electric detectors and searchlights at different points in the Republic; and for that reason it appears logical to hope that, in fixing the rental price for the areas required for such purposes, the same criterion will be applied which inspired the arrangements recently effected between the United States and Great Britain.

Panamá is ready to cooperate in the general defense of the Hemisphere; but it must necessarily abide by the interpretation which all the American nations have given to this commitment, according to which such cooperation cannot involve any obligation affecting the sovereignty or the political independence of an American State.

It cannot be denied that in the defense of the Western Hemisphere in which the United States is so nobly engaged, the Isthmus is a beneficiary; but so is the United States, in the first instance, and the remaining countries of the Continent. And there is no just reason why Panamá, one of the smallest and poorest of the American Republics, should bear all the burdens without any appreciable benefit.

The Canal defense plan, prepared by the United States War and Navy Departments, represents practically the military occupation of the Isthmus by North American armed forces, and this circumstance cannot be considered and accepted by the Republic of Panamá as a result of the obligation incumbent upon it in the defense of the Hemisphere. No Panamanian citizen would have signed a commitment having such a scope and no Latin American nation would ask of Panamá such a sacrifice, if they were consulted.

2. Although it is true that in the last paragraph of Article 2 of the General Treaty between Panamá and the United States signed in

⁸ Copy transmitted to the Department in Embassy's despatch No. 860, January 8; received January 11.

⁹ See *Foreign Relations*, 1940, vol. III, pp. 49 ff.

1936 both countries "recognize their joint obligation to insure the effective and continuous operation of the Canal and the preservation of its neutrality", it is also true that this obligation, as respects "the utilization of lands or waters additional to those already employed" only binds the Government of the Isthmus "in the event of some unforeseen contingency". And it could not be otherwise, since in the first paragraph of the same article "the United States of America declares that the Republic of Panamá has loyally and satisfactorily complied with the obligations which it entered into under Article 2 of the Convention of November 18, 1903"¹⁰ and that "in recognition thereof the United States of America hereby renounces the grant made to it in perpetuity by the Republic of Panamá of the use, occupation and control of lands and waters which may be necessary and convenient for the construction, maintenance, operation and protection of the Panama Canal . . .".¹¹

With regard to the application of Article 10 of the General Treaty the point of view of the Department of State merits the most careful attention and respect. Nevertheless, the present situation, however difficult it may be, does not seem yet to present an imminent threat of aggression "which would endanger the security of the Republic of Panamá or the neutrality or security of the Canal" justifying measures affecting the territory under the jurisdiction of the Panamanian Government without adequate compensation for the consequent burdens and sacrifices.

The cooperation which Panamá offers the North American people "nobly and sincerely", as His Excellency the President of the Republic, Dr. Arnulfo Arias, expressed it in beautiful words in his recent address, is inspired by the very deep desire of giving particular effect to the "good neighbor" policy, which honors so signally His Excellency President Franklin D. Roosevelt, rather than by the contractual obligations to which the Isthmus and the great Nation of the North are parties.

3. The Government of Panamá has learned with real pain of the slight importance which the Government of the United States seems to attach to the sacrifice which the concession of further lands means for the Isthmus. Their intrinsic value cannot serve as a basis for lease negotiations between two sovereign countries, because their value is not the same in the international sphere. Panamá would never grant to any country at any price the use of any part of its territory; and it is only by virtue of the special relations which bind it to the United States that it agrees to consider with sympathy the request made by the Government of Washington.

¹⁰ *Foreign Relations*, 1904, p. 543.

¹¹ Omission indicated in the original *aide-mémoire*.

It is hoped that the Department of State, in a broadly comprehensive spirit, will reconsider its offer and grant to Panamá a reasonable price for the projected leases more in consonance with the burdens, dangers and moral sacrifices which such concessions impose upon the country.

4. The jurisdiction which the United States shall exercise over the leased areas must be defined precisely before the drafting of the contracts. The Government of Panamá insists that the Government of the United States shall have jurisdiction only over military personnel on duty in the leased areas and that all other persons residing therein, whatever their nationality may be, shall be under Panamanian jurisdiction.

5. If the grant of new lands is made in the spirit of Articles 2 and 10 of the Treaty of 1936, cited by the Department of State, we must agree that once there has disappeared the "unforeseen contingency" or the "threat of aggression which would endanger the neutrality or security of the Canal", "the sites required for the purpose of defending the neutrality or security of the Canal" are no longer necessary and their utilization must revert to the Republic of Panamá. It is not conceivable that the "unforeseen contingency" or "threat of aggression" last more than six years and consequently contracts for a longer period would not be justified under these clauses. However, if the "unforeseen contingency" or the "threat of aggression" should still be imminent, the contracts could most surely be extended. It is not possible that in cases such as these any Panamanian Government would object to the extension of the contracts in question.

PANAMÁ, January 7, 1941.

711F.1914/168 : Telegram

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

WASHINGTON, January 9, 1941—9 p. m.

4. Your 6, January 7, 3 p. m. Since it cannot now be foreseen how long the United States will desire to use the lands now desired for defense, the Department tentatively believes that an annual rental rather than a lump sum payment would form a better basis for negotiation. If you concur, please discuss this with the Commanding General¹² and obtain from him urgently his estimate of a fair annual rental for each of the desired tracts based on a fair valuation of the property and improvements if any.

¹² Maj. Gen. Daniel Van Voorhis, Military Commander of the Panama Canal Department.

The Department continues to believe that the term of the leases should be for 99 years with a proviso for returning the lands to Panama as soon as they are no longer required.

HULL

711F.1914/228

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

[WASHINGTON,] January 24, 1941.

The Ambassador of Panama called to see me today to make his first visit upon me since his arrival in Washington. I greeted the Ambassador very cordially and told him that I knew well of his brilliant professional career and of the magnificent surgical work which he had undertaken at the hospital in Panama.

The Ambassador commenced the interview by requesting the services of certain technicians, which question is dealt with in a separate memorandum.¹³

I inquired of the Ambassador whether he had any recent information as to the status of the negotiations between the representatives of this Government and the Panamanian Government for the acquisition of sites outside of the Canal Zone to be utilized for defense purposes by the Canal authorities. The Ambassador said that he understood that progress had been made but that certain basic questions still remained to be settled and he thereupon requested that I arrange for the President to receive him in order that he might take up some of these problems with the President¹⁴ by instruction of President Arias.

I replied to the Ambassador that I would be very glad to communicate his request to the White House and that I would let him know when a reply was received. I then asked the Ambassador what these basic difficulties might be. The Ambassador replied that the Government of Panama desired to obtain more tangible and greater benefits for the people of Panama in return for the additional defense sites which would be granted in Panamanian territory than the mere compensation for the lands taken over. The Ambassador said that public opinion in Panama did not favor the granting of these additional sites if Panama did not really benefit therefrom. He said that the Government of Panama fully recognized its obligation under the treaty of 1936 to agree with the Government of the United States upon the granting in Panamanian territory of any additional sites required for the defense of the Canal, but that it could not agree to

¹³ Not printed.

¹⁴ See memorandum of February 18, p. 430.

grant these additional sites, which he claimed were seventy-seven in number, for a period of ninety-nine years. He said that the Republic of Panama was small in extent but the location of these sites comprised the entire territory of the Republic and would result in making Panama an armed camp for a century unless the term for which these sites were granted were to last solely for the period of the emergency. I replied to this that the Ambassador stated precisely my own belief, namely, that the two countries were bound as partners to take all measures which might be necessary for the proper defense of the Canal and that these additional defense sites now under contemplation were, of course, only to be requested so long as the defense of the Canal made their taking over necessary. I said that it would seem to me that the Government of Panama must recognize, as did this Government, that inventions in modern warfare made necessary types of defense which had not previously been contemplated and that, consequently, it was impossible to predict whether some of these desired sites would have to be retained for an indeterminate period or whether all could be turned back to Panamanian occupation immediately after the present international conflagration had been extinguished.

The Ambassador seemed to agree with this statement of principle and reiterated the desire of Panama to cooperate in every possible way for the defense of the Canal.

I then inquired of the Ambassador what the tangible and material advantages, which the Ambassador had stated should accrue to Panama, might be. The Ambassador then mentioned the construction of a tunnel under the Canal to relieve the congestion of traffic between one side of the Republic and the other; the donation of the Panama Railway lots to the Panamanian Government; the removal of the railroad station in Panama City to a site which would not impede the improvement of the capital; and the immediate relinquishment of the aqueduct and waterworks to the Government of Panama.

Certain of these desiderata were discussed in some slight detail and I then said to the Ambassador that in order to save time in the consideration of these proposals, it would be well for the Ambassador to send me in memorandum form the list of these requests of his Government. The Ambassador said that he would send me such a memorandum at the earliest possible moment.

Before he left the Ambassador again stated that President Arias was sincerely desirous of working in the closest harmony and cooperation with the United States and that if such were not the case, the Ambassador would not have relinquished his flourishing practice in Panama in order to accept the mission as Ambassador in Washington. Dr. Brin declared that this Government could count on the most loyal

cooperation of the people of Panama and the present Government of Panama and that the Panamanian Government fully recognized its obligations as one of the American family of nations.

S[UMNER] W[ELLES]

711F.1914/227

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

[WASHINGTON,] January 31, 1941.

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

I told the Ambassador that I had submitted to the President the Ambassador's request for an audience in order to submit to the President in the name of the President of Panama a series of very far-reaching suggestions which, if carried out, would imply the turning over by the Government of the United States of a great many millions of dollars. I said to the Ambassador that the President had requested me to inform him that due to the heavy pressure of official business at this time, the President was unable to receive him for the moment, but that the President, of course, would be glad to see him later on. I said that the President had also requested me to say that he believed that in view of the explicit treaty obligations of Panama contracted in the Treaty of 1936 with the United States, the Government of Panama should immediately proceed to make available to the Canal authorities the sites outside of the Zone required for the defense of the Canal and agree upon equitable and full compensation therefor. I said that in the judgment of the President the world situation was grave and speed in turning over to the Canal authorities the defense sites necessary was of the utmost importance. Finally, the President requested me to say that when Panama had in this manner complied with the treaty obligations, this Government would be very glad to consider any suggestions for further cooperation between Panama and the United States which Panama desired to present.

The Ambassador argued at very great length. He brought up the same questions which had arisen during past years alleging that the commissariats were depriving the people of Panama of their just commercial advantages, that the roads of Panama were being destroyed by the military forces of the Canal Zone which were using them, et cetera, et cetera.

I went into a long exposition of this Government's policy which had been manifested by its willingness to negotiate the Treaty of

1936. I said to the Ambassador that I did not believe there was another government in the world that would have been willing voluntarily, through a treaty negotiation, to relinquish some of the rights accruing to it under the Treaty of 1903. I said that this Government had done that because of its desire to show the Panamanian people its true friendship through willingness to relinquish to the Panamanian people all commercial and material advantages possible in connection with the operation of the Canal, and at the same time, what was perhaps even more important, to remove from the Treaty of 1903 all of the provisions which had in any way appeared to be derogatory to the Republic of Panama as an independent and sovereign nation. I said the one advantage, in my opinion, that had been obtained from the Treaty of 1936 was that both Governments recognized their joint obligations as partners to defend and operate the Canal. I said that as a partner in this enterprise, Panama was now obligated to make possible the efficient defense of the Canal, particularly in this grave world emergency. I said I could not for a moment concede that Panama required any further compensation in order to carry out these obligations.

I stated that when the Treaty of 1936 had been ratified, the then Government of Panama, through its official representatives, had informed me that Panama believed that all of its just aspirations had been fully met. I said it would be an intolerable situation if, with every new administration that came into power in Panama, this Government found itself required to pay vast sums to Panama in the nature of new concessions as a means of persuading Panama to carry out her treaty obligations.

The Ambassador then blandly made the suggestion by instruction of his Government, that the United States advance to Panama all of the Canal annuities for the next fifty years. The Ambassador said that in this way the American bondholders could all be paid off and Panama would be able to relieve her economic situation. I said that this situation to my mind was inconceivable and that I could not comprehend the reference to the economic situation of Panama since, to my knowledge, Panama was the only one of the twenty-one American Republics which today was in a highly prosperous situation and that this was due entirely to the work on the Canal which had been undertaken at the expense of the Government of the United States, the money being spent on this work accruing, of course, to the benefit of Panama and likewise making possible the employment of practically every employable Panamanian citizen.

At the conclusion of our conversation, I summarized by saying that I desired to impress upon the Ambassador, by instruction of the President, the belief of this Government that the Government of

Panama should immediately reach an agreement in Panama with the Canal authorities so that the defense sites necessary might be turned over to the Canal authorities. I said that if this were agreed to, I would be very glad to initiate discussions with the Ambassador covering the points raised in his memorandum but with the definite statement on my part that this willingness to discuss these points in no sense implied any responsibility on the part of this Government to accede to any one of them. I said that this Government during the past eight years had time and again, in a material way and in a very practical way, shown its desire to cooperate to the advantage of Panama and that this policy would continue. I said that this policy was inherently reciprocal and required reciprocal consideration on the part of the Government of Panama for the legitimate requirements of the Canal and for the legitimate interests of the United States.

I took occasion to say to the Ambassador that Secretary Hull had told me that he would like to have a talk with him on this same matter and that I had no doubt that an appointment would be arranged for the Ambassador by the Secretary's office.

S[UMNER] W[ELLES]

711F.1914/179 : Telegram

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

PANAMA, February 6, 1941—4 p. m.

[Received 8 : 58 p. m.]

22. Department's telegram No. 17 of February 4.¹⁵ As General Van Voorhis leaves Saturday for about a week he and I sought an immediate interview with the President which was granted this morning. It appeared that little or no information had been received from Ambassador Brin concerning his conversation with the Under-Secretary. I communicated verbally to the President the substance of the Department's telegram omitting point 4¹⁶ and inquired what steps the Panamanian Government might have in mind to expedite the availability of the lands. The President said that the matter would have to be taken up with the Cabinet and National Assembly and that it would be greatly facilitated if only he could point to something that Panama was receiving in return.

The General and I reminded him of what Panama was already receiving and made it very clear that Panama's further [aspirations?]

¹⁵ Not printed; it summarized the memorandum of January 31, *supra*, and instructed the Ambassador as follows: "You may inform General Van Voorhis of the above; and inquire of President Arias what steps the Panamanian Government may have in mind to expedite the availability of the lands in question." (711 F.1914/178a)

¹⁶ See fifth paragraph of memorandum of January 31, *supra*.

would be considered only after compliance with its obligations and that the best means of expediting their consideration by our Government would be to expedite the availability of the lands. In conclusion the President said that he would proceed to take the matter up with the Cabinet and the National Assembly and in this connection he requested that I give him something in writing preferably before the next Cabinet meeting on Tuesday. He requested specifically that it contain a reference to the highway known as access road P-8 for which General Van Voorhis already has funds available.

I respectfully request that the Department inform me whether it would approve a communication along the following lines:

“Confirming his conversation of February 6 with His Excellency, the President of the Republic, and supplementing his *aide-mémoire* of December 30 last,¹⁷ the American Ambassador has the honor to state that the Government of the United States considers that in view of Panama’s treaty obligations the lands required for defense should be made available immediately and that the Panamanian and Canal Zone authorities should agree upon an equitable compensation therefor.

After the Government of Panama has complied with its obligations in this respect its aspirations will receive due consideration on the part of the Government of the United States, although no commitment can be made in advance to accept any one of the several proposals suggested the total value of which would reach many millions of dollars.

In this connection, the Ambassador desires further to state that as part of the defense program it is the intention of his Government to construct as soon as practicable the 20-foot highway between Madden Dam and the city of Panama known as access road P-8 along the lines already discussed between His Excellency, the President, and General Van Voorhis.”

DAWSON

711F.1914/179 : Telegram

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

WASHINGTON, February 8, 1941—5 p. m.

21. Your 22, February 6, 4 p. m. The Under Secretary has had a further conversation with the Panamanian Ambassador regarding the leases of defense sites. Dr. Brin stated that his Government was prepared to proceed at once with the leases. He took occasion, however, to raise the question of the impairment to the sovereignty of Panama which his Government thought might occur if jurisdiction were accorded the United States over the desired lands. The Under Secretary stated that this point of view was entirely theoretical; that the United States does not feel that its jurisdiction over the Canal Zone will be impaired by granting Panama jurisdiction over the

¹⁷ See footnote 5, p. 414.

precincts of the proposed Panama customhouses in the Canal Zone. The Ambassador finally appeared to agree.

With respect to the term of the leases, the Ambassador stated that President Arias did not wish to grant the leases for a term longer than that of his administration or, in any event, that term plus one additional year.

The Under Secretary stated that this Government could not consent to that thesis; that the obligation to cooperate in this manner for the defense of the Canal was undertaken not by any particular administrations in Panama, but by the Republic of Panama; that the lands should be leased for so long a period as the two Governments consider their use necessary to the defense of the Canal.

With reference to the communication to be delivered to President Arias, the Department considers the following text to be preferable:

“Confirming his conversation of February 6 with His Excellency the President of Panama and supplementing his *aide-mémoire* of December 30 last, the Ambassador of the United States of America has the honor to state that the Government of the United States considers that, with the coming into effect of the general treaty, it has generously met the aspirations of Panama to take full advantage of its geographical position in relation to the Canal, while at the same time the Republic of Panama has undertaken to cooperate in the defense of the Canal. The Government of the United States therefore considers that with regard to the leasing of lands required for that defense, Panama should make these sites available immediately and that the Panamanian and Canal Zone authorities should agree upon an equitable annual rental therefor, based on the fair value of the desired lands.

“Upon the compliance by the Government of Panama with its treaty obligations in this respect, the Government of the United States will be glad to give friendly and careful consideration to the suggestions for assistance advanced by the Government of Panama.”¹⁸

For your confidential information, the Department will consider carefully which of the various “compensations” which have been proposed by Panama it might be willing to grant as “friendly gestures”. It might, for example, favor the removal of the railway station and the construction of certain highway projects, including the P-8 road, as well, possibly, as maintenance of roads used during the period of the emergency to an unusual degree by our armed forces. It is not desired to offer the construction of the P-8 road in any way as an inducement to Panama to make the defense sites available and reference to this road should accordingly be deleted from the communication you make to President Arias.

HULL

¹⁸ The Ambassador in Panama delivered this communication to the Secretary General of the Presidency of Panama on Monday, February 10.

711F.1914/182 : Telegram

*The Ambassador in Panama (Dawson) to the Secretary of State*PANAMA, February 13, 1941—5 p. m.
[Received February 14—10:10 a. m.]

25. Department's telegram No. 21 of February 8, [5 p. m.]. On Monday I delivered to the Secretary General of the Presidency a communication following precisely the text set forth in the Department's telegram under reference. The matter was considered by the President and Cabinet on Tuesday and in a long conference commenced yesterday and continued today the Minister of Foreign Relations gave me the Government's reply which at my request he set forth today in writing in a communication of which the following is a close translation :

In our conference which lasted in all over 3 hours the Minister reviewed at great length the Panamanian position and arguments, principally as set forth in his *aide-mémoire* of January 7, and in turn I expressed in the strongest terms our own position and our views regarding Panama's clear obligations under the treaty. I made every effort to dispel the Minister's apprehension touching present and future effects on Panama's sovereignty and to convince him that prompt compliance with our request was not only Panama's duty but also in its own best interest. The new points developed in our conversation may be summarized as follows.

1. The Minister complained that instead of furnishing a reasoned reply to his *aide-mémoire* of January 7 we had responded with what was almost an ultimatum.

2. He said that Ambassador Brin had been unable to discuss Panama's aspirations with President Roosevelt whereas President Arias had received me repeatedly as well as General Van Voorhis. I reminded him that the Under Secretary had told the Panamanian Ambassador that the President would receive him later.

3. The Minister suggested the desirability of a personal conference between the two Presidents as the best means of settling promptly all pending problems. Speaking personally although undoubtedly with the knowledge of the President and Cabinet he said that he was confident that an invitation from President Roosevelt to visit Washington would be accepted by President Arias. To this I made no reply other than that in my opinion Panama must first settle satisfactorily the question of making available the lands required for defense purposes.

4. I told the Minister that I regretted deeply having to send my Government such a reply as he had given me and that this reply and his statement regarding Panama's interpretation of its treaty obligations seemed to be in contradiction with the Panamanian position thus far and the Government's many protestations of its desire to cooperate.

He replied that Panama's interpretation of the treaty had been set forth in his *aide-mémoire* of January 7 and that its position from the outset had been dictated by its friendly desire to cooperate rather than by any obligation under the treaty. He asserted that both articles II and X contemplate contingencies or emergencies of a temporary nature which could not justify a demand for 99-year leases and that if Panama acceded to our request as at present formulated there would be created a precedent authorizing the permanent military occupation of the tracts under discussion and of further lands as requested from time to time by our military authorities. In spite of my arguments and assurances to the contrary he maintained that this would place the country in virtually the same situation as obtained prior to 1936. The Minister said that if the Government of the United States were to inform the Government of Panama that there exists a threat of aggression in the sense of article X and if it based thereon a request for lands for defensive purposes to be made available for the duration of such a threat or emergency, then quite a different situation would exist.

DAWSON

711F.1914/183 : Telegram

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

PANAMA, February 14, 1941—8 p. m.

[Received 10:10 p. m.]

27. My telegram No. 25 of February 13. In a conversation which I have just had with President Arias he assured me and authorized me to assure the Department that if the Government of the United States informs the Government of Panama that there exists a threat of aggression endangering the security of the Canal in the terms of article X of the treaty and bases thereon its request for the lands needed for the defense of the Canal, the Government of Panama in compliance with article X will make the tracts available immediately for the duration of the emergency. The President said that such a statement on the part of our Government would enable him to place the matter before the Assembly in a manner assuring its approval and that of public opinion.

DAWSON

711F.1914/183 : Telegram

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

WASHINGTON, February 17, 1941—1 p. m.

27. Your 25, February 13, 5 p. m., and 27, February 14, 8 p. m. You are requested to obtain an interview with the President of the Republic and hand him an *aide-mémoire*¹⁹ which reads as follows:

“The Government of the United States has given careful consideration to the views expressed by the Government of Panama, as set forth in the communication handed to the Ambassador of the United States by His Excellency the Minister of Foreign Affairs on February 13. The Government of the United States has likewise received with satisfaction the assurances conveyed to the Ambassador of the United States on February 14 by His Excellency the President of the Republic.

The Government of the United States, noting with pleasure the expression of the sincere desire of the Government of Panama to give its most ample cooperation to the Government of the United States in the general defense of the hemisphere and confident as it is of the joint desire of the two Governments to fulfill the obligations incumbent upon them by reason of the General Treaty of Friendship and Cooperation, signed on March 2, 1936, refers specifically to the second paragraph of Article II of the said treaty, which reads as follows:

‘While both Governments agree that the requirement of further lands and waters for the enlargement of the existing facilities of the Canal appears to be improbable, they nevertheless recognize, subject to the provisions of Articles I and X of this Treaty, their joint obligation to insure the effective and continuous operation of the Canal and the preservation of its neutrality, and consequently, if, in the event of some now unforeseen contingency, the utilization of lands or waters additional to those already employed should be in fact necessary for the maintenance, sanitation or efficient operation of the Canal, or for its effective protection, the Governments of the United States of America and the Republic of Panama will agree upon such measures as it may be necessary to take in order to insure the maintenance, sanitation, efficient operation and effective protection of the Canal, in which the two countries are jointly and vitally interested.’

The Government of the United States likewise refers to the provisions of Article X of the said treaty, which reads as follows:

‘In case of an international conflagration or the existence of any threat of aggression which would endanger the security of the Republic of Panama or the neutrality or security of the Panama Canal, the Governments of the United States of America and the Republic of Panama will take such measures of prevention and defense as they may consider necessary for the protection of their common interests. Any measures, in safeguarding such interests, which it shall appear essential to one Government to take, and which may affect the territory under the jurisdiction of the other Government, will be the subject of consultation between the two Governments.’

The Government of the United States has reached the conclusion that, in accordance with the provisions of the second paragraph of Article II above quoted, a contingency has now arisen not foreseen

¹⁹ Ambassador Dawson handed the *aide-mémoire* to President Arias on February 18.

at the time of the signature of the Treaty of 1936 which requires the utilization by the United States of additional lands for the effective protection of the Canal.

The Government of the United States has likewise reached the conclusion that, in accordance with the terms of Article X of the Treaty of 1936 above quoted, an international conflagration has broken out bringing with it the existence of a threat to the security of the Panama Canal which requires the taking of measures for the defense of the Canal on the part of the Government of the United States.

These measures of defense require the utilization of certain tracts of land within the territory of the Republic of Panama and outside of the Canal Zone, which tracts have been indicated to the Government of Panama by the appropriate authorities of the United States.

The Government of the United States therefore requests of the Government of Panama that, for the reasons above cited and in accordance with the provisions of the Treaty of 1936 above quoted, the Government of Panama transfer to the authorities of the United States the said tracts of land at the earliest opportunity. The Government of the United States stands ready, in accordance with the spirit of cooperation which animates both Governments, to consult immediately with the Government of Panama in order that a satisfactory agreement may be reached covering the method of transfer and the amounts to be fixed by agreement between the two Governments as equitable compensation for the lands whose utilization is now required.

The Government of the United States takes pleasure in stating that when and if the conditions which have now arisen and which require the utilization of the said tracts of land for the defense of the Panama Canal or for its effective protection cease to exist, the Government of the United States will return to the jurisdiction of the Republic of Panama the tracts of land in question."

In your conversation with the President of the Republic, you may make it clear that the communication which you are requested to hand to him is sent by direct instruction of the President.

Ambassador Brin has been informed that the President will receive him on February 18. At that time the President will make clear to him the serious view which he takes of this continued delay on the part of the Government of Panama in carrying out its treaty obligations. The President will likewise emphasize his belief that while the Government of the United States stands always ready and willing to consider in the most friendly spirit any request which the Government of Panama may make of it for economic or financial assistance, such requests for assistance cannot be regarded as forming any part of the discussions relating to the carrying out by the Republic of Panama of the treaty obligations incumbent upon it through the provisions of the Treaty of 1936.

711F.1914/189

The Panamanian Ambassador (Brin) to President Roosevelt

[WASHINGTON, February 18, 1941.]

[Translation]

MEMORANDUM

In keeping with the traditional friendship and community of interests which have always existed with the Government of the United States, the Government of Panama, through its Ambassador in Washington, takes the liberty of presenting certain petitions and, because it considers them of prime importance to the economic, industrial, and political development of the country, it would be especially pleased to see them favorably received by the Government of the United States of America.

The said petitions are set forth in general terms as follows:

1. That the aqueduct of the cities of Panama and Colón, now in the hands of the Panama Canal Administration, be transferred to the Government of Panama.

2. That Panama acquire the lands belonging to the Compañía del Ferrocarril [Railroad Company]²⁰ which, pursuant to the contract signed with the Government of Colombia and approved on August 15, 1867, are to revert to the Republic in August 1966.

3. That an equitable arrangement be reached to prevent contraband and the ruinous competition that the commissaries are at present causing in Panamanian commerce. The commissions created by the Treaty of 1936 have not produced the hoped-for result, more than anything else because of the changed situation brought about by the influx of immigrants for the construction of the third set of locks.

4. That the Government of the United States build a tunnel under the Canal or a bridge over it, which would be constantly open to the unrestricted traffic of Panamanian vehicles. From the military point of view, this measure would be of great value in the defense of the Canal and, furthermore, it is urgently needed for traffic between the capital and the interior of the Republic.

5. That highways which the Government of the United States may construct in territory under Panamanian jurisdiction be jointly patrolled for purposes of absolute security for Panama and for the Canal Zone.

6. That the Jamaicans brought in for construction work on the Canal be repatriated and that a formal promise be given not to bring in any more contingents. That the workers needed for the Canal works be engaged in Panama and, in the absence of a sufficient number, that they be brought from Latin American countries, provided that they do not belong to races whose immigration is prohibited by the Panamanian Constitution.

²⁰ Brackets appear in the file translation.

7. That municipal agents of the Canal Zone police do not bear arms of any kind while they are in territory under Panamanian jurisdiction, retaining only their clubs.

8. That when so requested by the Government, the Alhajuela Dam supply Panama with electric power at a price not to exceed one cent per kilowatt-hour.

9. That the Government of the United States pay the entire cost of the highway at least as far as Río Hato, and that it reimburse the amount already paid by the Republic of Panama.

10. That the railroad move the station to another part of the territory under United States jurisdiction, and that the present yard and other sites now occupied by it be cleared and transferred to Panama, to permit the widening of the thoroughfare between the residential districts and the center of the city.

11. That in the event of the interruption of traffic on the highways of the Republic by the transportation of war matériel or troops of the United States, reasonable compensation be granted to Panama.

12. That the United States Government cede to the Government of Panama adequate space near the Balboa wharves for the installation of three tanks for petroleum, gasoline, etc., the capacities of which will be determined later.

711F.1914/191 : Telegram

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

PANAMA, February 21, 1941—4 p. m.
[Received February 22—11:05 a. m.]

32. Department's telegram No. 27 of February 17. The Minister of Foreign Relations handed me an *aide-mémoire* today and stated that President Arias desired that it be communicated to President Roosevelt as his reply to the *aide-mémoire* which I handed him on February 18. I shall forward the Spanish text of the Panamanian *aide-mémoire* by direct air mail on Sunday. It reads as follows in translation:

"The Government of Panama has considered with all the attention which it merits the last *aide-mémoire* presented by His Excellency the Ambassador of the United States to His Excellency the President of Panama under date of February 18.

Respectful of its international obligations and favorably disposed to fulfill its repeated offers of cooperation in the general defense of the hemisphere, considering the statements contained in the said *aide-mémoire*, according to which the Government of the United States affirms that 'it has reached the conclusion that an international conflagration has broken out bringing with it the existence of a threat to the security of the Panama Canal', the Government of the Isthmus, in accordance with article X of the General Treaty of 1936, which stipulates the obligations which in cases like that in question would be incumbent upon Panama, is willing to grant to the Government of the United States the utilization of the lands necessary for defense,

within the territory of the Republic and outside the Canal Zone, for the duration of the international conflagration which motivates the request of the Government of the United States.

In accordance with the spirit which inspires article II of the General Treaty, by which the United States renounced the acquisition of new lands and waters in the Isthmus, and the spirit of article X of the same treaty which contemplates the use of new lands in exceptional cases and in a temporary manner, it is hoped that the Government of the United States will be willing to agree that once the present international conflagration has terminated the lands in question will revert to the Republic.

Likewise, it is hoped that the Government of the United States will consider the reasons set forth by the Government of Panama in the course of the conversations which have been held regarding the jurisdiction which the American authorities would exercise over the leased lands, and that it will agree that the said jurisdiction will be exercised only over its military personnel on duty.

The Government of the Republic of Panama has received with particular pleasure the assurance which the Government of the United States has given it of its readiness to establish by common accord the proposed compensation which may be appropriate.

If the Government of the United States accepts the general bases which this *aide-mémoire* contains, the Government of Panama will proceed without loss of time to authorize the preliminary preparation of the lands, and in accordance with the spirit of cooperation which animates the two Governments, will then begin to study and determine the terms of the pertinent agreements.

The new spirit of understanding and sincere friendship which distinguishes the *aide-mémoire* of the Embassy of the United States of the 18th of February has been very satisfactory to the Government of Panama. It is pleasing that the good relations happily existing between both peoples are closer and deeper each day and that the differences of environment to which they are necessarily exposed by reason of the interests of both countries, find an adequate solution, always friendly, which reaffirms more and more the sentiments of solidarity and cooperation which the two Governments desire keenly to preserve."

DAWSON

711F.1914/192: Telegram

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

WASHINGTON, February 25, 1941—7 p. m.

34. Your 32, February 21, 4 p. m. You are requested to obtain promptly an interview with the Minister for Foreign Relations and hand him an *aide-mémoire* in the following words:

"The Government of the United States has received the *aide-mémoire* of the Government of Panama transmitted by His Excellency the Minister for Foreign Relations of the Republic to the Ambassador of the United States under date of February 21.²² The Government of the United States appreciates fully the cordial and

²² See *supra*.

friendly spirit demonstrated by the Government of Panama in the communication under acknowledgement and is happy to have confirmed in this manner its understanding that the Government of Panama is determined to comply both in spirit and in letter with the obligations which it assumed under the terms of the treaty between the two countries of March 2, 1936, as well as to cooperate fully in the defense of the Hemisphere.

The Government of the Republic of Panama states that if the Government of the United States would be willing to agree that once the present international conflagration has terminated, the additional lands now urgently required by the United States for the defense of the Panama Canal, will revert to the Republic; and that if the Government of the United States will further agree that jurisdiction by authorities of the United States over such lands will be exercised only over the military personnel of the United States on duty 'the Government of Panama will proceed without loss of time to authorize the preliminary preparation of the lands, and in accordance with the spirit of cooperation which animates the two Governments, will then begin to study and determine the terms of the pertinent agreements.'

With reference to the former of the two desires expressed by the Government of Panama, the Government of the United States reiterates the statement contained in the *aide-mémoire* transmitted to the Government of Panama under date of February 18 which reads:

'The Government of the United States takes pleasure in stating that when and if the conditions which have now arisen and which require the utilization of the said tracts of land for the defense of the Panama Canal or for its effective protection cease to exist, the Government of the United States will return to the jurisdiction of the Republic of Panama the tracts of land in question.'

With reference to the second of the two desires expressed by the Government of Panama, the Government of the United States draws the attention of the Government of Panama to the fact that the latter is granted full jurisdiction by the United States within the customs houses to be set up by the Republic of Panama within the Canal Zone by virtue of the Treaty between the two Governments signed on March 2, 1936. The Government of the United States was glad to enter into this agreement because of its realization that in order to make it possible for the Government of Panama effectively to administer its customs services within these customs houses, the authorities of the Republic of Panama within the customs houses must be accorded full jurisdiction within those sites.

It is for exactly the same kind of a practical reason that the Government of the United States must be assured of adequate jurisdiction within the defense sites now required. The question is solely of a practical nature and carries with it no implication of any infringement of sovereignty. Its principal and obvious purpose is to safeguard military installations within the sites from possible espionage and sabotage.

The Government of the United States, accordingly, desires to propose that the question of jurisdiction over the necessary defense sites shall be regulated by an agreement between the two Governments as follows:

"The Republic of Panama retains its sovereignty over the desired areas of land and water but nevertheless consents that during the period of the temporary occupation by the United States of the said areas, the United States shall have complete use of the said areas, exclusive jurisdiction over military and civilian personnel of the United States, and their families, and over all other persons within these areas except citizens of the Republic of Panama. It is understood that within a reasonable time after the coming into effect of this agreement, the Government of the Republic of Panama will enact and keep in force adequate legislation to insure the prosecution, and severe punishment in case of conviction, of all citizens of the Republic of Panama for offenses committed within the said areas, and conferring jurisdiction for the trial of offenders upon the superior courts of the Republic of Panama to the exclusion of all inferior courts of the said Republic. It is further understood that if this agreement does not prove satisfactory for the maintenance, sanitation or efficient operation of the Canal or for its effective protection, the United States reserves the right to request the Republic of Panama to grant exclusive jurisdiction to the United States over the desired areas."

The Government of the United States confidently hopes that the Government of the Republic of Panama, in view of the urgency with which the defense sites are needed, will accord its prompt and sympathetic consideration of the practical character of the above suggested agreement.

Several months have already passed since the Government of the United States requested the Government of Panama, in accordance with the clear stipulations of Article II and of Article X of the Treaty of March 2, 1936, to transfer to the appropriate authorities of the United States the additional sites required for the defense of the Canal. The effective protection and the adequate defense of the Canal are problems which involve not only the security of the Republic of Panama and of the United States, but the safety of every one of the other American Republics as well. In view of the present world situation, the continued operation of the Canal is essential to the economic well-being of a great number of the American Republics; full and adequate defense of the Canal is of vital importance in order that the independence and integrity of the Western Hemisphere may be rendered unassailable.

The Government of the United States finds it necessary in the most friendly way to request of the Government of Panama that it authorize not only the 'preliminary preparation of the lands' required, but that it likewise transfer immediately to the proper authorities of the United States these sites in order that the necessary military preparations may be undertaken by these authorities without any further delay. As was stated in the *aide-mémoire* communicated to the Government of Panama under date of February 18, the Government of the United States stands ready thereupon to consult with the Government of Panama in order that an agreement may be had by the two Governments as to the amounts to be fixed as equitable compensation for the lands whose utilization is now required for the defense of the Canal.

The Government of the United States feels sure that as a result of the clarification above set forth, the desired steps will be immediately taken by the Government of Panama in order to prevent any further continuation of this delay which has already proven seriously prejudicial to the adequate protection of the Canal."

711F.1914/194 : Telegram

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

PANAMA, February 28, 1941—4 p. m.

[Received 9:29 p. m.]

33. Department's telegram No. 34, February 25. *Aide-mémoire* was handed the Minister of Foreign Relations yesterday. This noon he informed me that he had studied the *aide-mémoire* with the President, that the Panamanian Government desires to make available the defense sites without further delay, and that it has been decided so to advise the National Assembly at a conference to be held Monday morning at the Foreign Office. The Minister stated further that for the information of the people at large it is planned to issue an appropriate press communiqué on Monday afternoon. He said that as soon as these steps have been taken the Government will be prepared to discuss the *modus operandi* for making the tracts immediately available to our military authorities.

The Minister said that somewhat later next week he would hand me a reply to the Department's *aide-mémoire*. From his remarks this morning I believe that he will admit [*submit?*] a counter proposal for the agreement touching jurisdiction and that he will also submit his comments on certain other points. I shall report by air mail regarding this phase of our conversation.

DAWSON

711F.1914/200 : Telegram

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

PANAMA, March 5, 1941—6 p. m.

[Received 8:56 p. m.]

46. My telegram No. 45 of today.²³ There follows an English translation of the manifesto to the nation issued by the Panamanian Government this afternoon :

The Governments of the Republic of Panama and of the United States of America have recently exchanged ideas at the initiative of the latter concerning the situation created by the present European conflagration in so far as it may affect the security of the Panama Canal. The conversations have been carried on in a spirit of ample and perfect understanding and in the light of the Arias-Roosevelt Treaty of March 2, 1936, harmonizing the fulfillment of its contractual obligations with the imperious and unavoidable duty of safeguarding its own sovereign rights the Panamanian Government has considered carefully the requests of the North American Government. These requests tend concretely to obtain the use of certain sites outside

²³ Not printed.

the Canal Zone and in Panamanian territory for the installation of air bases and searchlight and detector positions which the Washington Government considers indispensable for the defense of the said interoceanic route basing its request on article X of the treaty. After studying the situation carefully at different meetings of the Cabinet Council the Government of Panama has decided to accede to the demands of the Government of the United States in view of the fact that the latter has reached the conclusion that in accordance with the terms of article X of the Treaty of 1936 an international conflagration has broken out bringing with it the existence of a threat to the security of the Panama Canal which requires the taking of measures for its defense on the part of the United States. Concern for the defense of the legitimate rights of Panama as respects its territorial integrity and its political independence jointly with the application of the Treaty of 1936 has led the Government of the Republic to subordinate the utilization of the sites requested to certain conditions, among them the following:

In the first place that the North American military authorities will occupy the said lands only for the duration of the present European conflagration so that they will be evacuated as soon as it ends. In the second place that the North American Government grant that of Panama adequate compensation; and finally the Republic of Panama exercise jurisdiction over civilians in the occupied sites in accordance with conditions which in the view of both governments may be necessary for the defense of the Canal. In view of the urgency expressed by the Government of the United States the Government of the Republic of Panama has permitted the authorities of the Canal Zone to commence the necessary military preparations. The Panamanian Government considers that the conditions indicated above and the final agreements between the two parties directly interested will give assurance that the future negotiations will be carried on without the slightest difficulty and in accordance with the letter and spirit of the Treaty of March 2, 1936.

DAWSON

711F.1914/202

The Panamanian Minister for Foreign Affairs (De Roux) to the American Ambassador in Panama (Dawson) ²⁴

[Translation]

The *aide-mémoire* which His Excellency the Ambassador of the United States delivered, in the name of his Government, to the Minister of Foreign Relations of the Republic under date of February 27 last has received the careful attention of the Government of Panamá.

There has been received with particular pleasure the assurance given by the Government of the United States that "when the conditions which have now arisen and which require the utilization of

²⁴ Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 980, March 5; received March 10.

additional lands for the defense of the Panama Canal cease to exist" these lands will revert to the Republic; it being understood that such conditions cannot be other than those indicated in the statement made by the Government of the United States in the *aide-mémoire* of February 18, which reads:

"The Government of the United States has reached the conclusion that, in accordance with the terms of Article X of the Treaty of 1936 an international conflagration has broken out bringing with it the existence of a threat to the security of the Panama Canal which requires the taking of measures for the defense of the Canal on the part of the United States."

With respect to the jurisdiction that the Government of the United States would exercise on the above-mentioned areas of land the Government of Panamá sees itself constrained to insist on its already known points of view, invariably maintained in its previous communications, whereby the Republic reserves to itself civil jurisdiction over all the lands and cedes to the United States jurisdiction over its military personnel on duty. However, appreciating the apprehension of the United States that acts of espionage or sabotage might endanger the military installations and its desire to protect them adequately against such emergencies, the Government of Panamá would agree that crimes of such nature be tried and punished by the competent authorities of the United States. Consequently, the proposed agreement might read as follows:

"The Republic of Panamá retains its sovereignty and complete civil jurisdiction over the required areas of land, water, and air space, and agrees that during the period of temporary occupation by the United States the latter has the complete use of such areas and exclusive jurisdiction over its military personnel on duty, being empowered, moreover, to try and punish all persons, without regard to nationality, who in the above-indicated areas may be apprehended and accused of crimes of espionage or sabotage."

The citation which is made in connection with the jurisdiction that the Treaty of 1936 grants to the Government of Panamá in the customs houses that the Republic is to establish in the Canal Zone does not appear pertinent inasmuch as these lands have never ceased to belong to the Isthmian Nation and the latter has always retained its sovereignty over them. In the case cited, it is not a question of lands the property of the United States passing to Panamanian jurisdiction and therefore there is no similarity whatever between the concession established by the Treaty of 1936 and that requested of the Panamanian Government for the establishment of the Canal defenses.

The statement made by the Government of the United States in its *aide-mémoire* of February 18 and repeated in the one of the 27th of

the same month, promising to consult with the Government of Panamá in order to fix by common agreement the adequate compensation which will be in order, is pleasing.

The Government of the Republic of Panamá deems it desirable to point out that there has existed on its part no desire to delay the agreement permitting the Government of the United States the utilization of lands necessary for the adequate defense of the Canal, and that the sole reason for this delay must be sought in the original form in which the request of the United States was presented, which did not really accord with the provisions of the General Treaty of 1936. Only in the *aide-mémoire* of February 18 of the Embassy of the United States was the request formulated within the letter and spirit of the contractual obligations devolving upon Panamá by reason of the above-mentioned international convention.

So sincere and profound is the desire of the Government of Panamá to cooperate in the effective defense of the Canal, and so firm its intentions to respect and meet its obligations toward the United States and the entire Western Hemisphere, that "in view of the urgency with which," according to the statement of the American Government, "these defense sites are needed", it is ready to authorize immediately the necessary military preparations in the certainty that in a full spirit of understanding and justice its aspirations will be duly considered and received with sympathy in the contracts to be signed later.

The Government of the Republic of Panamá will reach an agreement with the military authorities of the Canal Zone to provide the measures which may be required for the indicated purposes.

The National Assembly of Panamá will be informed of this situation beforehand, and an official communiqué given to the press for the information of the people in general.

PANAMÁ, March 5, 1941.

711F.1914/201a : Telegram

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

WASHINGTON, March 6, 1941.

42. The Secretary will make the following statement to the press at 12 noon today :

"I was most gratified, as will be all the people of this country as well as those of our sister republics in this hemisphere, to learn from the manifesto issued yesterday by the Panamanian Government that Panama will make available immediately to our military authorities certain sites in the Republic of Panama which are considered essential for the protection and security of the Panama Canal. In taking this

action, Panama has shown that the spirit of partnership in the defense of the Canal which is one of the fundamentals of the General Treaty between the two countries ratified in 1939 is a tangible and practical thing.

"In accordance with the manifesto, our military authorities will proceed immediately to the preliminary preparation of these defense sites. I am confident that the negotiations which are now in progress with regard to the details involved will be worked out to the mutual satisfaction of both our Governments."

While the Department is not satisfied with the conditions announced in the Panamanian manifesto under which the sites will be made available, the Department will not comment thereon until it has received the text of the *aide-mémoire* which, it is understood, has been handed to you by the Panamanian Foreign Office.

HULL

711F.1914/202 : Telegram

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

WASHINGTON, March 26, 1941—5 p. m.

51. Your despatch no. 980, March 5.²⁵ You are requested to obtain promptly an interview with the Minister of Foreign Affairs and hand him an *aide-mémoire* in the following words:

"The Government of the United States has received the *aide-mémoire* which His Excellency the Minister of Foreign Affairs of Panama handed on March 5, 1941 to the Ambassador of the United States. It is gratified to note that the Government of Panama, in view of the urgency with which the military authorities of the United States desire to obtain the use of certain sites in the Republic of Panama in connection with the defense of the Panama Canal, is disposed to make these sites available at once.

The Government of the United States has noted with much pleasure this manifestation of the desire of the Republic of Panama to cooperate in the defense of the Panama Canal and accepts with grateful thanks its kind offer to make these sites immediately available. It has directed its military authorities to proceed at once with the military preparation of these sites. The Government of the United States, moreover, is confident that since agreement has now been reached on the fundamental issue between the two Governments, the corresponding details may be rapidly and satisfactorily worked out in a continuing atmosphere of cordial and mutual understanding.

With respect to the question of length of time during which these sites for the defense of the Panama Canal will be required, the Government of the United States observes that the Government of the Republic of Panama has taken due note of the assurance given by the Government of the United States that 'when the conditions which

²⁵ See footnote 24, p. 436.

have now arisen and which require utilization of the additional lands for the defense of the Panama Canal cease to exist', the use of these lands will revert to the Republic of Panama. The Government of the United States has been pleased in this connection to give an assurance to the Republic of Panama that there exists in accordance with the terms of Article X of the Treaty of 1936 an 'international conflagration' which endangers the security of the Panama Canal. The Government of the United States likewise assures the Government of Panama that there exists an 'unforeseen contingency' such as that contemplated in Article II of the same treaty, under the provisions of which the two Governments have pledged themselves to agree upon such measures as may be necessary to insure that additional lands which may be needed for the effective protection of the Canal shall be made available. It is with this in mind that the Government of the United States feels that it cannot consent to the reversion of the desired lands to Panama as soon as the present 'international conflagration' terminates, for neither Panama nor the United States can now foresee what new and possibly greater threats to the security of the Panama Canal might conceivably follow in the wake of the termination of present hostilities and thus create new and additional dangers to the Panama Canal, to the Republic of Panama, to the United States of America, and to the other countries of this Hemisphere. The Government of the United States is therefore confident that the Government of Panama, in strict accordance with the letter and spirit of the Treaty of 1936, will agree to make the desired lands available for the duration of the 'unforeseen contingency' specified in Article II of that treaty, or for so long as they may be needed to insure the effective protection of the Panama Canal.

With regard to the question of jurisdiction over the desired sites, the Government of the United States again assures the Government of the Republic of Panama that, in seeking a measure of jurisdiction, no impairment of Panamanian sovereignty over the sites is desired or implied. A practical and workable measure of jurisdiction, however, to be exercised by the military authorities of the United States is essential. The Government of the United States has attentively examined the counterproposal respecting jurisdiction included in the *aide-mémoire* of March 5, 1941 but feels that it can hardly consent to relinquish jurisdiction at any time over its civil and military personnel on the sites, whether on duty or not, or over their families. As a practical matter, moreover, it could not consent to a joint policing of the areas by the police of the Republic of Panama and the military authorities of the United States. The Government of the United States invites the attention of the Republic of Panama to the fact that since the areas are to be used entirely as military reservations, it could not consent that its military authorities would lack the practical and essential authority to arrest and punish unauthorized persons for trespass thereon. The military authorities of the United States, however, would be glad to turn over to the authorities of the Republic of Panama for trial and punishment all persons other than its own civil and military personnel and their families apprehended on the sites in the commission of civil crimes other than that of trespass and of crimes against the safety and security of the military installations to be placed on them.

The Government of the United States desires in the most friendly manner to say that its requirements as to the length of tenure and jurisdiction as outlined above are a minimum which would be practical and workable, and it confidently hopes, therefore, that these minimum requirements will now be acceptable to the Government of Panama in order that contracts may be speedily concluded with full agreement as to the details now under discussion."

WELLES

711F.1914/220 : Telegram

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

WASHINGTON, March 31, 1941—7 p. m.

56. Your 64 and 65 of March 30.²⁶ While the Department wishes to avoid any situation which will make more difficult the negotiations with the Panamanian Government, it cannot emphasize too strongly that prompt occupation of the defense sites is now essential.

You are requested to seek an interview with the Panamanian Minister of Foreign Affairs or, in your discretion, with the President, and express the great pleasure with which this Government learned from the Panamanian *aide-mémoire* dated March 5, 1941 that the Government of Panama is agreeable to making these sites available at once. You should say that your Government is prepared to cooperate in this regard immediately, and has directed its military authorities to proceed at once with the occupation and preparation of these sites. With this in view, you should add, General Van Voorhis has prepared a schedule of dates on which it would be convenient for detachments from his forces to occupy the desired sites. You should then hand this schedule to the Minister. In order to comply with the formalities desired by the Panamanian Government, he would be pleased to have Panamanian members of the Joint Board accompany the detachments to the various sites and there make formal transfer of the sites. This would appear to be all the formality necessary at this time in as much as the sites have already been visited by competent authority. Since it may not be practicable for both or, in fact, either the Panamanian or American members of the Joint Board to be present on each occasion, more particularly in the case of outlying and remote sites, you should say that your Government would be agreeable to having present at the time of these occupations any representative of the Panamanian Government other than the Panamanian members of the Joint Board who might be designated for the purpose or, in fact, to forego the presence of a Panamanian representative if this better suited the convenience or the desires of the Panamanian Government.

For your information, the War Department desires that the transfer

²⁶ Neither printed.

of the sites more urgently needed take place within the next week or 10 days and that arrangements for the transfer of the remaining sites take place when and as the Army is prepared to occupy them.

In case, and only in case, the Panamanian Government should inquire when a reply to its *aide-mémoire* of March 5, 1941 may be expected, you may say that this reply is being studied and that it will be transmitted as soon as possible. Meanwhile the Department is confident that the Panamanian Government will agree to the procedure outlined in this telegram so that, in accordance with the clear provisions of the *aide-mémoire* under reference, the sites will be immediately available and the question of details left to subsequent discussion.

HULL

711F.1914/246

Memorandum by the Acting Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] April 4, 1941.

A meeting took place on April 3, 1941 at which the following were present:

The Ambassador of Panama
 Mr. Welles
 Mr. Duggan ²⁷
 Mr. Bonsal

The purpose of this meeting was to examine the twelve requests which were presented by the Ambassador of Panama to President Roosevelt about a month ago.²⁸ Mr. Welles stated that this was to be the first of a series of meetings at which the Ambassador and himself might arrive at a satisfactory basis of agreement which would then be submitted for approval to their respective Governments. The Panamanian Ambassador agreed to this procedure.

1. *The Waterworks at Colón and Panamá.*

Mr. Welles stated that he was in principle willing to turn over to Panama the waterworks in question so far as they are located on Panamanian soil, provided the following conditions are made:

(a) Pending the development of [by?] Panama of sources of supply on Panamanian soil, an arrangement will be reached between the Government of Panama and the Canal Zone to continue the present supply of water from the Canal Zone for use in Panamá and

²⁷ Laurence Duggan, Adviser on Political Relations.

²⁸ See memorandum of February 18, p. 430.

Colón subject to payment of reasonable compensation by the Government of Panama.

(b) The Panamanian Government will recognize its obligation to continue to pay to the Canal Zone the interest and amortization payments as provided in the Treaty of 1903.

The Panamanian Ambassador appeared to feel that this offer was a satisfactory one. He said, however, that he would like to examine a detailed accounting of the revenues and expenses of these waterworks with a view to finding out whether or not the revenues, which he states have shown considerable increases in recent years, have not been sufficient to take care of the unamortized balances (it will be necessary to look into this question; it is believed that a very careful accounting has been kept and that such excess revenues as have been available over and above operation costs and fixed charges have been expended for different civic improvements in these cities).

2. *The Colón Lots.*

Mr. Welles stated that an arrangement could be worked out providing for the transfer of the Colón lots to the Panamanian Government on the basis that the latter would agree to consider such a transaction as full compensation for the fulfilment of the obligation of that Government to make available promptly the necessary defense sites for the adequate defense of the Canal. It was agreed that at the next meeting the Ambassador would be presented with a formula in writing designed to cover this point. The Ambassador said that in as much as the Panamanian Government only recognizes our title to the lots as valid until 1967, the proposed arrangement might be inequitable from the Panamanian point of view if we were to retain the defense sites beyond 1967. Mr. Welles pointed out briefly the fact that the lots are worth many times the value of the defense sites. The Ambassador seemed to feel that in addition to the lots the United States should be willing to undertake the completion of the Panamanian section of the Inter-American Highway to the Costa Rican border.

3. *The Commissaries and Post Exchanges.*

The Ambassador was told that nothing could be done under this heading in the absence of the presentation by him of a specific statement of the complaints of his Government. The Ambassador referred to an order of the United States Military authorities in the Zone in February 1940 prohibiting the sale of vegetables by Panamanian merchants to our military establishment.²⁹ This order was the subject of a protest by the Panamanian Government dated February 27,

²⁹ For correspondence on this subject, see *Foreign Relations*, 1940, vol. v, pp. 1114 ff.

1940, which was handed to President Roosevelt on the occasion of his visit to Panama. It was agreed that an investigation would be made of this question and that it would be taken up at the next meeting.

4. *The Construction of a Tunnel or Bridge to Allow Transit Under or Over the Canal at Balboa.*

The Ambassador was told that the President has decided to defer any action on this matter for the present in view of many urgent projects requiring attention. Mr. Welles stated that this was merely a postponement since there is agreement in principle that this work should be done. Meanwhile, it is hoped to improve the ferry facilities.

5. *The Use of Access Roads to Defense Sites by the Panamanians.*

The wording of this point in the original Panamanian memorandum is obscure; the above represents the Ambassador's idea of what it means. The War Department is to be consulted regarding the desirability of allowing the Panamanians to use the access roads which are to be built to the different defense sites.

6. *Importation of Labor.*

Mr. Welles agreed that he would take up further with the authorities of the Canal and with the War Department the question of bringing in Puerto Rican or other labor satisfactory to the Panamanian Government. Mr. Welles desires to be furnished with a full statement of the present position so that he may take this up with General Marshall³⁰ at the next meeting of the Liaison Committee.

7. *Desire of the Panamanian Government that our Military and Naval Police be Armed Only with Billies While in the Territory of the Republic.*

The Panamanian Ambassador was told that the War and Navy Departments will be requested to comply with the desires of the Panamanian Government on this point.

8. *Provision of Electrical Current from the Alhajuela Dam for Use in the Republic.*

Mr. Welles stated that in principle he was most anxious to accede to the desire of the Panamanian Government and to make available at a reasonable price (the Panamanians' suggestion is one cent per kilowatt) such excess current as may be available. However, the question is one of fact as to whether there is any excess. This is to be checked with the Canal authorities.

³⁰ Gen. George C. Marshall, Chief of Staff, United States Army.

9. *The Assumption by the United States of the Entire Cost of Construction of Rio Hato Highway.*

The Panamanian Ambassador agreed that for the present no change need be made in the administrative procedure for the construction of this highway, but that it would be desirable for the United States Government to consider the possibility of extending the road from Rio Hato north to the Costa Rican border. He said that this extension would be highly desirable from the point of view of the defense of the Canal and of providing adequate food supplies to the Zone. Mr. Welles told him that the War Department would be asked to express a definitive opinion as to the necessity of this construction from the defense point of view.

10. *The Moving of the Railroad Station at Panama.*

Mr. Welles stated that he was in full agreement with the position of the Panamanian Government on this point. It will, therefore, be necessary to make a corresponding request of the Panama Railroad.

11. *The Desire of the Panamanian Government for an Indemnity in case Traffic is Interrupted on account of Our Troop Movements.*

Mr. Welles and the Ambassador agreed to drop this point from further discussions.

12. *The Desire of the Panamanian Government for Three Gasoline or Oil Tanks at Balboa.*

Mr. Welles stated that this request was reasonable in principle, but that it would be necessary to obtain further information as to the practicable possibility of complying with it.

PHILIP W. BONSALE

711F.1914/189

The Department of State to the Panamanian Embassy

MEMORANDUM

In July 1940³¹ the Ambassador of the United States to Panama informed the appropriate Panamanian authorities that, in accordance with the Treaty of 1936 between the two countries, which recognizes their joint and vital interest in the effective protection of the Canal, the Government of the United States desired to reach an agreement with the Republic of Panama for the utilization for the defense of the Canal of a number of defense sites in the territory

³¹ See instruction No. 257, July 3, 1940, to the Ambassador in Panama, *Foreign Relations*, 1940, vol. v, p. 1072.

of the Republic. Exchanges of views have continued to take place regarding the conditions under which the sites would be utilized by the United States but final conclusions have not yet been reached. It is gratifying, however, to note that the Panamanian Government is turning over the sites as needed.

During February 1941 the Ambassador of Panama left with the President of the United States a document listing a number of points in the relations between Panama and the United States with respect to which suggestions as to positive action by the United States were made. These points have been discussed with the Ambassador by the Under Secretary of State and by other officers of the Department.³²

In view of the disposition on the part of the Government of Panama to carry out wholeheartedly its obligations as a partner in the defense of the Canal, the Executive branch of the Government of the United States, in lieu of other compensation for the defense sites, is willing to initiate the necessary steps for the drawing up of an agreement between the two Governments along the following lines:

1) The Government of the United States will turn over to the Government of the Republic of Panama the water and sewerage installations in the cities of Panamá and Colón and will make water available to the cities of Panamá and Colón at the Canal Zone boundary at a reasonable charge, provided that the Republic of Panama will

(a) continue amortization and interest payments on the unamortized portion of the cost of the water and sewerage installations until these are completely paid for as provided in Article VII of the Treaty of 1903;³³ and

(b) maintain the present sanitary standards in the operation of the water and sewerage installations, and if it appears desirable, employ experts in these fields which are of vital concern to the Government of the United States in view of the necessity for effective sanitation of the neighboring Canal Zone.

2) The Government of the United States will transfer to the Government of the Republic of Panama all of its rights and those of the Panama Railroad Company to the lands now in the possession of the said company in the cities of Panamá and Colón which are not currently or prospectively needed for the operation, maintenance, sanitation and protection of the Panama Canal.

3) The Government of the United States, subject to the working out of a satisfactory plan, will undertake the removal of the station of the Panama Railroad in Panama City in such a way as to facilitate Panamanian plans for civic improvement.

³² On April 4, 1941.

³³ Convention signed at Washington, November 18, 1903, *Foreign Relations*, 1904, p. 543.

The Government of the United States is confident that, concurrently with the reaching of the above-mentioned agreement, it will be possible to come to an agreement with the Government of the Republic of Panama setting forth and describing the defense sites required under Article[s] II and X of the Treaty of 1936 and the conditions under which they are being made available. Such matters as length of tenure and the jurisdiction to be exercised by the United States are of particular interest.

WASHINGTON, May 7, 1941.

711F.1914/256

The Panamanian Embassy to the Department of State

[Translation]

MEMORANDUM

The Government of Panama has received with the greatest pleasure the Memorandum which the Honorable Mr. Sumner Welles, Under Secretary of State, presented to the Ambassador of Panama and which concerns three of the twelve points contained in the Memorandum which under date of February 18, 1941, was presented by the Ambassador of Panama to His Excellency the President of the United States, describing the immediate aspirations of Panama, which he submitted to the United States Government for its kind consideration for the purpose of obtaining from the said Government certain partial compensations for the vital concessions which Panama has granted for the defense of the Panama Canal.

The Panamanian Government feels gratified by the spirit of cooperation manifested by the United States in the above-mentioned Memorandum and believes that this signifies a step forward on the road to an equitable settlement of the pending points which involve the minimum aspirations of Panama, by no means exaggerated, if they are studied in the light of other negotiations of the same kind.

The Government of Panama, being animated by the most earnest desire to cooperate with the Government of the United States in the defense of the Canal, and trusting that the latter Government will, in a broad spirit of understanding and justice, attend to the requests presented by the Panamanian Government, as an act of partial compensation and adequate aid in recognition of the vital cooperation rendered by Panama, has already facilitated to the military authorities of the Canal Zone the tenancy of the areas of land which were requested for air bases, electric detectors and searchlights, etc., and considers, therefore, that it is entitled to expect of the United States Government prompt and favorable attention to the Panamanian requests.

With reference to the 12 points containing the Panamanian aspirations, included in the memorandum which the Ambassador of Panama submitted to His Excellency the President of the United States, the Panamanian Government desires to make the following statements:

1. The aqueduct and sewers of the cities of Panama and Colón shall pass into the power of the Panamanian Government in full and the latter shall be exempted from payment of amortization of the capital and still pending interest for the cost of the installations effected. As at the present time Panama could not furnish the water necessary for the cities of Panama and Colón, Panama would be disposed to pay for the said water at the rate of B/0.09 per thousand gallons (including escapes, wastes or water used for cleaning and for fire fighting). All this in the manner in which it is now furnished for the National Aqueduct of Las Sabanas. Panama undertakes to maintain the existing sanitary conditions in the operation of the said aqueducts and sewers.

2. The Government of Panama will enter into immediate possession of the lands occupied by the Panama Railway Company in the cities of Panama and Colón. The reservation made in the Memorandum of the 7th instant that those would be transferred to Panama "which are not now necessary or no necessity for which is foreseen for the functioning, maintenance, sanitation and protection of the Canal" is not as entirely clear as might be desired and the Government of Panama would prefer that such areas be clarified precisely in order to avoid misunderstandings in the future.

3. The Government of Panama has devoted especial interest to the study of this problem and suggests two feasible plans to the United States Government with a view to finding a solution of it:

Plan 1. The Government of the United States might establish a tax of 10 percent ad valorem on all goods imported into the Canal Zone for resale by the commercial entities of said Zone.

This tax would not apply to those articles of construction, machinery, munitions, etc., etc., which are imported into the Canal Zone exclusively for the upkeep, defense, operation and sanitation of the Panama Canal.

The sum collected by the United States Government from this tax could be returned at the end of each year to the residents of the Canal Zone only, in the form of dividends. No employee could buy coupons for a greater amount than a prudent and reasonable percentage of his wages except by special authorization from the Executive Secretary of the Canal Zone.

Plan 2. That there be established with respect to the goods imported into the Canal Zone for resale to the employees of the said Zone, the same Federal and State taxes as are in effect in the State of Louisiana, which is where the Court of Appeals of the Canal Zone has its seat. Also the amount of coupons which each employee might

acquire would be limited to a reasonable and prudent percentage of his wages, except in special cases in which the Executive Secretary of the Canal Zone should grant a permit.

4. The Government of Panama hopes that there will be placed in operation as soon as possible larger ferries than those now used for the crossing of the Canal, on uninterrupted service, day and night. And it trusts that as soon as possible the construction of a tunnel or a bridge will be undertaken to join in a permanent and adequate manner the two sections of the Isthmus divided by the Canal.

5. The Government of Panama has decided to drop Point Five, as it considers that the Republic of Panama should have complete jurisdiction over all highways which are in territory under Panamanian jurisdiction.

6. The Government of Panama views with alarm the growing immigration of persons of the black race for the work of the Canal Zone. According to a note from the Governor of the Panama Canal received in the Panamanian Chancellery not long since, the possibility seems to be suggested that even larger contingents may be brought in. The Government of Panama repeats its desire that the United States Government formulate a formal promise not to bring into the Canal Zone any more individuals of a race whose immigration is prohibited by the Constitution of Panama and that it repatriate as soon as possible such as have been brought in in contravention of these wishes of Panama.

7. Panama, in reference to Point Seven, desires that the United States Government take the necessary measures in order that the Zone policemen, the members of the Army, Navy and Air Force of the United States may not bear arms of any kind on entering territory under the jurisdiction of the Republic of Panama, and hopes that this prohibition may be established, without reservations, as soon as possible.

8. The Government of Panama hopes that the Madden Dam (Represa de Alhajuela) will furnish to Panama, when so requested by the Panamanian Government, electrical power at a price of not more than one centésimo ($\frac{1}{100}$) Balboa per kilowatt hour.

9. The Government of Panama considers that the Government of the United States ought to cover in full the cost of the highway to Rio Hato, as compensation, if only in part, for the use which it has been making of the lands situated in the jurisdiction of Rio Hato, without the consent or authorization of the Panamanian Government, and hopes that it will reimburse Panama for the sums which it has spent in the building of the said highway.

10. The Government of Panama sees with satisfaction the promise made by the United States Government to change the railroad sta-

tion of the city of Panamá, so as to facilitate the plans for urban improvement, as soon as a satisfactory plan is decided upon. It deems it desirable, however, that information be given as to whether the patio of the railroad also will be changed.

11. In the event that transit is interrupted on the highways of the Republic on account of the transportation of war matériel or troops of the United States, in time of peace, an adequate indemnity will be allowed to Panama as compensation for the damages suffered by the persons affected, including the loss for perishable products or products which are liable to putrefaction or exposed to decay due to delay in transportation. Moreover, damages suffered by the highways or roads will be repaired at the expense of the United States.

12. The Government of Panama is confident that a prompt settlement will be reached on this point, by ceding to it the space necessary for the installation, in a place near the Balboa docks, of three tanks for petroleum, gasoline, etc.

The Government of Panama deems that everything relating to the time for which the United States will occupy the lands ceded for air bases, electric detectors and reflectors, and the jurisdiction which the United States Government will exercise over the said lands has already been duly discussed and resolved by common accord. The United States Government will occupy the said lands for the time that the present emergency lasts and will exercise over them unrestricted military jurisdiction and civil jurisdiction of a judicial character in offenses related to sabotage and espionage.

WASHINGTON, May 20, 1941.

711.19/262

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] May 29, 1941.

Participants: Secretary of State Hull, The Minister of Foreign Affairs of Panama, Dr. Raúl de Roux, and the Panamanian Ambassador, Señor Dr. Don Carlos N. Brin

The Minister of Foreign Affairs of Panama, Dr. Raúl de Roux, accompanied by the Panamanian Ambassador, came in at his request. Although it was a mere courtesy call, I proceeded to review the history of the good neighbor policy beginning with the Conference of Montevideo in 1933³⁴ and tracing its development among the American republics in all of its important aspects up to the present date. I need not here review the history of the development of Pan

³⁴ See *Foreign Relations*, 1933, vol. iv, pp. 1 ff.

American relations during this period based on the policy of the good neighbor with its basic elements of friendliness, understanding, peace, and a spirit of mutual cooperation in political, economic and social fields.

The Minister replied in a thoroughly friendly spirit, expressing a reciprocal feeling and attitude, both as to the present and the future. The usual complimentary references to our respective countries and peoples were made, together with a brief history of our efforts here to be cooperative with Panama, including the new treaty that was recently negotiated.

I then recited the main points in the policies and course of Germany, Japan and Italy from 1933 on, which I said pointed unerringly to movements of conquest on their part; that during these years this Government proclaimed and practiced all of the principles of world order under law, including justice, peaceful procedures, adherence to high moral concepts, reciprocal fair dealing and fair play. I said that I pled with each of these countries to change their policies, which were leading straight toward war and conquest, leaving nothing unsaid or undone in a most persistent effort to prevail on them to refrain from plunging the world into a state of lawlessness and more or less barbarism; that it proved absolutely impossible, and I have a profound conviction that Hitler plans to dominate this hemisphere, politically and economically, if he succeeds in getting control of the high seas by conquering Great Britain. I elaborated on the usual arguments I have made in the past on the state of actual and imminent danger from such domination by Hitler that confronts this hemisphere and each of the nations in it.

I then returned to a few additional brief references to Panama and our relations with that country. The Minister said that he and his Government proposed to observe the good neighbor policy and the spirit of cooperation underlying it, and that in order to maintain understanding and bring about a friendly settlement of any differences, the Minister felt that he should make this trip to Washington to enable him to discuss these matters in person. I replied that I was pleased, but not surprised to see this fine example of cooperation on the part of the Foreign Minister, and that my Government would reciprocate the fine spirit which he had shown. I assured him that my associates would meet him and his Government in a spirit of mutual concession and would endeavor, in the friendliest manner, to work out a settlement of the matters being discussed between our two countries. He insisted that he would meet us halfway.

C[ORDELL] H[ULL]

[Foreign Minister De Roux and Under Secretary of State Sumner Welles discussed United States-Panama relations in a series of five

meetings held on June 2, 4, 9, 16, and 23, 1941. These direct negotiations have been summarized by Almon R. Wright of the Historical Office, Department of State, in his article "Defense Sites Negotiations Between the United States and Panama, 1936-1948", printed in Department of State *Bulletin*, August 11, 1952, pages 212-219 (see pages 215-216).]

711F.1914/293 : Telegram

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

PANAMA, June 19, 1941—9 a. m.

[Received 1:03 p. m.]

145. Last night's Government paper published a statement by President Arias, commenting pessimistically on the negotiations in Washington and expressing the hope that President Roosevelt would "intervene" in order that they might result successfully. Text by subsequent telegram.³⁵

From conversations with members of the Cabinet, it would seem that de Roux has reported that the attitude of President Roosevelt is all that could be desired, but that resistance is being encountered at the State Department.

WILSON

711F.1914/301½

*The Under Secretary of State (Welles) to President Roosevelt*³⁶

WASHINGTON, June 19, 1941.

MY DEAR MR. PRESIDENT: I am bringing to your personal attention the attached telegram which came in today.³⁷

I shall appreciate it if you will authorize me to say in my next meeting with the Panamanian Minister for Foreign Affairs that you feel it only necessary to say that the nature of the present conversations I am having with him is fully known to you and that necessarily the views which I have expressed to him and which I shall express to him represent your own views.³⁸

³⁵ Telegram No. 146, June 19, 10 a. m., not printed.

³⁶ Original returned by President Roosevelt with the notation, "SW OK FDR".

³⁷ *Supra*.

³⁸ In the fifth meeting between Under Secretary of State Welles and the Panamanian Foreign Minister on June 23, 1941, Mr. Welles informed the Foreign Minister as follows: "I have received from President Roosevelt a personal commission to express categorically to the Government of Panama, through the intermediary of its worthy Minister of Foreign Affairs, that the President has from the beginning been informed of the nature of the present conversations which I have carried on here with Your Excellency in my Government's behalf, and that the views which I have expressed or will express fully represent those of the President. I am obliged to make these statements on the express order of the President." (711F.1914/347)

. . . As I said to you the other day, I think it is worth a few millions of dollars to us to prevent trouble with the Panamanian Government at this time provided the money we make available to them is for projects which are really in our own defense interest. . . .

Believe me [etc.]

SUMNER WELLES

711F.1914/312

The Panamanian Embassy to the Department of State

[Translation]

MEMORANDUM

Supplementing the memorandum which the Embassy of Panama presented to the Department of State under date of May 20 last, in which it once more repeated to the Government of the United States the desire of the Government of Panama that due attention should be given and a satisfactory reception accorded the petitions formulated in the memorandum which the Ambassador of Panama in Washington had the pleasure of personally delivering to His Excellency the President of the United States on February 18 of the present year, and taking into consideration the statements made by the Minister of Foreign Affairs of the Republic of Panama to the Under Secretary of State, Mr. Sumner Welles, in the conversations which took place between these high officials recently and which clarify and indicate the scope of Panamanian aspirations, the said petitions are reiterated as follows:²⁹

1) The aqueduct and sewers of the cities of Panamá and Colón, as well as the works and services of sanitation and garbage collection in the said cities, shall pass into the possession of the Panamanian Government in their entirety, and the Republic shall not have to pay the United States any amount for the cost of the installations effected nor for the services mentioned. Until the Republic is in a position properly to provide for the water supply of the cities of Panamá and Colón, the Canal Zone shall furnish the necessary water to the said cities in the limits between the two jurisdictions at a cost of not more than 9 hundredths balboa per thousand gallons (including escapes, wastes, or water used for cleaning and for fire fighting). All this in the manner in which it is now furnished for the National Aqueduct at Las Sabanas. Panama undertakes to maintain the existing sanitary conditions in the operation of the said aqueducts and sewers.

²⁹ Points 2, 3, 5, 6, 7, 8, and 12 omitted since they are the same as corresponding points in memorandum from the Panamanian Embassy, May 20, p. 447.

4) Once the present international conflagration is over, the Government of the United States will construct a bridge or tunnel, for public use, which will permanently and adequately connect the capital of the Isthmus with the central provinces across the Canal. Meanwhile, large ferries shall be placed in operation for crossing the canal, on uninterrupted service, day and night.

9) The Government of Panama considers that the Government of the United States ought to cover in full the cost of the highway to Rio Hato as compensation, if only in part, for the use which it has been making of the lands situated in the jurisdiction of Rio Hato, without the consent or authorization of the Panamanian Government, and hopes that it will reimburse Panama for the sums which it has spent in the building of the said highway. The Republic of Panama would be particularly pleased if, among the highways essential to the defense of the Canal which are to be constructed at the expense of the United States, there should be included the continuation of the Rio Hato highway to the border with Costa Rica. The highway marked P-8, which will run from Las Sabanas to connect with the transisthmian highway at the Madden Dam (Represa de Alhajuela), will be constructed of concrete, with two lanes and equal in width to the transisthmian highway and will have the same specifications as the highway which runs from Chorrera to Rio Hato.

10) The Government of Panama sees with satisfaction the promise made by the United States Government to change the railroad station of the city of Panamá, so as to facilitate the plans for urban improvement. It considers it advisable, however, that the Government of the United States undertake to change the said station to a spot within the Canal Zone, or under Panamanian jurisdiction, as the Republic of Panama may decide at the time. When the change of the railroad station is made, the present station, the patio used now by the Railroad Company, and the various buildings adjacent to the said patio and belonging to the said Company will pass to the possession of the Government of Panama.

11) In the event that transit is interrupted on the highways of the Republic for more than two consecutive hours, on account of the transportation of war matériel or troops of the United States, in time of peace, an adequate indemnity shall be allowed to Panama, determined by common agreement between the two countries, as compensation for the damages caused the national economy of Panama and caused to private persons, including the loss of perishable products or products which are liable to putrefaction or exposed to decay due to delay in transportation. Moreover, damages suffered by

national highways or roads as a result of maneuvers of the American army will be repaired at the expense of the United States, which will likewise see to the maintenance of the defense highways.

The Government of the Republic of Panama, once more giving proof of its good friendship for the people of the United States and of sincere cooperation in the solution of the problems which affect both countries, has already given the military authorities of the Panama Canal possession of the lands recently requested for the better defense of the Canal in the present international conflagration. That fact and the assurances given by the Under Secretary of State to the Ambassador of Panama in Washington concerning the good disposition with which the Government of the United States would receive the Panamanian petitions as soon as Panama heeded the request made with respect to the defense sites seem to justify the confidence which the Government of Panama feels that these petitions will be favorably settled in their entirety, thus making possible a better understanding in the agreements concerning the leasing of such areas of land, so closely connected with the said petitions.

WASHINGTON, June 23, 1941.

711F.1914/329

The Department of State to the Panamanian Embassy

MEMORANDUM

On February 18, 1941 the Ambassador of Panama left with the President of the United States a memorandum listing twelve points in the relations between Panama and the United States with respect to which positive action by the United States was requested. On May 20 and June 23, 1941, respectively, supplemental memoranda on the same points were left with the Department.

These points and the observations with regard to them have been carefully and sympathetically considered by the Under Secretary of State of the United States, who has had the pleasure of discussing them with the Panamanian Minister of Foreign Relations and with the Ambassador of Panama in Washington.

The action which the Government of the United States is willing to take, subject in some instances to the approval of Congress, regarding each of the Panamanian requests is set forth below. If the action contemplated meets with the approval of the Government of Panama, it is proposed that a formal exchange of notes in regard thereto take place simultaneously with the reaching of an agreement by the two Governments on the terms of the contract whereby the Republic of

Panama, in accordance with its obligations under the provisions of Articles II and X of the Treaty of 1936, will permit the utilization by the Government of the United States of certain lands and waters in the territory of the Republic for the effective protection of the Canal, an enterprise in which the two countries are jointly and vitally interested.

1. *The waterworks at Colón and Panamá*

When the authority of the Congress of the United States shall have been obtained therefor, the Government of the United States will transfer to the Government of the Republic of Panama free of cost all of its rights, title and interest in the system of sewers and waterworks in the cities of Panamá and Colón.

At that time the United States will renounce the exercise of the discretionary right which it obtained in the first paragraph of Article VII of the Convention between the United States and the Republic of Panama signed at Washington November 18, 1903, as modified by Article VI of the Treaty between the United States and Panama signed at Washington March 2, 1936, to acquire lands, buildings, water rights or other properties necessary for purposes of sanitation such as the collection or disposal of sewage and the distribution of water in the cities of Panamá and Colón. The United States, likewise, will renounce the authority contained in Article VII of the above-mentioned convention of 1903 to impose and collect water rates and sewerage rates in those cities which shall be sufficient to provide for the payment of interest and amortization of the principal of the cost of said works within a period of fifty years.

If the Panamanian Government so desires, the cities of Panamá and Colón may continue to receive supplies of water from the Canal Zone at the outlets now provided at the Canal Zone boundary at a reasonable rate to be agreed upon by both Governments.

Likewise, if the Panamanian Government so desires, the cities of Panamá and Colón may continue to use, to the extent prevailing at present and with the facilities now available, the sewage disposal services of the Canal Zone. The water rate to be agreed upon will include the cost of these services.

If at any time the Government of the Republic of Panama should desire to renounce the use in part of the water supply and sewerage facilities of the Canal Zone referred to above, the two Governments would agree upon the charges payable by the Republic of Panama for the use of such facilities as it may desire to retain.

The Government of the Republic of Panama should agree that employees of the Panama Canal and the Panama Railroad Company residing in the Republic of Panama shall not be charged higher water

or sewerage rates than those charged other residents of Panamá and Colón, respectively, for similar services.

2. *Railroad Lots in Panamá and Colón*

The President will seek the authority of the Congress of the United States to transfer to the Republic of Panama free of cost all of its rights, title and interest to the lands now belonging to the Panama Railroad Company in the cities of Panamá and Colón which are not currently or prospectively needed for the maintenance, operation, sanitation and protection of the Panama Canal, or of its auxiliary works, or for the operation of the Panama railroad. The Panama Railroad Company will convey to the Republic of Panama those lands which it possesses within that portion of Manzanillo Island lying within the area bounded by a line described as follows: (See copy of map M 5036-3 attached.⁴⁰)

Beginning at the point where the Canal Zone–Republic of Panama (city of Colón) boundary line intersects the western shore line of the arm of Manzanillo Bay known as “Boca Chica” or “Folks River”; thence following the Canal Zone–city of Colón boundary line northerly to Eleventh Street and westerly on Eleventh Street to the center of Front Avenue; thence northerly along the center of Front Avenue and its prolongation to the center of Second Street; thence easterly along the center of Second Street to the center of Bolivar Avenue; thence northerly along the center of Bolivar Avenue for a distance of 222 feet, more or less; thence easterly, approximately parallel to Second Street and generally following an existing sidewalk to the center of Paseo del Centenario (Central Avenue); thence southerly along the center of Paseo del Centenario (Central Avenue) for a distance of 71 feet, more or less, to a point opposite the prolongation of a cyclone fence which constitutes the southern boundary of the Cristobal School playground; thence easterly, northerly, and north-easterly, to, and along the above-mentioned fence and its prolongation to the center of Coconut Alley; thence southerly along the center of Coconut Alley to the center of Second Street; thence easterly along the center of Second Street to the center of Melendez Avenue (“G” Street); thence southerly along the center of Melendez Avenue (“G” Street) to the center of Seventh Street; thence easterly along the center of Seventh Street to the center of Avenida de Roosevelt; thence southerly along the center of Avenida de Roosevelt to the center of Ninth Street; thence easterly along the center of Ninth Street and its prolongation to the Canal Zone–city of Colón boundary at the mean low water line on the westerly shore of Manzanillo Bay; thence following along the above-mentioned boundary in a southerly and westerly direction to a point where said boundary intersects the prolongation of the face of the curb on the westerly side of Melendez Avenue (“G” Street); thence northerly along said prolongation and the face of the curb on the westerly side of Melendez Avenue (“G” Street) to its intersection with face of curb on the southerly side of

⁴⁰ Not attached to file copy.

Sixteenth Street prolonged; thence westerly and southerly along face of curb on southerly side of Sixteenth Street prolonged to its intersection with the centerline of Domingo Diaz Avenue prolonged; thence southerly along the prolonged centerline of Domingo Diaz Avenue to its intersection with the Canal Zone-city of Colón boundary at the mean low water line on the northerly shore of Folks River; thence westerly and southerly along said boundary to the point of beginning, excepting, however, lot No. 22, block No. 26 as shown on Panama Canal drawing S-6104-78, sheet 65, and lot No. 1189 as shown on Panama Canal drawing S-6104-78, sheet 16, which lie within the above-described area.

The Panama Railroad Company will retain in the city of Panamá as an area necessary for its operations those lands now occupied by passenger and freight terminals with appurtenant tracks and yards. The remaining areas now in possession of the Panama Railroad Company in the city of Panamá will be conveyed to the Republic of Panama. (See copy of map M 5036-3 attached.)

3. *The commissaries and post exchanges*

The Government of the United States and the Government of the Republic of Panama, in accordance with the exchange of notes accompanying the Treaty between them signed at Washington on March 2, 1936 "will continue to cooperate in all proper ways . . . to prevent smuggling into territory under the jurisdiction of the Republic of goods imported into the Canal Zone" and for that purpose it is agreed that the Governor of the Panama Canal will appoint a representative to meet with a representative appointed by the Government of the Republic in order that regular and continuing opportunity may be afforded for mutual conference and helpful exchange of views bearing on this question.

4. *The construction of a tunnel or bridge to allow transit under or over the Canal at Balboa*

The Government of the United States is well aware of the importance to the Government and people of Panama of constant and rapid communication across the Panama Canal at Balboa and is willing to agree in principle to the eventual construction of a tunnel under or a bridge over the Canal at that point, but cannot give assurances that this can be done during the emergency. Pending the carrying out of its intention, the Government of the United States will give urgent attention, consistent with the exigencies of the present emergency, to improving the present ferry service.

5. *Jurisdiction over roads and highways in Panamanian territory*

All roads constructed by the United States in the territory under the jurisdiction of the Republic of Panama shall be under the jurisdiction

of Panama. The military authorities of the United States, however, in the interest of the safety of the military installations on defense sites will retain the right for reasons of military requirements to prohibit public traffic on portions of the access roads near the said sites.

The Government of the United States is willing to agree with the Government of the Republic of Panama to the appointment of a joint commission consisting of one representative of each Government whose duty it would be to examine at least twice annually the roads in the Republic, exclusive of the Trans-Isthmian Highway, which are utilized frequently or periodically by the armed forces of the United States.

The United States will undertake the repair at its cost of any damage or wear to such roads caused by transit of the armed forces of the United States as determined upon by the joint commission. In case the joint commission failed to agree with respect to the damage caused, adjustment of the controversy would then take place through diplomatic channels.

In consideration of the undertaking by the United States to repair and maintain roads in Panama to the extent maintenance and repairs are required as a result of United States military traffic, during the continuation of the present emergency as provided in Article X of the Treaty of 1936, the Government of the Republic of Panama grants permission for members of the armed forces of the United States, the civilian members of such forces and their families, as well as animals, animal-drawn and motor vehicles employed by the armed forces or by contractors employed by them for construction work, freely to use all roads in the Republic of Panama. It should be understood that, except in periods of emergency when right-of-way should be given to movements of troops, animals and vehicles of the armed forces, every reasonable precaution should be taken to avoid interruption to the public traffic of the Republic of Panama.

6. *Labor for the Canal Zone*

The Government of the United States is aware of the immigration policies of the Republic of Panama as stated in Article XXIII of the Constitution of that Republic, promulgated on January 2, 1941 and, although jurisdiction over immigration into the Canal Zone rests solely with the Government of the United States, that Government will cooperate to the extent feasible under present circumstances in meeting the expressed policy of Panama in this matter. Specifically, the Government of the United States will endeavor so far as practical to fill the needs for labor in the Canal Zone with classes of persons whose immigration is permitted by the Republic of Panama and will forbid the entry into the territory of the Republic of those persons whom

Canal Zone authorities have found or may find it necessary to introduce into the Canal Zone but whose immigration into the Republic is prohibited by the Republic of Panama. Such persons will be repatriated when their services are no longer required.

7. *Desire of the Panamanian Government that our military and Zone police be armed only with billies while in the territory of Panama*

The Government of the United States agrees that only the commissioned officers of the military police and shore patrols of the United States when on duty in the cities of Panamá and Colón may carry side arms. It agrees that members of the Canal Zone municipal police may not carry arms of any sort while in the Republic of Panama, and similarly, the Government of the Republic of Panama will agree that members of the police of the Republic of Panama shall not carry arms while in the Canal Zone.

8. *Provision of electrical current from the Alhajuela Dam for use in the Republic*

The Government of the United States agrees in principle that electrical energy, whenever an excess beyond the needs of the United States is available in commercial quantities at the generating station of the Panama Canal at Madden Dam, will be furnished upon request of the Panamanian Government, to the cities of Panamá and Colón at a price and at points to be agreed upon between the two Governments.

9. *The assumption by the United States of the entire cost of the Rio Hato Highway*

The Government of the United States will, after the necessary funds have been obtained by appropriation from the Congress, liquidate the credit of \$2,500,000 made available to the Republic of Panama by the Export-Import Bank for the construction of Panama's share of the Chorrera-Rio Hato road.

10. *The moving of the railroad station at Panamá*

The Government of the United States agrees in principle to comply with the wishes of the Republic of Panama regarding the removal from their present site of the terminal facilities of the Panama Railroad in Panamá including the station, yards and other appurtenances. This agreement, however, is subject to the making available without cost to the Government of the United States by the Republic of Panama of a new site deemed suitable for the purpose by the two Governments.

11. *Desire of the Panamanian Government for an indemnity in case traffic is interrupted on account of our troop movements*

The Government of the United States is not prepared at this time to enter into any formal agreement regarding indemnities for the interruption of traffic on the highways of the Republic of Panama. If, however, serious interruptions of traffic should occur, the Government of the United States will be pleased to examine in a friendly spirit any claims advanced by the Government of the Republic of Panama.

12. *The desire of the Panamanian Government for three gasoline or oil tanks at Balboa*

The Government of the United States will make available to the Republic of Panama a right-of-way beginning in the port of Balboa and ending at the Canal Zone–Republic of Panama boundary at a point to be agreed upon by the two Governments for the construction of a petroleum pipeline. It will also agree that the facilities of the Panama Canal for discharging bulk petroleum products from ships berthed at Balboa and for the direction of such products into the pipeline above-mentioned would be made available in regular turn to the Republic of Panama at a reasonable cost. It should be understood that the Republic of Panama would bear the cost of the construction of the pipeline as well as pay for any damage which might accrue to the property of the United States as the result of the construction or maintenance thereof. The cost of pumping such petroleum products from Balboa to the Canal Zone–Republic of Panama boundary would be borne by the Republic of Panama which would install and maintain the necessary pumping facilities for the purpose.

WASHINGTON, July 8, 1941.

711F.1914/329

The Department of State to the Panamanian Embassy

MEMORANDUM

Reference is made to the question of the transfer to the Government of the Republic of Panama of the water and sewerage installations in the cities of Panamá and Colón as discussed in the Panamanian memoranda of February 18, May 20, and June 23, 1941 and in this Government's reply of July 8, 1941.

In the latter memorandum it was stated that "If the Panamanian Government so desires, the cities of Panamá and Colón may continue to receive supplies of water from the Canal Zone at the outlets now provided at the Canal Zone boundary at a reasonable rate to be

agreed upon by both Governments". In the Panamanian memoranda of May 20 and June 23 it was stated that Panama would be disposed to pay for water furnished at the Canal Zone boundary at a rate not to exceed B/0.09 per one thousand gallons.

The Government of the United States believes that the rate suggested by the Panamanian Government is satisfactory and accordingly is willing, subject to the same conditions as set forth in the last paragraph of the introductory remarks of this Government's memorandum of July 8 regarding the twelve points in the relations between Panama and the United States with respect to which positive action by the United States was requested, to supply water at the Canal Zone boundary at the rate of B/0.09 per one thousand gallons, payable quarterly to the appropriate Canal Zone authorities.

WASHINGTON, July 18, 1941.

711F.1914/338 : Telegram

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

PANAMA, August 1, 1941—3 p. m.

[Received 11:02 p. m.]

209. The Minister of Foreign Relations asked me to call this morning. He said that the Panamanian Cabinet had considered yesterday our reply of July 8 to the Panamanian 12 points and found it in general satisfactory. He said that he thought it would have a helpful effect on public opinion here to publish an unofficial summary of our reply with explanatory comment and he proposed to give such a story to the Government newspaper for publication this afternoon. I requested that as a matter of courtesy he permit me to consult with you and see if you had any objection. After considerable argument he agreed to this, requesting as early a reply as possible so that publication can take place tomorrow.⁴¹

I will try to telephone the Department this afternoon but in case I am unable to get through please cable reply immediately.

WILSON

711F.1914/339 : Telegram

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

PANAMA, August 2, 1941—5 p. m.

[Received 7:45 p. m.]

211. For Bonsal. Reference our telephone conversation this morning. I delivered the message to the Minister of Foreign Affairs and

⁴¹Notation on margin: "Reply to Amb. Wilson by telephone—not desirable to publish anything. 8/2/41."

we had a discussion of 2 hours, the gist of which is as follows: He requests the Acting Secretary to reconsider the matter and withdraw objection to the publication of the statement. He points out that Panama has already complied with a large part of her obligations by delivering the defense sites, that public opinion here is anxious to know what Panama is to get in return, and that continued delay in making known the nature of the United States reply to the Panamanian requests, particularly since it is known that the Cabinet met on July 31 to consider our reply, would have an unfortunate effect on public opinion. He said that the statement would make it clear that there had been no final agreement, and that our reply was contingent upon the conclusion of a contract.

I asked why the Panamanian Government could not reply in the next few days to our proposal for the contract thus making it possible to issue a statement covering the complete negotiation. He said that the preparation of their reply would take several days and he regarded it as urgent to inform opinion here of what Panama was to receive in return for advance compliance with her part of the proposed contract.

I inquired if he could give me any idea of what his Government has in mind as rental for private lands, indicating that I could not conceive that Panama would seriously ask more than a fair current price. He said this point had not yet been determined.

I agreed to submit to the Department his request for reconsideration. Please cable reply.

WILSON

711F.1914/340 : Telegram

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

PANAMA, August 5, 1941—2 p. m.

[Received 4:03 p. m.]

214. For Bonsal. Reference our telephone conversation this morning. The Minister of Foreign Relations accepts our point of view and says that he will put out a statement of general character indicating that progress is being made, without going into details of our reply.

WILSON

711F.1914/339 : Telegram

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

WASHINGTON, August 5, 1941—6 p. m.

168. Your 211, August 2, 5 p. m. Kindly make known to the Minister of Foreign Affairs the following views: that the Department,

although appreciative of the reasons prompting the desire of the Panamanian Government to issue a statement, is unable to agree that its memorandum be made public because such action would convey a partial and therefore erroneous impression of the current negotiations; that at the urgent request of the Foreign Minister during his visit to the United States the Department although working under great pressure took special pains to advance the negotiations which culminated in the presentation of the memorandum on the 12 points; that despite this Government's interest, repeatedly manifested, in an early conclusion of the long drawn out negotiations over sites, the Panamanian Government has not advanced the matter since the discussions in Washington; and that if the reply of the Government of Panama to the questions of interest to us is satisfactory, then the two Governments could proceed to make a full statement covering all the principal aspects of the negotiations. Any other procedure whereby only one side of the negotiations is made public would inevitably lead to public misunderstanding.

In conveying the foregoing message, kindly make it clear that the Department fully understands the desire of the Panamanian Government to inform the people of Panama of the progress of the negotiations and is prepared to make known the details of the pending arrangements as soon as there is agreement on all important points. If, pending conclusion of the present discussions, the Government of Panama feels it necessary to make some statement it is suggested that it be general in scope indicating that satisfactory progress is being made to arrive at a solution on questions of interest to both countries and that it is hoped that the negotiations will be brought to a prompt conclusion.

HULL

711F.1914/394

The Panamanian Embassy to the Department of State

[WASHINGTON,] August 21, 1941.

[Translation]

Changes which the Government of the Republic of Panama would like and would be glad to see made in the Memorandum from the Department of State dated July 8, 1941:

2. *Railroad Lots in Panamá and Colón*

The President will seek the authority of the Congress of the United States to transfer to the Republic of Panama free of cost all of its rights, title and interest to the lands of which the Panama Railroad

Company in the cities of Panamá and Colón is now the *owner or usufructuary* and which *in the opinion of the Government of the United States* are not currently or prospectively needed for the maintenance, operation, sanitation and protection of the Panama Canal, or of its auxiliary works, or for the operation of the Panama railroad. The Panama Railroad Company will convey to the Republic of Panama those lands of which it is the *owner or usufructuary* within the area bounded by a line described as follows:

Beginning at a point where the Canal Zone-city of Colón boundary line intersects the western shore line of the arm of Manzanillo Bay known as "Boca Chica" or "Folks River"; thence following the Canal Zone-city of Colón boundary line northerly to Eleventh Street and westerly on Eleventh Street *to the sea following the boundary line with the Canal Zone*; thence from the sea in the direction of Fourth Street to the center of Front Avenue; thence northerly along the center of Front Avenue and its prolongation to the center of Second Street; thence . . .⁴²

5. *Jurisdiction over roads and highways in Panamanian territory*

. . . The military authorities of the United States, however, in the interest of the safety of the military installations on defense sites *may request of the Government of Panama that public traffic on portions of the access roads near the said sites be restricted or prohibited, other than on the Republic's ordinary means of communication. The portions of roads which may be affected by this agreement shall subsequently be specifically determined. . . .*

In consideration of the undertaking by the United States to repair and maintain roads in Panama to the extent maintenance and repairs are required . . . the Republic of Panama *shall grant a general transitory permission in the Contract of Lease once the latter is validated in accordance with our laws*, for members of the armed forces of the United States, the civilian members of such forces and their families, as well as animals, [animal-drawn and motor]⁴³ vehicles . . . *freely to use, for the time the present emergency lasts*, all roads in the Republic of Panama. . . .

7. *Desire of the Panamanian Government that our military and Zone police be armed only with billies while in the territory of Panama*

The Government of the United States agrees that only the commissioned officers of the military police and *the commissioned officers of the shore patrols of the United States when on duty in the cities of*

⁴² Omissions throughout this document indicated in the file translation.

⁴³ Brackets appear in the file translation.

Panamá and Colón may carry side arms. It agrees . . . and similarly, the Government of the Republic of Panama will agree that members of the police of the Republic of Panama shall not carry arms while in the Canal Zone, *except when the latter pass through the Zone in transit to other territory of the Republic.*

12. *The desire of the Panamanian Government for three gasoline or oil tanks at Balboa*

The Government of the United States will make available to the Republic of Panama a right-of-way beginning in the port of Balboa and ending at the Canal Zone—*city of Panama* boundary at a point to be agreed upon by the two Governments for the construction . . . The cost of pumping such petroleum products from Balboa to the Canal Zone—*city of Panama* boundary would be borne . . .

711F.1914/329

The Department of State to the Panamanian Embassy

MEMORANDUM

Reference is made to the memorandum which the Ambassador of Panama handed to Mr. Welles on August 21, 1941 as the official statement of the Panamanian Government on the changes which Panamanian officials would like to see made in the Department's memorandum of July 8, 1941 concerning the action which the Government of the United States is willing to take, subject to certain limitations, on each of the twelve points in the relations between the two Governments with respect to which positive action by the United States was requested.

This Government is pleased to accept those modifications of points 7 (Desire of the Panamanian Government that our military and Zone police be armed only with billies while in the territory of Panama) and 12 (The desire of the Panamanian Government for three gasoline or oil tanks at Balboa) which are suggested in the Ambassador's memorandum. The proposal to use the phrase "Canal Zone—city of Colón" near the beginning of the second paragraph of point 2 (Railroad Lots in Panamá and Colón) is similarly acceptable.

Point 5 (Jurisdiction over roads and highways in Panamanian territory) it is felt should be modified to conform with those stipulations concerning jurisdiction which the two Governments will adopt in the lease agreement currently under negotiation.

In order to clarify this Government's statement regarding point 1 (The waterworks at Colón and Panamá) of the Department's memorandum of July 8, 1941, it should be pointed out that the turning over to the Government of the Republic of Panama of the physical

properties of the water works and sewerage systems and the administration thereof, including the collection of the water rates does not in any way modify the existing arrangement for the responsibility of the public health services of the cities of Panamá and Colón as specified in the second paragraph of Article VII of the Convention between the United States of America and Panama, signed at Washington November 18, 1903. Thus the Republic of Panama will continue to pay only those costs of sanitary measures for which it has been responsible in the past.

This Government in continuing to maintain the health services in the cities of Panamá and Colón is confident that the Government of the Republic of Panama will fully cooperate with the appropriate Canal Zone officials in carrying out the agreement regarding increased participation of Panamanian personnel in sanitation activities in those cities as set forth in the exchange of notes accompanying the General Treaty of March 2, 1936, which in turn refer to the earlier proposal of October 1931.

WASHINGTON, December 2, 1941.

711F.1914/403 : Telegram

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

PANAMA, December 24, 1941—10 a. m.

[Received 5 : 57 p. m.]

539. Reference my letter to the Under Secretary of December 4⁴⁴ reporting conversation with the Minister for Foreign Affairs regarding the 12 points. Yesterday afternoon the Minister said to me the following: The President is greatly concerned over the delay in completing the negotiations on the 12 points and the lease contract and feels his Government is being criticized here because of the delay. He had hoped to make progress before this but the illness of the Panamanian Ambassador at Washington has prevented it. He appreciates that it was agreed that negotiations on the 12 points would take place in Washington but in view of the Ambassador's illness the President now asks that I transmit to the State Department the following request: That the United States Government agrees now that simultaneously with reaching agreement on the lease contract the United States Government will by executive action, without necessity of awaiting action by Congress, turn the railroad lots over to Panama and liquidate the credit for the Rio Hato Highway.

Please instruct.

[WILSON]

⁴⁴ Not printed.

711F.1914/403 : Telegram

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

WASHINGTON, December 31, 1941—8 p. m.

401. Your 539, December 24, 10 a. m. As the Minister of Foreign Affairs has informed you, the Panamanian Ambassador here, because of illness has been unable to receive the Department's reply on the 12 points. The Under Secretary was ready to hand the reply to him several weeks ago.

Careful and sympathetic consideration has been given the concern of the Panamanian Government over the possible delay in completing negotiations on certain of the 12 points. However, it is believed that under present conditions Congressional action may be far more expeditiously obtained than would formerly have been the case. You are requested to inform the appropriate Panamanian officials that the Department is proceeding at once to draft the proposed legislation on the three major Panamanian requests and to express the Department's hope that the Panamanian Government will shortly state its willingness to accede to the arrangements which have been proposed by this Government in connection with the defense sites.

HULL

**ASSERTION BY THE UNITED STATES OF TREATY RIGHTS AGAINST
CLAIM OF PANAMA TO FISCAL JURISDICTION IN THE CANAL ZONE**

819.5123/26

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

No. 799

PANAMA, December 4, 1940.

[Received December 7.]

SIR: I have the honor to report that the *Star & Herald* of November 19 carried a news item referring to an order from the Chief of Internal Revenue of Panamá to collect national taxes from employees of private enterprises established in the Canal Zone and commenting that the decision to collect such taxes is based on the administration's thesis that the Republic maintains fiscal sovereignty over the entire territory of the Canal Zone.

Upon investigating the origin of this news item, the Embassy ascertained that the Panamanian General Administration of Internal Revenue has for some time been trying to have the West India Oil Company, S. A., pay the "Fondo Obrero" tax (See Despatch No. 708 dated April 10, 1939⁴⁵) for the employees of their branch operating in the Canal Zone, as well as that being paid for all their other

⁴⁵ Not printed.

employees in Panamá. On November 13 President Arnulfo Arias upheld in its entirety the decision of the Secretary of the Treasury, Resolution No. 251, dated August 30, 1940, that the West India Oil Company, S. A., branch in the Zone is not an auxiliary work of The Panama Canal or of the Panama Railroad, and that the employees thereof, even when they reside in the Zone, are therefore not exempted from taxation by Article III of the treaty of 1936;⁴⁶ that since the Republic maintains fiscal jurisdiction in all the territory of the Canal Zone the employees of that company are subject to the "Fondo Obrero" tax; and that the company is therefore under the obligation of discounting and sending to the collecting office the monthly percentage deductible from the salaries of those employees. (Resolution No. 251 of August 30, 1940, was published in the *Gaceta Oficial*, No. 8368, dated October 8, 1940. Since the Spanish text of this resolution is available to the Department in the *Gaceta Oficial*, there is enclosed only an informal English translation thereof.⁴⁷ So that the Department may have a complete record of the contentions set forth by the Government of Panamá in arriving at this decision, there is also enclosed the Spanish text of the Executive Order, No. 580, dated November 13, 1940, which has not yet been published in the *Gaceta Oficial*,⁴⁸ and an English translation thereof.)

I should like to call to the Department's attention that the oil company's appeal contended that having a direct relation to the functioning of the Canal, neither the branch nor its employees were subject to Panamanian taxation under Article III, Section 5, of the general treaty of March 2, 1936, and under Article X of the treaty of November 18, 1903.⁴⁹

So soon as the decision of President Arias was announced, the Subsecretary of Government and Justice wrote to the Administrator of Internal Revenue, instructing them to demand from all private enterprises established in the Zone "the payment of national taxes which may be applicable in each particular case, in accordance with the thesis sustained by the Government that the Republic retains its fiscal sovereignty in all the territory of the Canal Zone." To complete the Department's file, a copy of the Spanish text, obtained informally by the Embassy, and a translation of this letter, No. 691, dated November 13, 1940, are enclosed.⁴⁷ This letter indicates that it is the intention of Panamá to levy all taxes, not only the "Fondo Obrero", on private firms established and operating in the Zone.

⁴⁶ General treaty of friendship and cooperation between the United States and Panama, signed at Washington, March 2, 1936; for text, see Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807.

⁴⁷ Not printed.

⁴⁸ For text, see Panama, *Gaceta Oficial*, No. 8406, December 4, 1940, p. 3.

⁴⁹ *Foreign Relations*, 1904, p. 543.

In the past few days the Embassy, as well as the Executive Secretary of The Panama Canal, has received requests for advice from numerous firms established in the Canal Zone as to what stand they should take towards the letters they have received from the Panamanian Internal Revenue authorities requesting a complete list of all their employees and their salaries. In discussing this matter with officials of The Panama Canal, it has been felt that since it involves the question of treaty rights it would be better, before communicating in any way with the Panamanian authorities, to submit the matter to the Department for instructions. Thus far the Embassy and the Executive Secretary have limited themselves to suggesting to inquirers that the replies to the letters from the Internal Revenue officials of the Government of Panamá be confined to a simple acknowledgment with a statement that the matter is being brought to the attention of The Panama Canal under whose regulations the particular concern is established and operates within the Canal Zone.

In submitting this matter to the Department, I should like to call attention to the complications arising out of the varied set-ups of the different firms operating in the Zone. The West India Oil Company, S. A., for instance, is organized under the laws of Panamá, with head office in Panamá City, maintaining in the Zone only branches directly subordinate to this Panamá corporation. The branches of the National City and Chase National Banks operating in the Zone are technically separate from those in Panamá and are directed from the head offices in New York, although in most instances the managers of the branches established in Panamá City and in Colón are also managers of the branches established in the Zone. Most of the shipping companies have branches both in the Zone and in Panamá, with interchangeable personnel, although a few have offices in the Zone only. Both the Standard Fruit and United Fruit enterprises have their offices in the Zone, and, in the case of the Standard Fruit Company, the manager thereof has informed the Embassy that they carry on no operations, either directly or indirectly in Panamanian territory, limiting their activities on the Isthmus to shipping and to purchasing bananas delivered to them in Cristóbal, upon which the Panamanian export tax has been paid. The Ford Company in Cristóbal conducts a great deal of business in Panamá and most of its employees are Panamanians living in Panamá. Consideration of this tax question is further complicated as it involves Panamanians and non-Panamanians, some of whom reside in the Zone, and many, nationals and otherwise, living in Panamá.

I should like to mention further in this connection that these firms operating within the Zone are not subject to taxation by the United

States, except the nominal license fee exacted by The Panama Canal; that some of their employees reside within the Zone, but that the majority, although no exact data are available thereon, probably live in Panamá; that the employees of these private enterprises, as distinct from the gold employees of The Panama Canal and workers within Panamanian territory, are not covered by any retirement or benefit fund. Since a good proportion of them are Panamanian citizens and living within Panamanian territory, it probably would be advantageous to the workers themselves to make them eligible to the benefits of the "Fondo Obrero".

It is feared, however, that the Panamanian authorities have picked out the "Fondo Obrero" as the most plausible wedge for eventually establishing its contention of having fiscal sovereignty in the Zone, and that, if it is able to maintain the position in regard to the "Fondo Obrero", it might lead to attempts to make private firms in the Zone subject to all Panamanian taxes.

Respectfully yours,

WILLIAM DAWSON

819.5123/26

The Secretary of State to the Panamanian Chargé (Ehrman) ⁵¹

WASHINGTON, January 14, 1941.

SIR: I refer to Executive Resolution No. 580 dated November 13, 1940 issued by the Panamanian Government (Secretaría de Hacienda y Tesoro) sustaining Executive Resolution No. 251 dated August 30, 1940 with relation to taxation by the Republic of Panama of private business enterprises established in the Canal Zone, and invite consideration of the assertion contained in the latter resolution that "the Republic maintains fiscal jurisdiction in all the territory of the Canal Zone".

I need not say that this Government will desire urgently to bring to the attention of the Government of the Republic of Panama any specific instances in which attempts are made to impose taxation on private enterprises established in the Canal Zone which are exempted from such taxation by reason of the treaty commitments between our two countries, but I desire now in a general way to invite the attention of the Panamanian Government to the provisions of Article III of the Convention between the United States of America and the Republic of Panama signed at Washington, November 18, 1903 which states

"The Republic of Panama grants to the United States all the rights, power and authority within the zone mentioned and described in

⁵¹ Copy transmitted to the Ambassador in Panama in instruction No. 437, January 14, not printed.

Article II of this Agreement and within the limits of all auxiliary lands and water mentioned and described in said Article II which the United States would possess and exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority."

As you are aware, the provisions of this article were left unimpaired by the General Treaty between the United States of America and Panama signed at Washington on March 2, 1936.

Accordingly, it would appear that the assertion contained in the Executive Order referred to above was drafted without taking into account the pertinent treaty provision.

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

ARRANGEMENT BETWEEN THE UNITED STATES AND PANAMA RESPECTING RELIEF FROM DOUBLE INCOME TAX ON SHIPPING PROFITS

[For text of arrangement effected by exchange of notes signed January 15, February 8, and March 28, 1941, see Department of State Executive Agreement Series No. 221, or 55 Stat. (pt. 2) 1363.]

PARAGUAY

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND PARAGUAY, SIGNED SEPTEMBER 20, 1941 ¹

810.20 Defense/1028

The Secretary of State to the Paraguayan Minister (Soler)

WASHINGTON, June 20, 1941.

SIR: I take pleasure in acknowledging receipt of your note of June 11, 1941 ² in which you inform me that Lieutenant Colonel Aguilera and Captain Diaz Benza are authorized to conduct negotiations with the authorities of the United States Army and Navy concerning the acquisition of arms and war matériel by the Government of Paraguay and to sign any lists of requests for this matériel. I have also noted that your Legation will sign the basic agreement governing the acquisition of this matériel and will conduct any diplomatic negotiations on this subject.

The appropriate authorities of this Government have been preparing the text of this basic agreement, which must be concluded between the Governments of Paraguay and of the United States before this matériel can be acquired. As soon as these officials shall be in a position to discuss with you the conclusion of this agreement I shall take pleasure in communicating with you again.

Accept [etc.]

For the Secretary of State:
DEAN ACHESON

710.11/2747

*Memorandum by the Under Secretary of State (Welles) to the
Liaison Officer (Wilson) ³*

[WASHINGTON,] June 27, 1941.

MR. ORME WILSON: The Minister of Paraguay came to see me this morning, accompanied by his two officers. I had a very satisfactory talk with them, particularly with regard to general inter-American policy and with regard to the policy of the United States vis-à-vis

¹ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics", vol. vi, pp. 133 ff.

² Not printed.

³ Liaison Officer of the Department of State, attached to the Office of the Under Secretary of State.

the Axis powers. I was gratified to have categorical statements made to me by the two officers that the Paraguayan Army is 100 percent in accord with the United States in its determination to prevent any German aggression against the Western Hemisphere and that there was no pro-German sentiment of any kind within the Paraguayan Army. I was further informed by the officers that, while there was a certain amount of Axis propaganda going on among civilian elements of Paraguay, the Army was determined to stop this and had already taken some effective measures in that sense. (I wish you would draft some letter for me to send to Wesley Frost⁴ communicating this to him.)

In brief, I think that you should insist that the War Department expedite immediately a satisfactory arrangement with the Paraguayans covering their requests along the general lines of the memorandum attached.⁵ It is of course imperative that the Paraguayan officers and the War Department first agree upon the list of matériel and the time schedule for deliveries before the Lend-Lease people can take up the question of compensation. When this latter stage is reached I wish you would personally see that the most elastic provisions possible be included with regard to compensation. I said this morning that anything like a 99-year period was of course impossible for us to accept but that we wished to recognize their present economic situation to the fullest extent in any arrangement that might be made. As a practical question, it would seem to me that compensation could be agreed upon on the basis of the delivery to us over a period of years of quebracho in bulk or in extract and, barely possibly, canned meat for defense needs. Naturally all these questions will have to be investigated in the fullest detail but I think that general line would be the only one which would be practical, since I know you are well aware of the financial and economic situation of Paraguay. Please keep me informed every few days of the progress which is being made in this matter.

S[UMNER] W[ELLES]

710.11/2747

The Paraguayan Legation to the Department of State

[Translation]

MEMORANDUM

1. On the assumption that the credit for the \$11,000,000 granted to Paraguay has not undergone any change, we wish to present immediately our request for the acquisition of war material covering this

⁴ American Minister in Paraguay.

⁵ *Infra*.

amount, reaching a separate agreement or leaving to a later date the decision concerning the dates of delivery.

2. In connection with this general request for the \$11,000,000 and with the desire to adjust ourselves to the information which the War Department gave us, we will formulate an urgent request for material valued at \$2,000,000 to be delivered within the period of one year.

3. The important matter is to insert the prices together with the possible date of delivery in the provisional list which we recently presented in order to enable us to use this information in drawing up our definitive request within the limits of the credit granted to Paraguay.

4. Another important factor, which as yet we do not have, is the basic agreement for the acquisition of armaments. We know the conditions stipulated in the law of March 11, 1941^o which do not present any difficulty but we are not yet informed as to the conditions of payment.

5. The aforementioned law of 1941 places in the hands of the President of the United States the faculty of determining these conditions (Section 3b). As we know the equitable attitude of President Roosevelt and his proven good will towards our country, we should not be surprised to find in this basic agreement, especially that part relating to acquisition of munitions, periods for payment amounting to as much as 99 years and the consideration of moral rather than material benefits such as the indirect benefit arising from the Paraguayan decision to accompany the United States from the very first moment when the defense of the Western Hemisphere was taken into consideration.

WASHINGTON, June 27, 1941.

810.20 Defense/1028b : Telegram

The Acting Secretary of State to the Minister in Paraguay (Frost)

WASHINGTON, July 7, 1941—8 p. m.

53. The Department this morning handed to the Paraguayan Minister a draft of basic agreement for the lend-lease program of transferring military matériel to Paraguay. The principal financial provisions are as follows: Paraguay is to receive a total of \$11,000,000 of war and navy matériel of which it is expected \$2,000,000 of army matériel and \$1,000,000 of navy matériel will be transferred during the fiscal year ending June 30, 1942. This delivery date is subject to change if broad defense considerations so require.

^o Lend-Lease Act; 55 Stat. 31.

With respect to repayment, Paraguay is expected to pay \$50,000 in each fiscal year until 1947, making a total of \$300,000 to be repaid prior to June 30, 1947. In consideration of the broad objectives of the program and of certain very general economic concepts, the entire obligation of Paraguay to the United States would be considered discharged by such payments.

For your strictly confidential information, the terms being offered Paraguay are the most favorable being offered any of the American republics. The amount of matériel to be delivered is relatively large compared to the amounts to be delivered to other nations, and the repayment specified is very low.

The Department hopes to transmit to you information regarding the progress of Export-Import Bank arrangements in the very near future.

WELLES

810.20 Defense/1145 : Telegram

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

[Extract]

ASUNCIÓN, July 26, 1941—noon.

[Received 4:30 p. m.]

114. Department's No. 53, July 7, 8 p. m. I learned last night that a clause in the arms contract is interpreted by Argaña⁷ in Cabinet meetings here to mean that the United States in addition to \$300,000 can claim from Paraguay \$2,700,000 worth of local products usable in war effort at specially low prices. If such a clause exists I would have preferred that the Department mention it in telegram 53; and now may perhaps still be able to use clarification if the Department furnishes it.

FROST

810.20 Defense/1145 : Telegram

The Acting Secretary of State to the Minister in Paraguay (Frost)

WASHINGTON, July 30, 1941—7 p. m.

70. Your 114, July 26, noon. There is no clause in the draft of the basic lend-lease agreement handed to the Paraguayan Minister on July 7 which would enable the United States to demand in payment from Paraguay the local products to which you refer. The

⁷ Luis Argaña, Paraguayan Minister for Foreign Affairs.

amount of \$300,000 in cash spread over 6 years is the only payment expected of Paraguay for a total obligation of \$11,000,000. For your confidential information these terms are by far the most generous accorded to any of the American republics. Most of the republics are requested to repay between 30 and 60 percent.

It is possible that the Paraguayan authorities are misconstruing article II of the first draft which has been transmitted to you. This article is purely a reciprocal undertaking and does in no way commit Paraguay to such payments as you mention. We have handed the Paraguayan Minister and the other diplomatic representatives in Washington revised drafts which vary only with respect to the preamble and protocol. Copies of these are being placed in today's airmail.

With reference to your statement that you suspect that the Foreign Minister is not really pleased by the arms arrangement, it is the Department's strong conviction that the terms afforded Paraguay are the most generous terms which could possibly be conceived for any type of a financial transaction.

With respect to delivery of the goods, it is of course true that our defense requirements are pressing to the utmost degree upon our productive capacity. Nevertheless, our statement that the United States expects to deliver to Paraguay \$2,000,000 of equipment during the period ending June 30, 1942 is a firm statement of our present program and must of course be accepted as such.

Aguilera has already left for Paraguay.

WELLES

810.20 Defense/1280a : Telegram

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

WASHINGTON, August 13, 1941—6 p. m.

75. You will please request an interview with the President of Paraguay in order to discuss with him the willingness of this Government to make available military and naval matériel under the provisions of the Lend Lease act and to send a military mission to Paraguay to give instruction in the use of this equipment. Please inform the President that these offers of this Government were made because of this Government's very friendly relations with Paraguay whose government and army have consistently supported the policy first enunciated by the late General Estigarribia⁸ to cooperate with the United States in case of necessity for the defense of the Western Hemisphere, but never for purposes of aggression. It is perfectly

⁸ President of Paraguay, 1939-40.

obvious that economic considerations have had no part in the determination of the policy of this Government.

As long as Paraguay maintains these views the Government of the United States will be disposed to give consideration to such modifications and suggestions affecting the draft of the basic agreement handed to Minister Soler as the Paraguayan Government may deem advisable to propose.

HULL

810.20 Defense/1286a : Telegram

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

WASHINGTON, August 13, 1941—7 p. m.

76. The Minister of Paraguay in Washington believes that action on the basic agreement covering the transfer of war matériel under the provisions of the Lend Lease act would be greatly expedited were the President of Paraguay clearly to state his wishes to the Minister of Foreign Affairs. The views which you were instructed to present in the Department's telegram no. 75 of August 13, 6 p. m. have been approved by the Minister of Paraguay here who has expressed the intention to follow a similar line in his direct and personal communications to the President.

The Paraguayan Minister also suggested that you inform the President that the payment of \$300,000, by which the Paraguayan Government would discharge completely its obligations to pay for the matériel covered by the basic agreement could be discharged either in cash or in articles of defense at the choice of the Paraguayan Government. He was informed that the Department has made careful studies which have revealed the impracticability of receiving payments in commodities and in view of this the payments in cash, stipulated in the basic agreement have been reduced to such amounts as, in the opinion of the economic experts of this Government, would occasion no difficulty to Paraguay. If the President or Paraguayan officials should refer to this matter, you will please express to them this Government's views as set forth above.

HULL

810.20 Defense/1287 : Telegram

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

ASUNCIÓN, August 14, 1941—6 p. m.

[Received 8:52 p. m.]

127. Reference Department's telegrams No. 75 and 76 August 13. After protracted Cabinet session Argaña this noon received me to in-

form me that the assurances from Washington regarding article 6 of the basic arms contract are accepted as satisfactory by the Paraguayan Government and that Dr. Soler is accordingly being authorized today by telegraph to sign contract *ad referendum* with such modification of article 6 as will in his judgment implement the assurances. The *ad referendum* contract will then be submitted to the Government here and if it is approved Soler will be furnished full powers to conclude it definitely.

This seems [to eliminate?] the advisability of an interview with President Morínigo at the present stage and I respectfully suggest it be deferred as a later recourse. Military Attaché Van Natta is of the opinion that the sending of American missions is not likely to cause difficulties.

FROST

834.24/91

The Acting Chief of the Treaty Division (McClure) to the Secretary of State

[WASHINGTON,] September 19, 1941.

The agreement which is to be signed by you and the Minister of Paraguay on Saturday, September 20, 1941, at 11 a. m., has been negotiated under the authority of and in conformity with the "Act to Promote the Defense of the United States", commonly referred to as the Lend-Lease Act, approved March 11, 1941, and in conformity with the principles proclaimed in the Declaration of Lima approved at the Eighth International Conference of American States on December 24, 1938.⁹

Under the agreement the United States agrees, upon certain conditions, to supply defense articles and defense information to Paraguay, and Paraguay agrees that whenever it is in a position to do so without harm to its economy it will make available to the United States defense articles and defense information which the United States in its own defense or in the defense of the Americas shall require.

The agreement becomes effective when signed and will continue in effect until a date to be agreed upon between the two Governments.

WALLACE MCCLURE

⁹ For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

834.24/93

Memorandum by the Liaison Officer (Wilson) to the Secretary of State

[WASHINGTON,] September 20, 1941.

THE SECRETARY: I believe it would be advisable, if possible, to avoid any mention to the press of the signature of a basic lend-lease agreement with Paraguay. It would be unfortunate if other governments of the American Republics were to learn of the payment terms given Paraguay.

Under the agreement you have just signed,^{9a} this Government proposes to transfer to Paraguay armaments and munitions of war to a total value of \$11,000,000, of which there would be shipped during the twelve months' period up to July 1, 1942 an approximate total value of \$2,000,000 for use by the Paraguayan Army, and an approximate total value of \$1,000,000 for use by the Paraguayan Navy. The payment schedule in the agreement provides for remittances by Paraguay of \$50,000 per annum for six years, the total payments of \$300,000 amounting to less than 3 percent of the \$11,000,000 in armaments and munitions. These are the most generous terms being given to any of the American Republics.

ORME WILSON

834.24/9-2041

*Lend-Lease Agreement Between the United States and Paraguay,
Signed at Washington, September 20, 1941*

WHEREAS the United States of America and the Republic of Paraguay declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938, they, together with all the other American Republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941, and the President of the Republic of Paraguay, have determined that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Paraguay are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or

^{9a} *Infra.*

execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Paraguay have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Paraguay under the terms of this Agreement armaments and munitions of war to a total value of about \$11,000,000. The United States of America proposes to begin deliveries immediately and to continue deliveries as expeditiously as practicable during the coming twelve months to an approximate total value of \$2,000,000 for use by the Paraguayan Army and an approximate total value of \$1,000,000 for use by the Paraguayan Navy.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Paraguay similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Paraguay, the defense needs of the Republic of Paraguay or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

Thereupon the Republic of Paraguay shall pay in dollars into the Treasury of the United States of America the total cost to the United States of America of the defense articles theretofore delivered up to a total of \$300,000 less all payments theretofore made, and the Republic of Paraguay shall not be required to pay more than a total of \$50,000 before July 1, 1942, more than a total of \$100,000 before July 1, 1943, more than a total of \$150,000 before July 1, 1944, more than a total of \$200,000 before July 1, 1945, more than a total of \$250,000 before July 1, 1946, or more than a total of \$300,000 before July 1, 1947.

ARTICLE III

The United States of America and the Republic of Paraguay, recognizing that the measures herein provided for their common defense

and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Paraguay hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,¹⁰ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Paraguay is in a position to supply, without harm to its economy, the Republic of Paraguay will make such defense articles and defense information available to the United States of America.

ARTICLE V

The Republic of Paraguay undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Paraguay.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Paraguay, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the Republic of Paraguay of any defense article or defense information, it is necessary for the Republic

¹⁰ For correspondence on this Meeting, see *Foreign Relations, 1940*, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

of Paraguay to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Paraguay will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Paraguay who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Paraguay.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed at Washington in duplicate in the English and Spanish languages this twentieth day of September, 1941.

For the United States of America:

CORDELL HULL

*Secretary of State of the
United States of America.*

For the Republic of Paraguay:

JUAN JOSÉ SOLER

*Envoy Extraordinary and Minister
Plenipotentiary of the Republic
of Paraguay at Washington.*

834.24/88 : Telegram

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

ASUNCIÓN, September 24, 1941—5 p. m.

[Received 9:35 p. m.]

155. For Under Secretary. Foreign Minister after Cabinet conference formally requests views of American Government as to publication of arms contract. His Government would be glad to publish entire text, and believes this would create favorable impression here. If this is not desired by American Government he suggests partial publication and requests information as to which clauses should be omitted. If the publication of a résumé is preferred he desires an indication as to its terms. A telegraphic reply would be appreciated by Paraguayan Government.¹¹

¹¹ Instruction No. 80, October 27, 1941, to the Minister in Paraguay stated that the agreement should not be made public (834.24/105a).

Thus far, there has been no publication even of the news of the signature, although the latter has become known from American radio broadcasts. Argaña has met inquiries from newspapermen by stating that the matter is "reservado".

Argaña definitely feels that full publication is desirable, and as he is in a position to judge its effects I am inclined to accept his view.

FROST

REQUEST BY THE PARAGUAYAN GOVERNMENT FOR ECONOMIC AND FINANCIAL ASSISTANCE FROM THE UNITED STATES¹²

834.51/330

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

[WASHINGTON,] January 29, 1941.

MR. WELLES: At the request of the Under Secretary, Mr. Hooker¹³ and I have had extensive conversations with the Paraguayan Minister¹⁴ regarding the desire of the Government of Paraguay to obtain additional credits from the Export-Import Bank. There is attached a table¹⁵ summarizing the original requests of the Government of Paraguay of last September, Mr. Lamb's¹⁶ formal recommendations to the Government of Paraguay, and a new distribution of items informally handed to me by the Paraguayan Minister. With respect to Mr. Lamb's formal recommendations it should be recalled that in a personal letter to the Export-Import Bank he recommended as economically fully justifiable only the refinancing of the Port of Asunción Concession.

The following recommendation of additional credits to Paraguay is based on (a) the desirability of devoting a part at least of our cooperative efforts towards direct development and improvement of the Paraguayan agricultural situation; (b) the desirability of maintaining at least a minimum flow of dollar exchange into the hands of the exchange authorities during the present period of reduced markets for several of Paraguay's export staples; (c) the desirability of giving some prestige to the present Paraguayan Government, the entire credit for the existing cooperative effort having been given to the late Marshal Estigarribia:¹⁷

¹² Continued from *Foreign Relations*, 1940, vol. v, pp. 1124-1134.

¹³ John S. Hooker, Assistant Executive Secretary, Board of Economic Operations of the Department of State.

¹⁴ Juan José Soler.

¹⁵ Not printed.

¹⁶ Eric Lamb, representative of the Export-Import Bank in Asunción and financial adviser to the Paraguayan Government.

¹⁷ President of Paraguay, 1939-40.

1) *Agricultural Development*—The most important cooperative action which we can take with Paraguay is to improve the basis of the Paraguayan economy. Dr. Bressman¹⁸ has indicated that with an expenditure of \$400,000 over several years and the loan of two agricultural experts, a part or all of whose expenses would be paid out of the credit, a real contribution to the improvement of Paraguay's agriculture can be made. There is attached a copy of a letter¹⁹ of Dr. Bressman on the subject. It is recommended that the Export-Import Bank work out the details of such a credit with Dr. Bressman, and that the Department of Agriculture be requested to make available the two experts.

2) *Feeder Roads*—Of coordinate importance with improved agricultural methods are feeder roads on which to bring the agricultural production to the markets. Mr. Lamb and Colonel Durham have listed useful feeder roads in the amount of \$900,000. It is recommended that this amount be allocated by the Export-Import Bank, and that the Bank's engineer, Mr. West, in his forthcoming visit to Paraguay determine whether such roads can efficiently be constructed by the Hebard Company simultaneously with the completion of the present highway project. It will be recalled that Mr. West is to be sent to Paraguay to investigate reports that the costs of construction by the Hebard Company are excessive.

The construction of additional roads should be scheduled with some relation to the exchange needs of the central bank. Mr. Lamb has indicated that over half a million dollars of foreign exchange may be expected to come into the hands of the central bank as the result of expenditures during 1941 under the existing contract on local labor and supplies. The construction of additional highways should be in part at least timed to provide a continuing small amount of exchange rather than any great bursts of dollars to the central bank.

3) *Banco de la República*—Mr. Lamb has argued that the continuing highway expenditures and existing \$500,000 revolving credit to the Banco de la República would make any increase in the revolving fund unnecessary, if the Export-Import Bank were to enter upon a program of financing surplus stocks of cotton. Since we are not recommending such action with respect to cotton it will probably be necessary at some subsequent time to increase the revolving fund credit to \$1,000,000.

4) *Sanitary Works in Asunción*—It is recommended that Mr. West on his forthcoming trip study carefully the cost and feasibility of constructing water and sanitary works in Asunción.

5) *Piers, Warehouse, and Dredging Equipment*—It is also recommended that Mr. West study further the economic desirability and cost of constructing piers at Pilar, Encarnación and Concepción, the construction of a warehouse in Asunción, and the purchase of dredging equipment for use in the vicinity of Asunción.

6) *Port of Asunción Concession*—It is suggested that the Government of Paraguay should attempt to arrange a new contract with the port concession which would not involve any Export-Import Bank financing.

¹⁸ E. N. Bressman, Assistant Director, Office of Foreign Agricultural Relations, Department of Agriculture.

¹⁹ Not printed.

Such a program would give the Paraguayan Government a modest amount of additional credits, and would provide for the immediate departure to Asunción of two agricultural experts plus the Export-Import Bank's engineer. With respect to the Paraguayan Minister's informal suggestion that the mineral resources be studied, I am informed by Mr. Charles Will Wright²⁰ who recently visited Paraguay that there are no important mineral deposits in the entire country with the exception of possible indications of petroleum in the region near Bolivia and Argentina. I am informed that the concern of Herbert Hoover, Jr.,²¹ has been making a cursory survey in this region, presumably for private interests.

I have already discussed these matters informally with Mr. Pierson²² and, if you approve, would be in a position quickly to discuss further the studies to be made by Mr. West and the actual credits to be allocated.

834.51/332

The Federal Loan Administrator (Jones) to the Under Secretary of State (Welles)

WASHINGTON, March 1, 1941.

DEAR MR. SECRETARY: Copy of translation of memorandum²³ left with you February 25 by the Paraguayan Minister is noted with interest.

Mr. Pierson and I had a very pleasant visit with the Minister February 24, at which time he requested:

(1) An additional line of credit to the Banco de la República of \$500,000.

June 1, 1939, we approved a line of credit to the Banco de la República of \$500,000, to enable that institution to meet dollar exchange requirements during periods between export seasons. The Banco has drawn \$200,000 of this amount and repaid \$66,666.66, leaving a balance unused of the established credit to the Banco of \$366,666.66.

We stated to the Minister that when this was exhausted we would give consideration to any additional requirements that the Banco might need.

(2) The Minister requested additional funds for road building.

June 1, 1939, we authorized a loan of \$3,000,000 to the Republic of Paraguay for the construction of a highway between Asunción and Villarrica.²⁴ \$1,285,000 of this credit has been used, leaving a balance yet to be expended in the construction of this highway of \$1,715,000. This amount will supply a good deal of dollar exchange for Paraguay.

²⁰ Member of the United States Bureau of Mines.

²¹ President of the United Exploration Company.

²² Warren L. Pierson, President of the Export-Import Bank.

²³ Not printed.

²⁴ See *Foreign Relations*, 1939, vol. v, pp. 758 ff.

Recent estimates we have received from the contractor, R. W. Hebard & Co., Inc., indicate that the final cost of this highway will approximate \$4,000,000. This would require an additional loan of \$1,000,000. However, the Export-Import Bank's engineer strongly recommends that the specifications of the uncompleted portion of the project be modified, which he insists can be done without affecting the usefulness of the road and yet considerably reduce the cost. The modification would be a one lane road instead of two lanes, and since the traffic over this road will not be heavy, a one lane road would be ample. As our own experience in this country proves, another lane can be constructed when needed. In the meantime, the savings from this could be used for lateral or feeder roads.

(3) The Minister insisted that we immediately authorize a loan of \$3,000,000 to Paraguay to build a complete water and sanitation system for Asunción.

We stated to the Minister that we would, if they desire, send an engineer or engineers at the first opportunity to make an estimate of the cost of such a plant. He insisted that we send the engineer with him, which I stated we could not do, but would as soon as convenient.

Since Asunción has done without these facilities until now, and because we need our resources for emergency matters, I think this project should await our convenience, although we will send the engineer.

(4) The Minister wanted an additional amount of \$1,000,000 for feeder roads, and this I have discussed in the latter part of the last paragraph of (2).

(5) He wanted \$500,000 for river work and port improvements.

We are sympathetic with Paraguay, as we are with all South and Central American countries and want to cooperate with them . . .

CONCLUSION

(1) We will send engineers to investigate the water and sanitation system for Asunción.

(2) We will consider applications for additional credits to the Banco when they are needed.

(3) We will have our engineers investigate and report on the harbor facilities and will give favorable consideration to a loan of not more than \$500,000 for such work, if circumstances appear to warrant.

(4) You state that the Department of Agriculture expects to send two men to Paraguay for the purpose of studying certain readjustments in their agricultural economy, particularly with a view to developing the growing of mandioca.

If the Department of Agriculture, after investigation, recommends a loan in connection with this agricultural development, the Bank will give favorable consideration to a loan up to \$400,000.

Sincerely yours,

JESSE H. JONES

834.51/346 : Telegram

*The Minister in Paraguay (Frost) to the Secretary of State*ASUNCIÓN, July 1, 1941—4 p. m.
[Received 10:15 p. m.]

93. Morning press publishes a guarded report that Concepción port works are about to be undertaken thanks to engineer Robert K. West. Mr. West's connection with the Export-Import Bank or the United States Government is not mentioned. Also Municipal Intendente tells me Aguilera²⁵ has informed him Asunción water system is about to be provided. There are numerous other rumors here of economic aid from the United States Government.

Respectfully request this Legation be furnished early information as nothing whatever on economic cooperation has been received by the Legation since I left Washington. I also would much appreciate the Legation be permitted to make announcements or the Paraguayan Government representatives definitely [be] informed the Legation is in good part responsible for such assistance as Paraguay is to receive.

FROST

834.51/346 : Telegram

The Acting Secretary of State to the Minister in Paraguay (Frost)

WASHINGTON, July 10, 1941—7 p. m.

55. Your 93, July 1, 4 p. m., and the Department's 53, July 7, 8 p. m.²⁶ As you are aware, the Export-Import Bank has formally opened a credit of up to \$300,000 for agricultural development. Mr. Pierson set forth his views fully when in Asunción and has since received no proposals or suggestions of any kind from the Paraguayan Government nor any indications that Paraguay plans either to accept or reject the offer.

With respect to Mr. West's studies, he has indicated that for some \$400,000 it should be possible to build a new dock at Encarnación and repair those at Pilar and Concepción. The Export-Import Bank is prepared to finance these works and will shortly make available details as to how it will carry them out.

With regard to a dredge, Mr. West reports that the dredge belonging to the Paraguayan Government was in dry dock undergoing repairs, and that shortly it should be available for service. He states

²⁵ Lt. Col. Andrés Aguilera, military representative of Paraguay to the United States.

²⁶ For latter telegram, see p. 475.

that none of the hydrographic engineers indicated that any more dredging equipment is either necessary or desirable.

The Export-Import Bank has also extended until December 31, 1941 the existing line of credit of \$500,000 to the Banco de la República.

WELLES

834.51/352

The Acting Secretary of State to the Minister in Paraguay (Frost)

WASHINGTON, July 14, 1941.

DEAR MR. MINISTER: I acknowledge the receipt of your letter of July 5, 1941²⁷ regarding economic aid to Paraguay. You state that Morínigo²⁸ believes that the United States is withholding such assistance for fear of offending Argentina and Brazil.

This is of course not in any sense true. Our aid is in no way conditioned on the reactions of the neighboring republics. Moreover, I do not see the justification for the statement that we are withholding economic cooperation from Paraguay. Within the last week you have been informed of three decisions regarding our lend-lease arrangements for transferring military matériel, the financing of port works, and the continued extension of the line of credit to the Banco de la República. At the present time the United States is offering the following assistance:

1. The \$3,000,000 highway project, construction of which is proceeding rapidly, with Colonel Durham replaced.

2. The \$500,000 line of credit to the Banco de la República, now extended to December 31, 1941.

3. The \$400,000 credit for agricultural purposes. The mandioca plan was carefully worked out as affording a possible method of increasing exports and thus producing foreign exchange. The cold storage plant for domestic consumption goods only would probably not produce any net foreign exchange, although it may be a desirable project. In any case it would not be feasible for the Export-Import Bank to finance the purchase of the equipment in Argentina. The Bank, however, stands prepared to consider any reasonable proposals, and I am surprised that none have been made.

4. The new \$400,000 for port works recommended by Engineer West. The Bank took this action within two days after receiving Mr. West's report.

5. The two airports to be improved by Panagra.

6. The \$11,000,000 lend-lease military program²⁹ against which Paraguay is expected to repay only \$50,000 a year for six years in complete liquidation of the obligation.

²⁷ Not printed.

²⁸ Higinio Morínigo, President of Paraguay.

²⁹ See pp. 473 ff.

Mr. West has reported on other projects, and the Department is studying his recommendations. He points out that Paraguay's existing dredge has been undergoing complete repairs and that no additional dredge is required. He estimates the cost of installing a waterworks and distribution system, a sewer system, and repaving the street disturbed in laying pipes, at not less than \$10,000,000, in contrast to the \$3,000,000 mentioned by the Paraguayan Government. He suggests that an inexpensive highway from Concepción to the Brazilian frontier via Pedro Juan Caballero could readily be constructed with the good clay and other materials available in that area. He believes that other roads, especially feeder roads, can more economically be built after further progress has been made on the Villarica highway, releasing some of the present machinery and equipment.

I am sure that you will agree that the financial assistance listed above is of real importance, and that it is desirable to undertake further projects one at a time rather than to announce a large program all at once and then shortly later have much of the favorable reaction dissipated as has apparently and unfortunately been the case with the cooperative work entered into with General Estigarribia. I am certain that you will find it possible to derive the maximum advantage from the several new items of cooperation recently decided upon, and the Department will await with interest your reports of the Paraguayan reaction thereto.

With respect to your comment regarding your staff, the Department's emergency program for increasing the personnel of the missions in the other American republics is progressing rapidly, and your situation should be alleviated.

With best regards,
Sincerely yours,

SUMNER WELLES

834.51/348 : Telegram

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

ASUNCIÓN, July 19, 1941—6 p. m.

[Received 11:10 p. m.]

110. Department's telegram No. 55, July 10, 7 p. m. Foreign Minister⁸⁰ on behalf of Minister of Agriculture now states officially Paraguay would be glad to avail herself of \$400,000 for mandioca and agricultural development if the American experts can be furnished gratis under Public Resolution No. 29 [*Public 63?*]⁸¹ and if an American market for mandioca or mandioca products can be assured. The second condition is to avoid contracting a debt with no security that

⁸⁰ Luis Argaña.

⁸¹ Approved May 3, 1939; 53 Stat. (pt. 2) 652.

means can be found for repaying it. The first is because the salaries and expenses of the two experts would be extremely burdensome under Paraguay's conditions and standards. An early reply would be appreciated.

On behalf of the Minister of Public Works, Minister for Foreign Affairs states that the construction of the port improvements is earnestly desired and that the details shortly to be furnished by the Export-Import Bank will be examined at once upon receipt. It is hoped that action may not be delayed.

The municipal head has twice informed me that Aguilera has assured him that the sanitary works for Asunción will soon be granted. This would be helpful and informative and in any case it is desirable that the bank reopen studies and negotiations regarding feeder roads, without which Estigarribia highway will have limited value. There is much criticism among the public here of the highway as unduly expensive in proportion to its usefulness unless feeders can be obtained; and Argaña has been promised funds from Argentina for this purpose. There is now real probability that they will be secured in the very near future on favorable terms; and this would more than neutralize any good effects remaining from our loan, which the Paraguayans are thus far fully repaying, for the main road.

Minister of Agriculture has secured disused brewery near the port in which he believes cold storage equipment could be installed for \$150,000. This project seems practical and meritorious.

The feeder road project in my judgment should have immediate consideration ahead of sanitary projects, although both are highly desirable.

FROST

834.51/348 : Telegram

The Acting Secretary of State to the Minister in Paraguay (Frost)

WASHINGTON, July 23, 1941—4 p. m.

62. Your 110, July 19, 6 p. m. The Export-Import Bank has within the last few months set aside \$900,000 for additional financial cooperation with Paraguay, the \$400,000 for agricultural works and \$500,000 for river and port works. The Export-Import Bank has indicated that it is prepared to see any reasonable utilization of this amount.

Specifically, the Department and the Export-Import Bank do not feel that we should press Paraguay to carry out a mandioca and

general agricultural program in the face of the apparent Paraguayan reluctance to enter into this work. It would not be feasible for the American experts for a several years program to be furnished free under Public 63 and of course it would not be feasible for an American market for mandioca to be guaranteed.

It is suggested that the \$900,000 be allocated in the following manner:

- 1) About \$400,000 for port and river works.
- 2) About \$150,000 for cold storage equipment. The Export-Import Bank cannot, of course, finance the acquisition of German equipment through Argentina. It is prepared to consider any other reasonable proposal and it is suggested that you request the Minister of Agriculture to submit a detailed proposal at once.
- 3) The remaining \$350,000 for feeder roads. It should be possible to make a good start on feeder roads with this amount by diverting a part of the equipment which the Hebard Company is using on the central highway. The construction of feeder roads is largely a matter of local labor expenditure.

The Export-Import Bank would make arrangements whereby the Hebard Company undertook to work in the additional construction works, both for feeder roads and for port works in its general construction program.

With respect to your remarks that the central highway is not being well received, the Export-Import Bank would be glad to receive your suggestions or comments as to other methods of completing the work and of utilizing in the most desirable manner the funds allocated for that purpose.

It is the Department's view that the additional \$900,000 of Export-Import Bank credits plus the large unexpended balances of the earlier credits should go a long way towards maintaining the economic situation of Paraguay and towards providing useful works. The Department believes that with these works and with the \$11,000,000 arms arrangement, which is on exceedingly generous terms, the Paraguayan Government is receiving the most ample financial cooperation. The Department feels confident that you can use these arrangements in the most effective manner.

WELLES

834.51/353 : Telegram

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

WASHINGTON, August 13, 1941—2 p. m.

74. The Paraguayan Minister has left with the Department a memorandum²² indicating that his Government would accept in

²² Not printed.

principle the \$400,000 credit for Mandioca on the following conditions: (1) that there may be one and not two experts, and (2) that the amortization and interest be payable with the products made with the Mandioca.

It is, of course, out of the question for this Government to agree to the latter condition. Please discuss the matter with the Paraguayan authorities and give the Department your views and their views as to the desirability of utilizing a part of the \$900,000 for the Mandioca project, or whether it would be better to utilize the funds as suggested in the Department's no. 62 of July 23, 1941.

HULL

834.51/354 : Telegram

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

ASUNCIÓN, August 19, 1941—5 p. m.

[Received 8:10 p. m.]

130. Department's No. 74, August 14 [13], 7 a. m. [2 p. m.] Finance Minister, head of inter-departmental committee states proposals in Department's No. 62 in general acceptable, with two requests. First, Minister of Agriculture would like 100,000 additional loan for mandioca development with one American expert. This would bring total program to \$1,000,000 which is a respectable round figure to announce. Second, Minister of Finance believes port works and cold storage loans can be financed from harbor dues and warehouse fees but sees no way of financing loans for feed[er] roads. Would it be possible to consider the roads strategic in connection with air bases and arrange under Lend-Lease Act³³ to finance them on same basis as arms?

FROST

834.51/354 : Telegram

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

WASHINGTON, August 21, 1941—7 p. m.

81. Your 130, August 19, 5 p. m. The Department is gratified that the Paraguayan Government finds the loan proposals of the Export-Import Bank acceptable. With respect to the Finance Minister's first point, the credits totaling \$900,000 have been approved by the Bank in two instalments after careful consideration, and the amount cannot be changed without a new consideration by the Bank, which the Department is not now prepared to request. As to the second point, the Lend-Lease Act permits only the transfer of physical

³³ Approved March 11, 1941; 55 Stat. 31.

goods essential for defense, and does not permit local expenditures for labor and materials which would be involved in the construction of roads. Local expenditures would be such a preponderant part of the cost of feeder roads that consideration of assistance under Lend-Lease for this purpose is believed impracticable.

HULL

834.51/360

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

No. 176

ASUNCIÓN, September 20, 1941.

[Received September 26.]

SIR: I have the honor to report that the Paraguayan Minister of Public Works, Captain Ramón Martino, has made inquiries recently both upon myself and Mr. P. Frank Stratton, Manager of R. W. Hebard & Company, respecting the conclusion of definite arrangements with the Export-Import Bank in accordance with the latter's proposals outlined in the Department's telegram No. 62 of July 23, 1941, 4 p. m. Señor Martino is of the opinion that the river port works can be carried out under the supervision of Mr. A. R. Mesa, the American engineer sent to Asunción by R. W. Hebard & Company for that purpose, without interfering with the continuance of the present highway project. He also expressed himself as feeling that the construction of feeder roads is just now of greater importance than the prompt execution of the port works projects.

From a policy standpoint it is desirable that the program of economic cooperation with Paraguay be advanced as rapidly as possible. As has previously been reported, the plans which are now probably about to mature for supplying Paraguay with certain supplies, and for enlarging aviation facilities, are of rather secondary interest to the non-military members of the Cabinet; and the latter will have an influence over hemispheric defense collaboration. Thus while it may be necessary to defer actual work on the improvement of the river ports until next spring or summer it is desirable that the agreements respecting this work, as well as respecting feeder roads and agricultural assistance, be brought to an early conclusion. The Export-Import Bank's expeditious attention to the matter is respectfully solicited.

Respectfully yours,

WESLEY FROST

834.51/362 : Telegram

*The Minister in Paraguay (Frost) to the Secretary of State*ASUNCIÓN, October 3, 1941—7 p. m.
[Received 9:45 p. m.]

161. Foreign Minister states Soler has been instructed accept economic cooperation program as outlined in Department's telegram no. 62, July 23, 4 p. m. He also expressed the hope that additional [\$]100,000 can be secured for mandioca development. I again urge this.

FROST

834.51/363 : Telegram

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

WASHINGTON, October 24, 1941—8 p. m.

104. Reference your despatch no. 201 of October 4.³⁴ The Department has carefully reconsidered your urging that the Export-Import Bank accede to the request of the Paraguayan Government for an additional \$100,000 credit for the mandioca project, and feels that it must maintain its previous position. As you will recall, the Export-Import Bank originally granted a credit of \$400,000 for the mandioca and related agricultural projects and later increased the total to \$900,000 to include certain port works. The entire \$900,000 is now available for such reasonable allocation as the Paraguayan Government may request. A draft proposal has already been prepared and transmitted to the Paraguayan Minister and to you for the allocation of \$400,000 for the port works, as an increase in the present Hebard contract. The remaining \$500,000 is entirely unallocated. It is suggested that \$100,000 of this total be allocated to the mandioca, perhaps \$150,000 to the cold storage project and the balance at this time for feeder roads, which will take some time in their construction. If at a subsequent date the projects of construction, especially of feeder roads, are progressing well and the Paraguayan situation appears to require additional credits, the Department would then be prepared to consider taking the matter up again with the Federal Loan Agency. At the present time the Department cannot take up additional credits with the Federal Loan Agency until some progress is made in carrying out works under credits already extended, and until some real need for additional credits is demonstrated.

HULL

³⁴ Not printed.

834.51/367

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

No. 137

WASHINGTON, December 29, 1941.

SIR: Reference is made to your despatch no. 260 of November 8, 1941,³⁵ in which you reported that the Minister of Foreign Affairs of Paraguay informed you that the Paraguayan Government is ready to proceed with the utilization of the credits available from the Export-Import Bank as follows: \$400,000 for port works and improvements; \$350,000 for branch roads; and \$150,000 for a cold storage plant. You also reported in this despatch that you believed the Paraguayan authorities might wish to expend the \$350,000 for the construction of branch roads without utilizing the services of a construction or engineering organization from the United States. You indicated, moreover, that an agricultural survey of Paraguay by experts of the United States might reveal important possibilities for the economic development of the country and you mentioned your intention to suggest to the Paraguayan authorities that such a survey be carried out.

In connection with the projects which have been suggested for utilization of these credits, there is enclosed a copy of a letter of December 16, 1941³⁵ from Mr. Warren Lee Pierson, President of the Export-Import Bank, from which it will be observed that he now questions the practicability of the proposed port works and cold storage plant and suggests that the credits might be employed to better advantage if they were utilized entirely in the construction of feeder roads. You are requested to discuss discreetly with the appropriate Paraguayan officials the matter of the allocation of the credits in the light of the considerations advanced by Mr. Pierson and to report your comment and suggestions to the Department.

With respect to your comment that the Paraguayan authorities may wish to utilize the \$350,000 credit for the construction of branch roads without the assistance of a construction or engineering organization from the United States, the views of Major R. W. Hebard were sought informally by the Department. Major Hebard expressed the view confidentially that he believed the Paraguayans might perform a large part of the construction work on the branch roads, but that he believed the Paraguayans themselves would wish to have the advice and guidance of qualified engineers in carrying out this work.

³⁵ Not printed.

The President of the Export-Import Bank has likewise expressed the view that utilization by the Paraguayans of the existing organization of the R. W. Hebard Company is the most practicable procedure to follow in undertaking additional highway construction, although he has suggested that if qualified Paraguayan engineers could be found to perform the work they might be given nominal charge of the construction under the general supervision of the company.

It is believed that a practicable procedure for construction of the branch roads might be arranged through the presentation to the Export-Import Bank of such suggestions from the Paraguayan authorities as they may wish to make in this respect. If you should be consulted by the Paraguayan authorities concerning the possibility of construction of the roads without a comprehensive contract with a construction or engineering organization from the United States, it would appear advisable for you to suggest discreetly that the Paraguayans embark upon such domestic construction activity gradually enough to assure an entirely satisfactory utilization of the credit. One method of embarking gradually upon such Paraguayan domestic construction activity might be to retain the engineering services and possibly the supervisory functions of highway construction engineers from the United States.

With respect to your comment that an extensive agricultural survey of Paraguay by experts from the United States might reveal important possibilities for the economic development of Paraguay, it is believed that it may be advisable at this time to await definite progress in the practical utilization of the credits of \$900,000 before exercising initiative which may involve the incurring of further credit obligations by the Paraguayan Government. While agricultural investigation could of course be carried out by experts from the United States without immediate expenditure by the Paraguayan Government for resultant concrete developments, it would appear advisable to avoid giving the impression to the Paraguayan authorities that this Government is urging them to undertake activities or developments which they might not be disposed to undertake on their own initiative.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

PERU

DISCUSSION BETWEEN THE UNITED STATES AND PERU REGARDING COOPERATION ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

810.20 Defense/1802 : Telegram

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

WASHINGTON, December 20, 1941—noon.

540. From the Under Secretary.² I have just received the following urgent message from General Marshall, Chief of Staff:

“1. The military situation now requires the support of Naval reconnaissance by long range Army land-based aircraft operating off the Pacific end of the Panama Canal.

2. For this reason the War Department requests the Department of State, obtain from Peru at the earliest practicable date permission for Army aircraft to use Peruvian airports and their facilities in the Talara area and to station and maintain there, if desired, small Air Corps detachments in uniform, for servicing our planes and providing them with communication and weather data.

3. If granted, Peru will derive the benefit of the incidental protection thus afforded the Talara petroleum installation.”

Please have this matter taken up as promptly as possible with the appropriate Peruvian authorities and telegraph me the reply which may be made.

In view of the statements made by General Ureta to your Military Attaché,³ as reported in your telegram of December 18,⁴ it may be that you will feel it desirable to have this question taken up, at least initially, with the General by the Military Attaché. [Welles.]

HULL

¹ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 157 ff.

² Sumner Welles.

³ Lt. Col. Uzal G. Ent.

⁴ Not printed.

810.20 Defense/1806 : Telegram

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

LIMA, December 21, 1941—11 p. m.
 [Received December 22—1:09 a. m.]

705. For the Under Secretary. Department's 540, December 21 [20], noon. In a conversation this afternoon Dr. Solf⁵ asked what additional protection we had in mind for Talara fearing that the suggested arrangement might provoke attacks. He was also disturbed at the prospects of Peru having to take a stand prior to the Rio Conference.⁶ However, I am hopeful that some satisfactory plan can be worked out fairly promptly although a Cabinet decision will be necessary.

NORWEB

810.20 Defense/1822 : Telegram

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

LIMA, December 24, 1941—2 p. m.
 [Received 5:47 p. m.]

715. For the Under Secretary. My telegram No. 705, December 21, 11 p. m. The Peruvian Government doubtless has decided that some cooperative plan for the defense of the Talara area must be put into effect but for some reason known to itself is delaying action. The Minister for Foreign Affairs told me this morning that after consultation here the Peruvian Ambassador at Washington⁷ received telegraphic instructions to ascertain what additional defense assistance the United States could give Peru at Talara and Callao and a reply now is being awaited. This was the Foreign Minister's explanation of the delay. When I suggested that he and I see the President⁸ this afternoon he replied that the President is fully informed and the instructions to the Peruvian Ambassador at Washington represent the President's decision in the matter.

NORWEB

⁵ Alfredo Solf y Muro, President of the Peruvian Council and Minister for Foreign Affairs.

⁶ Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-23, 1942. For preliminary correspondence, see vol. VI, pp. 118 ff.

⁷ Manuel de Freyre y Santander.

⁸ Manuel Prado y Ugarteche.

810.20 Defense/1806 : Telegram

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

WASHINGTON, December 24, 1941—5 p. m.

551. Your 705, December 21, 11 p. m. The War and Navy Departments advise that there is "an apparent threat" to the security of the installations of the Talara oil fields and state that it is now a matter of the greatest urgency that a patrol based at Talara be established. Please leave no stone unturned, therefore, to expedite the decision of the Peruvian Government with respect to the request conveyed in the Department's 540, December 20, noon. For your information and although for military and naval reasons it is not possible to define what is meant by "an apparent threat", the implications of the phrase are believed to be obvious. The establishment of the patrol at Talara and the protection of the oil fields and installations there are of as vital interest to Peru as to the United States. Please impress upon the Peruvian authorities that they and we are now confronted with a situation in which speedy action is essential from the standpoint of the common interests not only of the two countries but of all the other American republics.

With respect to the concern of the Foreign Minister at the prospect of Peru's taking a stand prior to the Rio conference, you may inform him for his strictly confidential information, if it seems desirable, that other of the American republics have extended to this country exactly the same facilities as those being requested of Peru.

HULL

810.20 Defense/1832b : Telegram

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

WASHINGTON, December 28, 1941—4 p. m.

558. From the Under Secretary. I am transmitting herewith, in response to the inquiry made of you by the Peruvian Government, specific plans advanced by the War and Navy Departments in order to afford the maximum of protection to the Talara area. The plans are as follows:

"The War Department is prepared to dispatch to Talara as soon as practicable, 1 heavy bombardment squadron, 1 pursuit flight, service units, and 1 platoon of infantry, reinforced. This involves 8 heavy bombardment airplanes, 8 pursuit fighters, miscellaneous equipment, and approximately 750 officers and men.

It is proposed to send the ground elements of this force to Peru by water transportation from Panama as soon as permission is granted by the Peruvian Government. The airplanes are to be flown in as soon as service facilities are ready to receive them.

It is desired to concentrate this force at the Talara airport initially, with the right reserved to use such other Peruvian landing fields in that general area as circumstances may require.

Since the employment of the above force, based on Peruvian territory, bears directly on the defense of the Panama Canal, every effort which you can make to obtain the prompt and favorable consideration of Peruvian authorities to this proposal will be greatly appreciated.

No steps will, of course, be taken to place this plan in effect, pending further advice from you."

I suggest that should you see no reason to the contrary, you discuss this suggestion directly with the President and make it clear to him that the proposal offers, in the judgment of this Government, the best evidence of the desire of the United States to take every necessary measure, in cooperation with Peru, to prevent any acts of hostility on the part of Axis powers against the territory of Peru.

Please telegraph as soon as possible the reply that may be made to you. [Welles.]

HULL

810.20 Defense/1848 : Telegram

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

LIMA, December 31, 1941—4 p. m.

[Received January 1, 1942—4: 14 a. m.]

737. For the Under Secretary. Your telegram No. 561, December 29th, 8 p. m.⁹ Following is a summary of a long conversation which I had with the President this morning:

1. I emphasized that our request for the use of an air base at Talara is due primarily to the need for adequate defense of the Canal, which is a matter of vital importance to the entire west coast; that the United States has no desire to take from the Peruvian forces any part whatever of their duty and right to defend national territory; that while the long distance patrol from Talara would afford incidental protection to this valuable Peruvian area the main objective is cooperation in hemisphere defense and that there must have been some misunderstanding about the request which we had made.

2. The President stated that there is no objection to allowing us to use Talara for long range patrols, but that for psychological reasons there must be at the same time some positive act of cooperation from us that will make available to Peruvian forces equipment that they can use in the defense of Peruvian territory.

3. The President observed that Peru is no more united and prepared for positive action against the Axis Powers than was the United States before the Japanese attack. He pointed out that if we could furnish, for example, a few planes that the Peruvian Air Force

⁹ Not printed.

could use for coastal patrol work and if a Peruvian aviator was lost or suffered any injury while on such duty it would immediately arouse and unite the country behind an energetic program for hemisphere defense. The President emphasized this psychological factor and said that he needed at least an immediate token supply of defense equipment from the United States in order to have the support of the Peruvian people in the Talara plan.

4. When I pointed out the urgent nature of the Talara situation the President repeated that he needed at least some concrete evidence of assistance to Peruvian forces before the United States planes started to use the Talara base. He observed that Peru would be inviting attack and would be vulnerable once our planes started to use Talara.

5. The idea would be to furnish some aviation and coast defense equipment with the understanding that we would furnish personnel to train Peruvians in its use. This training could be accomplished through established missions or in any other convenient manner.

6. The Peruvians would handle only coast defense and short range patrols but would want to include Callao in their defense measures.

7. The President asked if the Peruvian Commanding General in the North could exercise some supervision over United States forces at the proposed Talara base and I replied that I was sure that a satisfactory arrangement would be made in this respect working through officers of present United States military missions.

8. The President's attitude was one of solid support but he depends upon us to help him translate that paragraph into effective action.

9. For recommendations regarding military equipment to be made available to Peru reference is made to telegram No. 53, December 31 from the Military Attaché to the War Department and to telegram No. 312000 from the Naval Attaché to the Navy Department.

[10.] With respect to the conference at Rio de Janeiro the President said that the Peruvian delegation would have positive orders to collaborate with the United States in political, military and economic defense measures and that the Minister for Foreign Affairs has instructions not to commit Peru in the slightest degree before the opening of the conference.

11. The President stated that the Peruvian delegation will have instructions to recommend and support a resolution for all of the American Republics to sever diplomatic relations with Japan. I inferred from this part of the conversation that the Peruvian Government will take no action with respect to the two recently arrived Japanese Military Attachés, since this case would automatically be taken care of by the breaking off of diplomatic relations.

12. The Peruvian delegation also will have instructions regarding the operation of our Proclaimed List ¹¹ and will seek to obtain action to protect dishonest economy in the operation of the list. The President was very pleased over the information that the Ravndal ¹² group

¹¹ Proclamation Authorizing a Proclaimed List of Certain Blocked Nationals and Controlling Certain Exports, July 17, 1941; 6 *Federal Register* 3555.

¹² Christian M. Ravndal, Assistant Chief of the Division of the American Republics, was sent by the Department on November 19, 1941, to the American Missions in South America to discuss export controls, the freezing of foreign funds, and the Proclaimed List.

now is in Lima to study these matters and that something may be accomplished so that this problem can be eliminated from the instructions of the Peruvian delegation.

13. The appointment of the Peruvian delegation is proving to be a serious political problem for the President because of pressure from [apparent omission] to be leader of the opposition.

14. The President told me that the Minister for Foreign Affairs has instructions to take up urgently with you the question of the relations between [apparent omission] requisitioned by the United States. He wants to have this matter settled so that we can let bygones be bygones. It will be most helpful if immediate payment can be made to Peru of the amount actually paid by the latter to the Norwegian Government.¹³ Any other amounts claimed by [apparent omission] could be the subject of the usual legal procedure.

15. The President also expressed the earnest hope that you could return from the Rio de Janeiro conference by way of Lima since there are many pressing questions that could be handled most effectively through direct conversations with you here.

Paragraphs 1 to 9 inclusive have been repeated to Embassy at Panama for the information of General Andrews.¹⁴

NORWEB

ELIMINATION OF GERMAN INFLUENCE IN PERUVIAN AIRLINE; INTEREST OF THE UNITED STATES IN DEVELOPING CIVIL AVIATION IN PERU

823.796/150 : Telegram

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

WASHINGTON, March 28, 1941—6 p. m.

52. Your 91, March 26, 3 p. m.¹⁵ Please express to the President of Peru¹⁶ on behalf of this Government hearty concurrence in the position which the President of Peru has taken to the effect that aviation services in this hemisphere should not be operated by non-American interests. It is indeed gratifying to find this position so definitely implemented by the cancellation by Peru of the Lufthansa¹⁷ contract. This action makes a real contribution to continental solidarity and to continental defense.

WELLES

¹³ See pp. 508 ff.

¹⁴ Presumably Gen. Frank M. Andrews, Commanding General, U. S. Caribbean Air Force.

¹⁵ Not printed.

¹⁶ Manuel Prado y Ugarteche.

¹⁷ German aviation company; its contract in Peru was cancelled on March 24.

823.796/152 : Telegram

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

LIMA, March 31, 1941—11 a. m.

[Received 2:10 p. m.]

98. Department's telegram No. 52, March 28, 6 p. m. President Prado was very gratified with the message for him about the cancellation of the Lufthansa contract, and when I gave it to him Sunday morning at a meeting in connection with the geographical conference he called the Foreign Minister¹⁸ to join us so that the latter could hear what he had to say. The President stated that action in the Lufthansa case is one step in Peru's cooperation in hemisphere; that we may expect similar "frank and convincing" cooperation in other matters; and that the Peruvian Government is determined to give full support to the United States in measures for the protection of the American continents.

The President's attitude indicates that Peruvian policy now is moving toward decisive action along the same lines as our own and reflects an opinion similar to the Brazilian one in this respect. It will be most useful to me in future conversations with the Minister for Foreign Affairs to be able to refer to the President's unequivocal statements.

If the strength of the present administration in Peru is maintained so that the President's expressed policies can be made effective the situation here will be greatly improved. . . . I am encouraged by the President's declaration . . .

NORWEB

823.796/154 : Telegram

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

[Extract]

LIMA, April 2, 1941—noon.

[Received 1:50 p. m.]

105. My telegram No. 98, March 31, 11 a. m. Following up his promise to me that he planned to make a public statement soon expressing his full support for the policies and actions of President Roosevelt, President Prado did so last evening in the course of his address promulgating the new education law. He said that he shared fully the ideas and the "policy of action" of the President of the United States which translate the desires of peoples to safeguard their liberties, institutions and lives. . . .

NORWEB

¹⁸ Alfredo Solf y Muro.

823.796/158 : Telegram

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

WASHINGTON, April 7, 1941—6 p. m.

59. The Department has considered carefully your despatches and telegrams on the aviation situation in Peru as well as report no. 16 of February 7, 1941 prepared by the Military Attaché.¹⁹

It now seems probable that priorities will be obtained for four small hydroplanes for the Faucett Airline for use to Iquitos and for other schedules, particularly in that section, as suggested in the report under reference from the Military Attaché. It also seems probable that this Government will be able to render financial assistance both for the purchase of these airplanes and for the improvement of landing fields and navigation facilities should such assistance be necessary. This assistance would be rendered, of course, for the purpose of preventing the penetration of non-American interests into Peruvian aviation and would be contingent on assurances that the Peruvian Government would not extend franchises to such elements.

The Department is gratified that the Peruvian Government has cancelled the Lufthansa franchise. It is understood that Panagra is duplicating this service and that it will therefore not be necessary to augment Panagra's schedules for the time being. As you are no doubt aware, the present difficulty of obtaining airplanes and flight crews makes it necessary to allocate the few available where they will accomplish a definite purpose, principally the elimination of German influence or the extension of strategic lines.

The Department will appreciate receiving your further recommendations and the views of the Peruvian Government and Mr. Faucett concerning the assistance which this Government might render in the form of airplanes, flight personnel, improvement of landing fields and so forth. You should not, until receiving further instructions upon the basis of your subsequent reports, commit this Government in any way.

HULL

823.796/163 : Telegram

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

LIMA, April 24, 1941—3 p. m.

[Received 9:05 p. m.]

145. Reference Department's 59, April 7, 6 p. m. Following preliminary recommendations are submitted on the bases of intercontinental defense and the immediate needs of the Government for development of [apparent omission] in Peru.

¹⁹ Lt. Col. Uzal G. Ent; report No. 16 not printed.

The reconstruction of the 5 following airports in the order named: Talara, Iquitos, Chiclayo, Lima and Quipa, with installation of complete communications, meteorological and lighting units; communications and meteorological units would also be installed in 10 additional landing fields now in existence. The whole project to be Government-owned and controlled.

The cost of the reconstruction of the above 5 fields is estimated at 2 million dollars, with an additional million dollars for the installation of the communications, meteorological and lighting units. With respect to the 4 small airplanes for which there is a probability of priority, it is strongly recommended that these planes be made available to the Peruvian National Airline, operated under the executive administration of the United States Aviation Mission as a part of the Peruvian Air Corps. The planes could be put into immediate use in the Iquitos service. This recommendation is made regardless the fact that they may be used near the disputed area ²⁰ since in any case a Peruvian Government service will be maintained with that district.

Faucett is in agreement with the foregoing recommendations and does not require any assistance for the time being save certain priorities on materials which will be covered in a separate despatch. Faucett will take care of the needs of his expanding services for the next year by building additional plants in his own factory and for which the above-mentioned materials are essential.

We have not approached the Peruvian authorities aside from statements of Colonel Moore,²¹ but we learn reliably that the President is personally and actively interested in these matters and proposes the establishment of an authority similar to our civil aeronautics authority to control all civil aviation, including landing fields and facilities in Peru. Before taking up the matter with the Peruvian authorities we would appreciate any suggestion the Department may have regarding the financing of the loans and equipment of the airfields and the acquisition of the 4 hydroplanes above referred to.

The President has orally assured me that no more concessions or permits will be granted non-American airlines to operate in Peru. We suggest the Department consider our obtaining some more formal understanding in this respect.

NORWEB

²⁰ For correspondence regarding the boundary dispute between Ecuador and Peru, see vol. VI, pp. 212 ff.

²¹ Col. James T. Moore, Chief of the United States Aviation Mission to Peru.

823.796/166

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

No. 1118

LIMA, May 9, 1941.

[Received May 15.]

SIR: With reference to the Embassy's telegram 145 of April 24, 1941, 3 p. m., setting forth preliminary recommendations with respect to the reconstruction of airports in Peru, I have the honor to report that the Minister of Finance informed me yesterday that by direction of the President he has been charged with the supervision of the development of civil aviation in Peru. As a first step in the Minister's program and with the concurrence of all of the Peruvian authorities concerned, he proposes the reconstruction of the five airports mentioned in our telegram under reference and two additional airports, probably at Cuzco and Tingo María. In order that the plan may be carried out as soon as possible, Mr. Dasso is desirous of obtaining the services of a competent engineer or engineers to make a preliminary survey of the work to be done on the seven airports under consideration, and has requested me to ask the Department's aid in obtaining the services of the engineer or engineers in question.

Colonel James T. Moore, U. S. M. C., Chief of the United States Aviation Mission to Peru, recommends that a competent engineer be sent immediately to make a preliminary survey of the airfields and an estimate of the materials required and the cost of construction. Colonel U. G. Ent, the Military Attaché, suggests that the engineer designated consult with our War and Navy Departments before coming to Peru.

As for the financial arrangements, the Minister seemed to expect that we would be prepared to supply the necessary initial capital. Peru's share of this outlay to be determined by mutual agreement and to be repaid over a long term through especially earmarked taxes.

I heartily endorse the recommendation of the Minister of Finance as well as the recommendations of Colonels Moore and Ent in order to accomplish this preliminary step which we are all agreed is of paramount importance in connection with intercontinental defense and the requirements of the Government of Peru in a long-range program for the development of aviation in this country.

Respectfully yours,

R. HENRY NORWEB

P. S. Since dictating the foregoing, we have learned that the Minister of Marine and Aviation has sent a note to the Foreign Office requesting that one United States Army engineer officer be sent to Peru for the purpose of making a survey of airport extensions and other needed facilities. Further, that one Air Corps officer or Coast

Artillery officer be sent to Peru to study and recommend an anti-aircraft defense for Callao and other vital areas in Peru. RHN

823.796/172 : Telegram

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

WASHINGTON, July 29, 1941—8 p. m.

214. Your 304, July 21, 7 p. m., and 320 July 25, 5 p. m.²² The Department has been in consultation with Colonel Moore concerning the aviation needs of Peru.

The Federal Loan Agency will send an aviation expert to Peru within the next few days to make a study of Peruvian commercial aviation with a view to assisting in establishing an air transport system to meet the country's needs. You will be advised of the date of his arrival.

WELLES

REPRESENTATIONS BY THE PERUVIAN GOVERNMENT REGARDING REQUISITION BY THE UNITED STATES OF EIGHTEEN BOMBING PLANES; PAYMENT OF COMPENSATION

823.248/250

The Peruvian Ambassador (Freyre) to the Secretary of State

[Translation]

WASHINGTON, October 6, 1941.

EXCELLENCY: The Government of Peru purchased from the Government of Norway, by a contract signed on August 15, 1941, 18 Douglas Airplanes, Model 8A-5. The Department of State was informed in good time of the negotiations which concluded with the purchase of that material by my Government, as the vendor requested.

The transfer of title having been perfected on the date indicated above, the Peruvian Government solicited of the United States Government, by a note²³ which I had the honor to address to Your Excellency on the 19th of the same month of August, the facilities necessary for the transit of the airplanes from Toronto, Canada, where they had been purchased, to the port of New York, whence they were to be shipped to Callao, Peru. For this purpose, my Government decided to send to New York the *Marañón*, a vessel belonging to the Peruvian Steamship Company [Compañía Peruana de Vapores].²⁴

²² Neither printed.

²³ Not printed.

²⁴ Brackets appear in the file translation.

On August 30, 1941, the Department of State was good enough to inform this Embassy²⁵ to the effect that it would give immediate consideration to the applications for licenses which were made for the importation from Canada and the exportation to Peru of the 18 Douglas airplanes, Model 8A-5, to which I refer, and shortly afterward the corresponding licenses were issued by the Department of State.

All these formalities having been complied with, the Embassy in my charge was disagreeably surprised on Monday, September 22 last, by the information that, by direction of the Collector of Customs of New York, and at the time when the Peruvian airplanes were loaded, some on board the *Marañón* and some on the Grace Line ship *Santa Rita*, it was ordered that they should again be placed on land on the pretext that the content of the cases "belonging to a foreign government" would first have to be examined by the customs authorities. Later, the same Collector, Mr. Durning, alleged that the operation of unloading that was required was made necessary by the circumstance that goods belonging to Norway were involved, whose funds and credits are frozen in the United States.

The unjustified reasons given for making the arbitrary action of the New York Customs Service appear proper and the fact that, in disregard of elemental duties of international courtesy, no suggestion or notice capable of explaining in any way the unloading that was ordered was given to my Government in due time, led me to believe sincerely that in this whole question there was nothing more than a serious error committed by the customs officials of the port of New York.

With this conviction, I have been discussing the matter verbally with the Department of State, starting on that said Monday, September 22, 1941 and continuing until today, to the end of clearing up this troublesome matter, and the time has come when I must go on record before Your Excellency to the effect that I have not yet been able to obtain the necessary reparation on the part of the United States Government. Far from it, I have been told that "possibly" the War Department has shown interest in the detention of the Peruvian airplanes and that this interest must undoubtedly be the cause of the whole occurrence.

It certainly would not be friendly under the present circumstances, while still awaiting the definitive reply of Your Excellency, for me to adduce any reason contrary to the purpose which might be attributed to the War Department of this country, of disposing freely of material of foreign ownership. The Government of Peru well knows that the domestic and international policy of the United States is adjusted to the principles of law, and it would not venture to offer to this na-

²⁵ Communication not printed.

tion the offense of supposing that, disregarding the legal norms which guarantee the property system and forgetting the mutual consideration owed to each other by states, it should commit such a serious infraction as would be the act of depriving its legitimate owner of a thing which legally belongs to him.

It is for this reason that the present note which I am sending to Your Excellency, in compliance with special instructions from the Government of Peru, is limited to protesting energetically against the arbitrary detention which the New York Custom House has made of the 18 Douglas airplanes, Model 8A-5, belonging to Peru, which should have started for Callao two weeks ago, and to request that immediate and categorical orders be given that this aviation matériel may be transported to its place of destination without loss of time.

My Government likewise instructs me to protest formally, as I do, against the abuse committed by the Collector of Customs of New York in preventing the shipping of articles of commerce belonging to the Peruvian State and to declare to Your Excellency, as I likewise do, that it hopes from the United States Government, in its rectification, that damages and losses occasioned to Peru by the forced stay at New York of the steamer *Marañón* since September 22, 1941 will be recognized and paid for, as well as all the expenses which it has had to incur through the unloading of eight airplanes from the steamer *Santa Rita* and the holding of the same on lighters and piers of the said port of New York.

Lastly, my Government reserves the right to claim from that of Your Excellency whatever indemnification may be due because of the injurious effects that the action of the climate might have on the goods belonging to it, held without legal basis by order of agents of the United States Government.

I avail myself [etc.]

M. DE FREYRE Y S.

823.248/244 : Telegram

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

LIMA, October 15, 1941—4 p. m.

[Received 7: 50 p. m.]

551. The Secretary General of the Peruvian Ministry of Foreign Affairs asked me to call today to discuss with him a matter that the President had requested him to take up with me. The principal subject of our conversation was the retention of the 18 planes purchased from the Norwegian Government by the Peruvian Government.

The United Press despatch of last evening regarding the diversion [*diversion?*] of these planes to Russia was censored here and has not been published. Dr. Bellido considers the diversion of these planes

as unfriendly. I took immediate exception to this and replied that it was a case of the planes being more urgently needed elsewhere. Dr. Bellido then said that Peruvian resentment was due to the manner in which the case had been handled. I suggested that any observations regarding this phase might be made by the Peruvian Ambassador at Washington to the Department. Dr. Bellido stated that this might be done and that he hoped that the Department would make some clarifying statement. I replied that if Peru were to make any statement regarding the case I supposed that naturally my Government would also make a statement; and that I believed the entire matter should be viewed as a contribution which Peru could make to the defense of the cause of democracies. . . .

NORWEB

823.248/245 : Telegram

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

LIMA, [undated].

[Received October 16—1:22 p. m.]

552. My telegram No. 551, October 15, 4 p. m. Radio broadcasts from the United States report Colonel Revoredo as having publicly stated that the diversion of these airplanes is "a most unfriendly act". Nothing has been published in the press here . . . The Department's comment will be appreciated. Feeling in aviation circles is running high.

NORWEB

823.248/240

The Secretary of State to the Peruvian Ambassador (Freyre)

WASHINGTON, October 17, 1941.

EXCELLENCY: With reference to Your Excellency's note of October 6, 1941 regarding eighteen airplanes, Douglas model 8A-5, purchased by the Peruvian Government and in transit through the United States to Peru, I have the honor to inform Your Excellency that the War Department has found it necessary in the interests of national defense to requisition these airplanes. Appropriate steps are being taken in this respect under the authority of the Act of October 10, 1940 (Public No. 829—76th Congress)²⁶ in conformity with procedure prescribed by Executive Order of the President, dated October 15, 1940.²⁷

²⁶ 54 Stat. 1090.²⁷ 5 *Federal Register* 4121.

It is regretted that the Peruvian Government may have been inconvenienced by the requisitioning of these airplanes by this Government. I believe Your Excellency and Your Excellency's Government will agree, however, that in the present critical world situation it is of vital interest to all of the American republics that such rapid and effective action be taken whenever necessary to utilize airplanes and other scarce implements of war to defend this continent in the ways that may be decided to be most advantageous strategically by those now engaged in that defense. With the rapidly expanding airplane production facilities of this country it will soon be possible to provide the other American republics with such aviation equipment as they may need for defense against non-American aggression. At this time it nevertheless continues to be necessary to exercise every precaution, and even such mandatory powers as those used in the present instance, to insure the complete mobility of the available mechanized equipment that is so essential for the protection of the American republics. I assure Your Excellency that the Government of the United States will of course continue fully to collaborate with Peru and the other American republics in all matters related to continental defense.

Accept [etc.]

CORDELL HULL

823.248/245 : Telegram

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

WASHINGTON, October 17, 1941—6 p. m.

405. Your 552 undated. The Peruvian Ambassador in a call which he was asked to make by the Under Secretary yesterday expressed his regret at the unfortunate and erroneous impressions conveyed by certain statements which have appeared in the press attributed to Colonel Revoredo. The Ambassador stated that Colonel Revoredo had made no statements derogatory in any way to the United States. In view of this clarification the Under Secretary said that he considered the matter closed. The press has reported this morning that Revoredo has resigned.

With reference to your 551, October 15, 4 p. m., the Department has taken the same position with the Peruvian Embassy in Washington concerning the planes which you took at the Foreign Office.

HULL

823.248/240

The Secretary of State to the Peruvian Ambassador (Freyre)

WASHINGTON, October 20, 1941.

EXCELLENCY: I have the honor to refer to my note of October 17, 1941, advising Your Excellency that the War Department had with

regret found it necessary, because of urgent defense needs, to requisition certain airplanes which had been purchased by the Peruvian Government and were in transit through the United States to Peru.

I am happy to inform Your Excellency that this Government is taking steps to give the Government of Peru full and immediate compensation, in accordance with the usual and established procedure for such cases.

This procedure is established by Executive Order of the President dated October 15, 1940, providing for the administration of the account entitled "Act to Authorize the President to Requisition Certain Articles and Materials for the United States and for Other Purposes". (Act approved October 10, 1940, Pub. 829, 76th Cong.) Under its provisions the Administrator of Export Control shall "hold or cause to be held whatever hearings that may be necessary to determine the fair and just value of such property, at which hearings the owner of the property, his duly authorized agent or representative, or other persons claiming an interest therein, may prepare evidence orally or in writing regarding the fair and just value of the article or material requisitioned and taken over. Upon conclusion of such hearings the Administrator of Export Control shall report to the President his findings and recommendations in regard thereto".

Accept [etc.]

CORDELL HULL

823.248/248 : Telegram

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

LIMA, October 20, 1941—2 p. m.

[Received 9:05 p. m.]

561. My telegram No. 556, October 18, 1 p. m.²⁸ The following points were brought out in a meeting with Bonsal,²⁹ the Military and Naval Attachés,³⁰ the Chief of the United States Aviation Mission³¹ and Drew.³²

1. Reports are current that due to the incident of the planes the Peruvian Congress is to debate the desirability of canceling the Metals Reserve Company contract to show their resentment toward the United States regardless of the fact that it would hurt Peru.

2. Popular feeling is running so high that moving picture audiences greet with unfriendly demonstrations any pictures about the United States.

²⁸ Not printed.

²⁹ Philip W. Bonsal, Acting Chief of the Division of the American Republics; at this time he was in Peru as Department's representative at the Foreign Service conference.

³⁰ Lt. Col. Uzal G. Ent and Lt. Comdr. Willard R. Gaines, respectively.

³¹ Col. James T. Moore.

³² Gerald A. Drew, Second Secretary of Legation in Ecuador, attending the Foreign Service conference at Lima.

3. The Chief of the Aviation Mission feels very strongly that the future usefulness of the mission depends upon securing substitutes for the diverted planes. He thinks the Vultee trainers will help but by no means will solve the problem of carrying on the program of the mission. The Military and Naval Attachés agree with Colonel Moore.

4. The Embassy does not wish to suggest the reversal of the decision taken to requisition these planes but does wish to make the following suggestions:

(a) The 18 planes now understood to be in warehouse in New York should immediately be put to some defense use.

(b) The Vultee trainers for Peru, export licenses for which are understood to have been granted, should be shipped as soon as possible and the Embassy informed regarding dates.

(c) It would be extremely helpful if the War or State Department could make an announcement covering first the method of payment to Peru for the requisitioned planes and second the desire and intention of our Government to do everything possible to meet the requirements of Peru as soon as the considerations of national defense, are [as] set forth in the statement of the Secretary of War regarding the requisition of the planes, are no longer applicable.

NORWEB

823.248/250a : Telegram

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

WASHINGTON, October 20, 1941—9 p. m.

412. There are several precedents for the action taken by this Government in requisitioning the 18 Peruvian airplanes. For example, on May 27, 1941, at the request of the United States Army Air Corps in the Philippine Islands, this Government seized 16 airplanes and spare parts owned by the Thai Royal Air Force of Thailand,³³ having an approximate value of \$872,000.

This Government has also requisitioned 111 airplanes with spare engines and parts from the Government of Sweden, several foreign merchant vessels in United States harbors and large quantities of materials owned by the Russian, Japanese and Swiss Governments. Details are being forwarded to you by airmail.

HULL

³³ In telegram No. 163, December 3, 6 p. m., the Department advised the Minister in Thailand that it had been informed by the Thai Minister on December 1 "that he had now received from this Government full payment of the awards for the requisitioned aircraft in question." (892.248/56)

823.248/251 : Telegram

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

WASHINGTON, October 21, 1941—7 p. m.

414. Your 561, October 20, 2 p. m. With reference to your suggestions, it is understood that the War Department will put the 18 airplanes to defense use in the immediate future. Export license for the 12 basic Vultee trainers was granted October 6 and the Vultee Company is making every effort to obtain space for the shipment of these airplanes to Peru aboard the *Agwiprince* of the Grace Line, sailing from Los Angeles November 26. Statements covering the method of payment for the requisitioned planes and the desire and intention of this Government to do everything possible to meet the requirements of Peru were contained in the notes of October 17 and 20, which were quoted to you in the Department's 409, October 20, 7 p. m.⁸⁴

HULL

823.248/253

The Peruvian Ambassador (Freyre) to the Secretary of State

[Translation]

WASHINGTON, October 21, 1941.

EXCELLENCY: I have had the honor of receiving Your Excellency's courteous notes of the 17th and 20th of the current month, both referring to the requisition of 18 Douglas planes, model 8A-5, belonging to the Government of Peru, which were in transit through territory of the United States.

My Government had hoped that the reasons set forth in this Embassy's note of the 6th instant would induce Your Excellency to order the immediate return of the airplanes held in the port of New York to their legitimate owner; and it does indeed deplore the fact that such decision has not yet been taken, in violation of the fundamental rights of my country and with obvious disregard of every friendly consideration.

The preoccupation which dominates Your Excellency's Government with respect to the problem of continental defense is also felt by the Government of Peru in the natural relativity of affairs. A sign of that preoccupation is constituted by all the statements and acts which Peru has recently made and performed in its eagerness to cooperate in the preservation of the vital interests of America.

But my Government has given, and is willing to continue giving such cooperation on the basis of absolute respect on the part of all the

⁸⁴ Telegram No. 409 not printed; for the notes of October 17 and 20, see pp. 511 and 512, respectively.

American Republics of the principle of the juridical quality of States. Freely, in the exercise of its attributes of sovereignty and in conformity with its own legislation, Peru could also have considered any suggestions which might have been made to it by the Government of the United States to the end that the planes belonging to it, in transit through American territory, be applied to meet supreme and undeferable needs of the armed defense of this Hemisphere. But Peru can by no means agree that another State, without consulting it and arrogating to itself a title which Peru is not willing to recognize to any nation, no matter how powerful it may be, may claim the right to decide unilaterally concerning goods which have already become part of Peru's physical wealth. Such action is not only unfriendly, it is in open conflict with the Pan American spirit.

My Government also considers that the attitude of the Government of the United States does not rest on any sort of legal basis. It is true that the law of October 10, 1940 authorizes the President to requisition and attach certain military and naval items in the interest of national defense, but only such items as had been "ordered, manufactured, procured or possessed for the purpose of exportation" in American territory. The law referred to does not in any way allude to goods in transit, and the 18 Douglas airplanes, model 8A-5, which had been shipped at Toronto, Canada, and were consigned to Callao, Peru, were passing through this country on a journey which had begun and was to end outside the borders within which United States territorial law governs. The law of October 10, 1940 could not contain provisions contrary to the postulates on freedom of transit proclaimed by international law, postulates which the Government of this nation has on multiple occasions made its own; and it is for that reason that there was only included among its precepts the authorization for the President of the United States to requisition and attach goods intended for export. Such is the conclusion one unavoidably reaches in reviewing its structure. If this were not the case, this legislative work would constitute a menace for the security of international commerce.

My Government firmly believes, then, that the act of which it has protested and does protest is not based on any legal provision and, trusting in Your Excellency's high sense of justice, instructs me once more to request the immediate return of the 18 Douglas planes, model 8A-5, held in the port of New York, and to renew its just claim for the damages and prejudices which it is being occasioned by the action injurious to its right and interests which has been perpetrated by the authorities of the United States.

I avail myself [etc.]

M. DE FREYRE S.

823.248/251 : Telegram

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

LIMA, October 22, 1941—8 p. m.

[Received 9:38 p. m.]

566. At the Foreign Service conference meeting this morning the chiefs of the United States aviation and naval missions emphatically expressed the opinion that the requisition of the 18 planes has completely disrupted the work of their missions. The most extreme anti-United States attacks are being made from the floor of the Senate and are being published in the press and broadcast by radio. The son of and the nephew of Rafael Larco³⁵ of *La Crónica* of Lima called today again to state that the present situation is being used to undermine the entire pro-democratic campaign, the support of President Roosevelt and his policies and that anti-American feeling is stronger and more widespread than they have ever known [it] to be. They added that reactionary Peruvian elements and totalitarian interests are capitalizing on events to the fullest extent, while friends of the United States are helpless to fight back.

The most unhappy stage which relations between Peru and the United States have reached has impressed Bonsal through his conversation with the Minister of Finance,³⁶ General Melgar³⁷ and Felipe Beltran, all of whom have heretofore been very warm friends of the United States and of the democratic cause. It must also be emphasized Peru is interested in obtaining the exact type of bomber which was requisitioned and would not be particularly interested in substitutes. This is confirmed by Colonel Ent and is due to the requirements of Peru's actual aviation establishment and training program. It is possible that the situation might be considerably improved if the War Department could give some indication as to a date, preferably not over 3 to 6 months hence, when the exigencies of our national defense program might make it possible to begin to replace these. If this suggestion meets with the Department's approval, it is further suggested that the visit to Washington of Rafael Larco Herrera scheduled to take place within the next few days, will furnish an excellent opportunity for an announcement in the sense proposed.

In connection with the foregoing the Brazilian Ambassador has been reliably informed that the Peruvian Minister for Foreign Affairs³⁸ probably will call the representatives of the three mediatory

³⁵ Rafael Larco Herrera, First Vice President of Peru and chairman of the Board of Directors of the newspaper *La Crónica*.

³⁶ David Dasso.

³⁷ Gen. Fernando Melgar earlier in the year had visited the United States to study aviation methods.

³⁸ Alfredo Sol y Muro.

countries within the next 48 hours to present a proposal regarding the boundary dispute.³⁹

NORWEB

823.248/251 : Telegram

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

WASHINGTON, October 23, 1941—7 p. m.

417. Your 566, October 22, 8 p. m. Your suggestions are being very carefully studied on an urgent basis, and it is hoped that something can be worked out in time to permit of an announcement during the course of Larco Herrera's visit to Washington. In the meantime, of course, no commitment can be made.

HULL

823.248/291

Memorandum by Mr. Raymond Yingling of the Legal Adviser's Office

[WASHINGTON,] October 29, 1941.

In reply to the Embassy's statement that the action of the Government of the United States in seizing the airplanes does not rest on any legal basis, it may be pointed out that the planes are in the United States. They are therefore subject to the jurisdiction and amenable to the laws of the United States whatever may be their origin and whatever destination may have been intended for them. The Act of October 10, 1940 (Public, Numbered 829, Seventy-sixth Congress) authorizes the President, when he determines that it is necessary in the interest of national defense, to requisition and take over any military or naval equipment, munitions, et cetera, "ordered, manufactured, procured, or possessed for export purposes, the exportation of which has been denied in accordance with the provisions of section 6 of the Act approved July 2, 1940 (Public, Numbered 703, Seventy-sixth Congress)." ⁴⁰ The airplanes in question are admittedly possessed for the purpose of export to Peru. Their export has been denied in accordance with the provisions of section 6 of the Act approved July 2, 1940 (Public, Numbered 703, Seventy-sixth Congress) by the revocation of the export license issued in accordance with the provisions of section 6. The case is therefore clearly within the terms of the Act of October 10, 1940.

The Embassy's note expresses the view that the Act of October 10, 1940 cannot "contain provisions contrary to the postulates on freedom of transit proclaimed by international law." If this means that there

³⁹ For correspondence regarding the boundary dispute between Ecuador and Peru, see vol. VI, pp. 212 ff.

⁴⁰ 54 Stat. 712.

is an absolute right for the transportation of foreign property across the territory of a state this Government knows of no such right under international law. The jurisdiction of a nation over its own territory is absolute and any exemption or immunity from such jurisdiction rests solely on the nation's consent. It is not understood that the Government of Peru contends that it enjoys any such immunity. Every state undoubtedly possesses the right in case of emergency and subject to compensation to seize any foreign property on its territory.

823.248/304

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

[WASHINGTON,] November 24, 1941.

The Ambassador of Peru called to see me at my request. I told the Ambassador that as an indication of the very real desire of the Government of the United States to recognize the difficulties created for the Government of Peru by the requisitioning by this Government of the 18 bombers which the Peruvian Government had bought and which were in transshipment through the United States for Peru, I wished to inquire whether the Government of Peru would view favorably the substitution of 18 primary trainers for the requisitioned bombers, the difference in value, of course, to be compensated for by the United States Government. I said it had been my understanding that what the Peruvian Government particularly desired was to have airplanes for the training of their pilots and that the category of planes requisitioned was not the chief difficulty, but rather the fact that 18 planes had been taken which would have been of service in affording flying facilities for their aviators.

The Ambassador said that this was exactly the case and that he personally greatly regretted the fact that the Peruvian Government had bought bombers rather than training planes in the first place. He said this fact had given rise to assumptions which he trusted were unfounded. He said that he would at once communicate with his Government and inform me of their point of view and that in the event that it was favorable, he would then respond affirmatively to an official note which I would direct to him in the sense indicated.

S[UMNER] W[ELLES]

823.248/271

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

[WASHINGTON,] November 26, 1941.

Dr. Carlos Concha ⁴¹ called to see me this afternoon at his request. Dr. Concha said that he had been requested by Ambassador Freyre to let me know, in response to the inquiry I had made of the latter two days ago, that the Peruvian Government felt it wiser not to undertake any modification of its earlier decision with regard to the requisitioned airplanes, but to liquidate the matter as quickly as possible, and that he would consequently prefer to obtain full compensation for the airplanes requisitioned and not to have trainers as part compensation for the bombers.

I said that this Government would, consequently, act accordingly and that I trusted that the Peruvian Government would recognize the extreme efforts which this Government had made in a friendly manner to try and meet what it understood were the requirements of the Peruvian air force for a sufficient number of planes to train its pilots.

S[UMNER] W[ELLES]

823.248/305

The Peruvian Ambassador (Freyre) to the Secretary of State

[Translation]

WASHINGTON, December 12, 1941.

EXCELLENCY: I have the honor to refer to Your Excellency's courteous note dated October 20 last, in which Your Excellency states, in the second paragraph, that your Government is prepared to give immediate and full compensation to the Government of Peru for the attachment of 18 Douglas airplanes belonging to the Peruvian Government that were requisitioned by the United States Army at the Port of New York.

In accordance with instructions from my Government, I have the honor to present to Your Excellency today, for the aforementioned purposes, a statement of the value of the said airplanes, and of the expenses incurred in transporting them from Toronto to New York, as well as the expenses of the trip from Peru to Canada of several Air Force officers of my country to inspect them.

My Government paid the Norwegian Government, in accordance with a contract signed August 15, 1941, the sum of \$1,234,800.00 for the 18 airplanes. To this amount should be added \$8,633.80 for the

⁴¹ Member of the Consultative Commission to the Peruvian Ministry for Foreign Affairs.

cost of transporting them from Canada to New York; and \$3,364.50 for the passage and expenses of the Peruvian officers. This makes a total of one million, two hundred forty-six thousand, seven hundred ninety-eight dollars and thirty cents (\$1,246,798.30), and I shall be grateful if Your Excellency will have that amount paid to the Government of Peru.

I should like to state, at the same time, that the above sum is only the value of the 18 Douglas airplanes and the expenses directly connected with their purchase. My Government reserves the right to make a subsequent claim for damages and losses suffered as a result of the forced detention of the vessel *Marañón* and other matters mentioned in the last part of my note of October 6 of the current year.

I avail myself [etc.]

M. DE FREYRE Y S.

823.248/305

The Secretary of State to the Peruvian Ambassador (Freyre)

WASHINGTON, December 20, 1941.

EXCELLENCY: I have the honor to acknowledge receipt of your Excellency's note of December 12, 1941 in which you file claim for reimbursement for the 18 bombers which had been purchased by Peru from the Government of Norway and which were subsequently requisitioned for the urgent use of the United States Army. The note has been referred to the Claims Division of the Economic Defense Board with the request that it examine the facts of the case and make provision for payment of compensation as provided by law. The Claims Division will communicate directly with the Embassy for such other details of information which it may require.

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

823.248/277

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

No. 2484

LIMA, December 30, 1941.
[Received January 2, 1942.]

SIR: I have the honor to refer to my telegram number 615 of November 15, 1941, 12 noon,⁴² relative to information locally current to the effect that dollar exchange in compensation for the 18 Douglas airplanes requisitioned by the United States Government had been deposited in the Reserve Bank in Lima, and to the Department's telegraphic reply number 468 of November 19 [18], 1941, 6 P. M.⁴² stating

⁴² Not printed.

that no agreement had been arrived at in regard to the matter of compensation for these planes.

As the Department is aware from communications which have been sent from this Embassy, the action taken by the American authorities in suddenly preventing delivery of these planes has been productive of much ill will toward the United States in responsible Peruvian quarters.

While adverse comment has indeed died down in the interval the matter, and more particularly the manner of sequestration has by no means been forgotten, and is I am convinced playing a part in Peruvian hesitation to permit the United States Army Air Corps to utilize desired facilities at Talara.⁴³ Indeed, President Prado in speaking on the 28th instant at the exercises attending the end of the scholastic year of the Aeronautical Officers School, alluded to the Government's desire to build up the Peruvian air corps stating that, while certain equipment had been received, "unfortunately as you are well aware, reasons superior to our will have so far prevented our attaining these prime necessities in spite of our having taken all appropriate measures opportunely and with foresight".

With a view to facilitating Peruvian approval of the necessary war measures, and considering that compensation for the planes must eventually be made, I urgently recommend that the United States Government promptly effect a first payment amounting, if possible, to the value of the planes, as evidenced by the sum understood to have been paid by the Peruvian Government to representatives of that of Norway, leaving questions relating to damages for eventual legal settlement. Although it is understood that the United States Government is disposed to allow the Peruvian Government to claim compensation through ordinary legal channels, it would seem perfectly possible for at least initial payment to be made without recourse to the courts. I believe that such action on the part of the United States Government would have a definitely beneficial effect on our negotiations with the Peruvian authorities for permission to base units of our air force on Peruvian territory.

Respectfully yours,

R. HENRY NORWEB

823.248/253

The Secretary of State to the Peruvian Ambassador (Freyre)

WASHINGTON, January 19, 1942.

EXCELLENCY: I have the honor to refer to Your Excellency's note of October 21, 1941 regarding the requisitioning of certain airplanes

⁴³ See pp. 498 ff.

in transit through the United States from Canada to Peru, and to your note of December 20 [12], 1941 requesting compensation for these same airplanes.

In accordance with the announced intention of this Government in this case and the established procedure of paying adequate compensation for requisitioned material, it is my pleasure to advise you that the United States has agreed to pay to Your Excellency's Government the sum of \$1,266,729.32, a check for which has already been delivered to Your Excellency.⁴⁴

In the present instance, the legal basis for the action of the Government of the United States in requisitioning the airplanes rests on the fact that the planes, whatever may have been their origin and destination, were in the United States and therefore subject to its jurisdiction and amenable to its laws. The Act of October 10, 1940 (Public, Numbered 829, Seventy-sixth Congress) authorizes the President, when he determines that it is necessary in the interest of national defense, to requisition and take over any military or naval equipment, munitions, et cetera, "ordered, manufactured, procured, or possessed for export purposes, the exportation of which has been denied in accordance with the provisions of section 6 of the Act approved July 2, 1940 (Public, Numbered 703, Seventy-sixth Congress)." The airplanes in question were admittedly possessed for the purpose of export to Peru. Their export has been denied in accordance with the provisions of section 6 of the Act approved July 2, 1940 (Public, Numbered 703, Seventy-sixth Congress) by the revocation of the export license issued in accordance with the provisions of section 6. The case is therefore clearly within the terms of the Act of October 10, 1940.

As I indicated in my note of October 17, it is regretted that the Peruvian Government has been inconvenienced by the requisitioning of these airplanes, and I hope that Your Excellency and Your Excellency's Government, in sympathetic understanding of the fact that it was impracticable to give prior notice, will find it possible to agree that the seizure of the airplanes was necessitated by the exigencies of national defense. This point of view has been adequately justified, as I am sure Your Excellency's Government will agree, by the felonious attack of Japan on the United States on December 7, 1941.

My Government has noted with deep appreciation Your Excellency's statement that the Government of Peru shares the preoccupation of my Government with the problem of continental defense. It is gratifying to the Government and the people of the United States that Your Excellency's Government, realizing the importance of

⁴⁴ On January 13, 1942.

measures designed for the common protection of all the American republics, is willing and prepared to appraise those measures in an ample spirit of cooperation and solidarity.

Accept [etc.]

CORDELL HULL

AGREEMENT BETWEEN THE METALS RESERVE COMPANY AND PERU FOR PURCHASE BY THE COMPANY OF EXPORTABLE SURPLUS OF CERTAIN CRITICAL AND STRATEGIC MATERIALS CONDITIONED UPON EXPORT CONTROL BY PERU

811.20 (D) Regulations/2092: Telegram

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

WASHINGTON, May 15, 1941—8 p. m.

99. Reference is made to your 165 of May 8.⁴⁵ The Department is gratified by the announcement of the decree establishing an export licensing control system. You may give assurances that Peru will receive as favorable treatment under the Lease-Lend Act⁴⁶ as any other country cooperating in Hemisphere defense.

In accordance with the policy referred to in the instruction of April 1,⁴⁷ Metals Reserve Company⁴⁸ is willing to enter into an agreement with the Peruvian Government whereby the Metals Reserve Company will acquire all of the Peruvian production of antimony, tungsten, molybdenum, vanadium, lead, copper, zinc, and bismuth except such of these materials as may be required for domestic use in Peru and except such materials as may be exported to other Latin American republics which have established export control systems in collaboration with the United States Government. Such an agreement would not interfere with the normal flow of these materials to private purchasers in the United States market. The agreement would be for 2 years and would have a top limit of the amounts of each material which Metals Reserve would be required to buy. Metals Reserve would however have an option to buy all Peruvian production of each material in excess of these stipulated top limits which would not be absorbed by domestic use in Peru or the United States or by exports to Latin American countries having approved export control systems. During the life of the agreement the Peruvian Government would prohibit the export of the materials subject to the contract except to the United States and other Latin

⁴⁵ Not printed.

⁴⁶ Approved March 11, 1941; 55 Stat. 31.

⁴⁷ Vol. VI, p. 151.

⁴⁸ A subsidiary of the Reconstruction Finance Corporation.

American countries having export control systems established in collaboration with the United States Government. The prices would be worked out in negotiations which it is hoped will take place immediately if this offer is accepted in principle by the Peruvian Government. Presumably it will be necessary to deal with the smaller producers through a Peruvian Governmental agency.

You are requested to advise if this plan meets with the approval in principle of the Peruvian Government and if it will authorize Metals Reserve to send a representative immediately to Lima to negotiate the agreement in collaboration with the Embassy.

HULL

811.20 (D) Regulations/2313 : Telegram

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

LIMA, May 16, 1941—7 p. m.

[Received 11:04 p. m.]

180. Reference Department's telegram no. 98, May 15, noon.⁴⁹ The Minister of Finance⁵⁰ stated today that the matter must be submitted to the Cabinet for consideration and an official reply is not expected before the end of next week. Informally he said that Peru hesitated to impose a prohibition of exports of domestic products, particularly where contracts had been made for future deliveries. Furthermore, he said that he did not wish to make Peru the spearhead in the imposition of such drastic restrictions for fear of international complications and that he would prefer to see at least four or five of the other American Republics announce such a decision about the same time.

With respect to the prohibition of the reexportation of products on United States export license list the Minister said that there should be no difficulty in this respect inasmuch as no international question is involved.

NORWEB

811.20 (D) Regulations/2314 : Telegram

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

LIMA, May 16, 1942—8 p. m.

[Received 11:19 p. m.]

181. Referring to the Department's telegram No. 99, May 15, 8 p.m. The contents of the Department's telegram under reference

⁴⁹ Not printed.

⁵⁰ David Dasso.

were brought to the attention of the Minister of Finance this afternoon who discussed the matter in an entirely unofficial and personal way. The Minister stated that this matter would have to be discussed with the Cabinet and the President and a reply would not be available before Wednesday or Thursday of next week. The Minister's personal opinion is that the Government, because of a number of existing contracts, may prefer not to negotiate for the producers. Owing to the fact that these contracts are with the Japanese he undoubtedly has in mind the fear that the stoppage of imports of cotton now amounting to over 1 million dollars per month by the Japanese in retaliation could create a serious political situation for the administration.

Nevertheless, the Minister while making no commitment recommended that a representative of Metals Reserve should come to Peru to negotiate with individual producers directly but that the Government would lend all facilities for that purpose including those of the official mining and industrial banks.

The Minister inquired whether the United States would be willing to restrict the use by the Japanese of dollar credits through American banks for the purchase of Peruvian minerals. The Minister remarked: "If we are bucking them let us do it in a thorough manner and make it look like a united front"; rather than make it appear as if Peru were "out in front".

In view of the foregoing and my 180 of today there now seems to be some hesitancy on the part of the Peruvian Government in view of the local reaction to the recent proposal for the use of friendly offices in the boundary dispute,⁵¹ which has resulted in strong criticism of the administration's foreign policy.

NORWEB

811.20 (D) Regulations/2314 : Telegram

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

WASHINGTON, May 24, 1941—6 p. m.

112. Reference your 180 of May 16 and 181 of May 16. It is not believed that negotiations by the Metals Reserve Company directly with the individual producers would attain the object we are seeking, namely, the acquisition of the entire exportable surplus of the various commodities which the Metals Reserve desires to buy, unless these negotiations would be supported by an export control or some other governmental regulation which would prohibit the export of the materials subject to the agreement to any country other than the United

⁵¹ For correspondence pertaining to the boundary dispute between Ecuador and Peru, see vol. VI, pp. 212 ff.

States. Unless there were such control of exports, the result would only be competitive buying which would not achieve the purpose of this Government.

The Department understands the reluctance of the Peruvian Government to be the first to put such a regulation into effect. For your confidential information, however, arrangements are being made which it is hoped will, when announced, change the attitude of the Peruvian Government in this respect. Arrangements have been made with Brazil for the imposition of such an embargo on a list of materials which will be bought by the Federal Loan Agency and it is hoped that an announcement of this arrangement will be made soon. An agreement has been made with Bolivia as you know for the purchase of its tin production and a similar arrangement has just been completed for the purchase of the entire tungsten production of Bolivia. The latter agreement will be accompanied by a customs regulation prohibiting the export of tungsten except to the United States. Negotiations are also about to be begun with Mexico and Argentina along the same lines. All of the above, except the two Bolivian agreements, is strictly confidential but when we will be free to refer to these arrangements and negotiations it is hoped that their existence will dispose of this objection on the part of the Peruvian Government.

The existence of contracts with the Japanese is not in itself an insuperable obstacle as it might be possible to recognize these contracts and to allow them to be fulfilled if they are not in too large an amount and do not cover too long a period of time.

The matter of restricting the use by the Japanese of dollar credits through American Banks is under consideration. We will advise you shortly if developments along this line take place.

The Department is also aware of the difficulty caused by the large purchases by the Japanese of Peruvian cotton. This matter is also being studied by the Department and further advices will be sent to you shortly.

While it is impossible to discuss these other negotiations, the possible regulation of dollar credits, and the cotton situation with the Peruvian Government at present, it is hoped that you will use your best efforts to prevent the Government of Peru from taking a firm position at this time against export control. The important thing now is to keep the negotiations open and to make it clear to the Peruvian Government that no effective arrangement can be made for the purchase of the entire exportable surplus of the strategic and critical Peruvian materials unless some form of effective export control is a part of the arrangement.

HULL

811.20 (D) Regulations/2658 : Telegram

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

LIMA, June 7, 1941—1 p. m.

[Received 2:49 p. m.]

215. Reference to my telegram No. 180, May 16, 7 p. m. The Finance Minister informed the Ambassador last evening that the Government is now disposed to make effective export and reexport control. The matter is under consideration by the Cabinet but the details have not yet been worked out. The Minister said Peru proposes to restrict exports of alloy metals and ores to countries that are supplying Peru promptly and freely with iron and steel products and that this will eliminate Japan which cannot supply even a keg of nails.

Mr. Dasso stated that the British Government is also interested in the control of strategic minerals and had Peru take £900,000 of this year's cotton crop on condition that the exportation of these minerals is controlled. By the purchase of this amount of cotton it is hoped to regularize the sterling exchange situation and to meet pending service on the guano and electric power company loans.

MCGURK

811.20 (D) Regulations/2658 : Telegram

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

WASHINGTON, June 12, 1941—8 p. m.

130. Reference Legation's 215 of June 7. The following is drawn up after discussion with Ambassador Norweb.⁵²

The Department welcomes the growing readiness of the Peruvian Government to take effective action in regard to the control of exports. It believes it advisable that, in the matter of timing action, a distinction be borne in mind between the two following groups of commodities:

1. As regards products imported from the United States, and similar products that might be substituted therefor, immediate action is greatly to be desired. This will both assure Peru of supplies and facilitate our own decision in granting licenses for export to Peru.

2. As regards commodities produced in Brazil [*Peru?*] which are included in our list of critical and strategic materials and which we wish to procure by purchase from Peru, it is our judgment that the action imposing an embargo upon the export thereof should be timed to coincide with arrangements now under discussion for American purchases of such commodities. These arrangements will be calculated to afford a good and a steady market for these Peruvian products

⁵² Ambassador Norweb left Peru on June 7 for the United States and returned to Peru about July 1.

and thereby prevent such a fall in prices as might cause criticism and resistance.

To this end, the Federal Loan Agency is now negotiating with the Cerro de Pasco and Grace Companies for the purpose of appointing these companies as agents of the Federal Loan Agency to buy such of the tungsten ore, vanadium, lead ore, copper ore, zinc ore, bismuth, and antimony which is exported from Peru by companies other than the Cerro de Pasco, the Northern Peru Mining and Smelting Company, and the Vanadium Corporation and is not bought by the United States domestic trade. It is expected that the arrangements with the Cerro de Pasco and Grace Companies will be completed in the near future and it is suggested that it would be a much more satisfactory arrangement to have the export embargo imposed only after notification to you that the contract between the Federal Loan Agency and Cerro de Pasco and Grace Companies has been executed and the latter are prepared to enter the market to buy the embargoed products. It is suggested that you discuss this matter and advise the Finance Minister of this suggestion, the principal purpose of which is of course to prevent embarrassment to him.

The products which should be embargoed are those which are mentioned above.

With respect to the suggestion in your 215, statistics of the Department of Commerce show that exports of iron and steel products to Peru have been large in the past and are continuing at a substantial rate. The 1937-1939 average of shipments of iron and steel products to Peru was 28,303 metric tons. 1940 shipments to Peru were 43,197 tons and January-February 1941 shipments total 4,788 tons. These shipments to Peru compare favorably with the shipments to the other Latin American countries. They include a large number of products such as bars, plates, sheets, strip, tin plates, structural steel, rails, pipe, wire and rods, castings and forgings.

HULL

811.20 (D) Regulations/2921 : Telegram

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

LIMA, June 21, 1941—1 p. m.

[Received 8:10 p. m.]

235. Reference Department's telegram No. 130 of June 12, 8 p. m. The following decree has become effective as of June 18 to cover the reexport situation in Peru (translation):

“The President of the Republic, considering:

That it is convenient to dictate dispositions which assure the existence in the country of the raw materials necessary for the national

industries; and, that the world situation requires the adoption of exceptional and urgent measures with the object of assuring the stabilization of national industry and consumption as well as the requirements of national defense, decrees:

(1) The reexportation of the following products is prohibited be they in the form of raw materials or manufactured products:

Alcohol, aluminum, antimony, arsenic, asbestos, beryllium, cadmium, castor oil or beans, chromium, cobalt, coconut shell, char copper, copra, cotton, linters, cryolite, flaxseed, fluor spar, graphite, industrial diamonds, hides, iron and steel, kapok, lead, magnesium, manganese, mercury, mica, molybdenum, nickel, nitrogen compounds, ammonia and nitric acid, palm oil, phosphates, platinum, potash, quartz crystals, quinine, rubber, sisal, sulphuric acid including sulphur and pyrites, tanning materials, tin, titanium, tungsten, uranium, vanadium, zinc, zirconium.

The Ministry for Finance will permit the reexportation of these products only when the necessity of reexporting them to the countries of origin is proved.

(2) With reference to the exportation of machinery, tools, equipment and spare parts, prior authorization of the Ministry for Finance will be necessary. The Finance Ministry if it considers the same convenient will solicit information in each individual case in order to assure the necessities of national industry and defense. Given in the Government Palace in Lima on the 18th day of June, 1941. Signed Manuel Prado, David Dasso."

The Finance Minister believes and we agree that the foregoing decree and that reported in our No. 164 of May 8, 9 [5] p. m.,⁵³ paragraph 2, satisfactorily cover the reexport situation here. Mr. Dasso expressed the hope that the general export license for Peru would be granted immediately.

Mr. Dasso informed us that he felt quite certain that the Peruvian Government would restrict the export of strategic materials to the Western Hemisphere at a time that will coincide with the announcement of the United States plan for the purchase of Peruvian strategic and critical materials.

According to the Foreign Minister and the British Legation the Peruvian Government has made a commitment to the British to the effect that molybdenum and tungsten will not be exported beyond the limits of the Western Hemisphere except for prevailing contracts. In this relation please refer to despatches Nos. 1275 and 1278 of June 17, 1941.⁵⁴

McGURK

⁵³ Not printed.

⁵⁴ Neither printed.

811.20 (D) Regulations/2921 : Telegram

The Acting Secretary of State to the Chargé in Peru (McGurk)

WASHINGTON, June 26, 1941—2 p. m.

150. Reference your telegram No. 235, June 21, 1 p. m. The Peruvian Decree is very gratifying to the Department.

The Department has requested authority from the Administrator of Export Control to issue general licenses to Peru. They will be issued promptly upon receipt of authority and you will be notified accordingly.

It is noted that many of the items listed in the Decree are strategic materials of which there is a shortage in this country and it should be pointed out that even if general licenses are issued for these items their exportation will still be subject to priorities.

WELLES

811.20 Defense (M) Peru/2a

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

No. 517

WASHINGTON, July 26, 1941.

SIR: Mr. Julian D. Smith has been designated by the Federal Loan Agency to act as the special representative in Peru of the Agency and the Metals Reserve Company to negotiate an over-all purchase agreement with Peru. Mr. Smith leaves for Peru by air on July 23. He will take with him a draft letter which he has been authorized to sign on behalf of Metals Reserve Company whereby that Company will agree to purchase the total Peruvian exportable surplus of antimony ores, copper ores and concentrates, vanadium ash, and zinc concentrates. A copy of this letter is enclosed.⁵⁵ As you will see, this letter specifies the prices of each commodity, and makes as a condition of the obligation of the Metals Reserve Company the creation of an export control whereby the Peruvian Government will prohibit the export of any of these commodities during the specified period, except to the United States and the other American Republics having parallel systems of export control. The letter limits the amounts of each commodity to the exports of 1940, but the Metals Reserve Company is prepared to increase the amounts to 125 percent of the 1940 exports.

Molybdenum, which was one of the materials referred to in the Department's telegram no. 99 of May 15, has been eliminated. This has been done, with the consent of the Metals Reserve Company, at the request of the British Government, which is now conducting negoti-

⁵⁵ Not printed.

ations for the acquisition of the entire exportable surplus of Peruvian molybdenum. Bismuth, another material referred to in the Department's no. 99 of May 15, is not included in the draft letter of the Metals Reserve Company. Bismuth was omitted because it is understood that the entire production of Peruvian bismuth is owned by the Cerro de Pasco Company. You are requested to investigate the accuracy of this understanding, for, if it should appear that there is any production of bismuth in Peru which is not owned or effectively controlled by the Cerro de Pasco Company or some other American company, bismuth will be added to the list of materials in the Metals Reserve Company's letter.

It is understood from your telegram no. 235 of June 21 that the Peruvian Government is prepared to restrict the export of strategic materials as soon as an agreement is reached as to the Metals Reserve Company's plan for the purchase of Peruvian materials. It is assumed that you will assist Mr. Smith in his negotiations for acceptance of the offer to be made by the Metals Reserve Company and that simultaneously you will make arrangements with the Peruvian Government for the issuance of a decree which will prohibit the exportation of the materials covered by the Metals Reserve Company's offer except to the United States and to such of the other American Republics as have parallel systems of export control satisfactory to the United States. A similar decree has recently been issued by the Mexican Government in connection with the over-all purchase agreement recently concluded between the Federal Loan Agency and the Mexican Government. A copy of the Mexican decree is enclosed.⁶⁶ It is hoped that you will be able to obtain the consent of the Peruvian Government to the issuance of a decree approximating the Mexican form. The products to be subject to the export control should include all the products to be covered by the Metals Reserve Company's offer and, additionally, if possible, molybdenum.

It is suggested that when the negotiations reach that point you telegraph to the Department the form of decree as tentatively agreed upon by the Peruvian authorities and yourself. It is also suggested that you regard the enclosed draft of letter by the Metals Reserve Company to the Peruvian Government as the basic draft and telegraph any proposed changes in it textually. For convenience, the lines in the Metals Reserve Company letter have been numbered.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

⁶⁶ Not attached to file copy, but see telegram No. 301, July 11, from the Ambassador in Mexico, p. 407.

811.20 (D) Regulations/4100 : Telegram

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

LIMA, August 14, 1941—6 p. m.

[Received 10:22 p. m.]

379. Referring to Department's instruction no. 517, June 7 [*July 26*], 1941 and telegram no. 219, July 31, 5 p. m.,⁵⁷ the Peruvian Government has enacted the following supreme decree dated and effective August 12, 1941.

The President of the Republic considering :

That by the decrees of May 6 and June 18 of the current year there were dictated dispositions convenient for the control of the exportation of domestic products as well as of the reexportation of diverse merchandise, raw materials and supplies in defense of the necessities of national economy and industry during the actual European war.

That it is necessary to amplify these dispositions controlling the exports to countries where identical measures of security have not been adopted which can affect the tranquility and economic well being of the national territory.

That in accordance with the tendencies developed in the Inter-American Congress of Habana,⁵⁸ uniform dispositions should be dictated for guaranteeing the security of the American nations.

Decrees :

(1) The effect of the supreme decrees of May 8 and June 2 of the year in course, are hereby amplified prohibiting the exportation and reexportation of the products which those decrees enumerate, to all those countries which may not be considered as of the Americas and in all to those which Peru enjoined limitations on exports similar to the decrees referred to.

(2) The Ministry for Finance after consultation with the Minister for Foreign Affairs will establish which are the countries not included in the prohibition of exports specifically mentioned in the said decrees of May 8 and June 18.

(3) The exportation of all other products not specified in the decrees mentioned will continue free to all countries and subject to the legal procedure now in force.

Given in Government House in Lima this 12th day of August, 1941. Manuel Prado, David Dasso.

The subject will be discussed in detail with the Finance Minister on August 16. In the meantime attention is called to the fact that there is no time limit on the effective control of the exports concerned and that it may last during the life of the decree. The Minister stated that the question of time limitation to one year was the only point to which objections were raised by other Cabinet members. The Ministers agreed that a decree without limitation is of greater value to both Government[s].

⁵⁷ Latter not printed.

⁵⁸ Held July 21-30, 1940; for correspondence concerning this Conference, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.

It is our opinion that the wording of the letter of agreement to be handed to the Peruvian Government is satisfactory in its present form but that it might be an advantageous precautionary measure to insert the following after the word "embargo" in line 12: "provided the same remains effective during that period."⁵⁹

Does the company agree to the modification of the price on vanadium as recommended in Smith's letter of August 8 to Bridgman?⁶⁰

It would be helpful to have any comments the Department may wish to make before our interview with the Minister on the morning of August 16.

NORWEB

811.20 (D) Regulations/4100 : Telegram

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

WASHINGTON, August 29, 1941—5 p. m.

290. Your August 14, 6 p. m. The August 12 decree extending the scope of Peruvian export control is noted with satisfaction. It should greatly facilitate the negotiations in which Smith is engaged and which we would like to conclude quickly.

The Department has requested authority to issue general licenses to Peru on the basis of the Peruvian decrees. The whole problem of general license is being examined by the various agencies of this Government, and although the Department is faced with increasing opposition by other agencies to the issuance of any large number of general licenses, the Department is hopeful that an early solution to this problem can be obtained.

It seems desirable to inform the Peruvian authorities that individual applications for licenses are being favorably considered as a result of Peruvian export control regulations, and the fact should be stressed that this Government appreciates the cooperative action shown by the Peruvian Government.

HULL

811.20 (D) Regulations/4797 : Telegram

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

LIMA, September 30, 1941—6 p. m.

[Received 9:25 p. m.]

515. Reference Department's 352, September 22.⁶¹ I am pleased to report that Metals Reserve representative Smith this afternoon

⁵⁹ In telegram No. 277, August 21, 9 p. m., the Ambassador in Peru was notified that the Metals Reserve Company agreed to this change (811.20(D) Regulations/4100).

⁶⁰ Temple Bridgman, Vice President of Metals Reserve Company.

⁶¹ Not printed.

signed the agreement with the Director General of Finance. Official communiqué will be published Thursday morning⁶² containing résumé of agreement with short explanation of how basic prices are determined and description of "floor under market principle". It is requested that you withhold publicity until Thursday morning, that is until after the Government communiqué has been published here.

According to a statement of the Finance Minister the Government of Peru has decided to terminate molybdenum shipments to Japan as of today. British diplomatic authorities in Lima informed me today that Great Britain will definitely purchase the residue of the 1941 molybdenum contract with Japan as well as the 83 metric tons salvaged from the German vessel *Monserate*.

Chargeable to Metals Reserve Company.

NORWEB

AGREEMENT BETWEEN THE UNITED STATES AND PERU RESPECTING DETAIL OF MILITARY ADVISER TO REMOUNT SERVICE OF PERUVIAN ARMY, SIGNED APRIL 15, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 205, or 55 Stat. (pt. 2) 1254.]

NEGOTIATIONS BETWEEN THE UNITED STATES AND PERU RELATING TO A RECIPROCAL TRADE AGREEMENT⁶³

611.2331/198a

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

No. 321

WASHINGTON, March 12, 1941.

SIR: In connection with exploratory studies being undertaken looking toward the possibility of entering into trade-agreement negotiations with all those American republics with which agreements have not yet been concluded, the Country Committee on Peru is engaged in formulating its recommendations to the Trade Agreements Committee regarding the composition of the list of products on which the United States would consider granting concessions to Peru in the event trade-agreement negotiations should be undertaken. This list would, as you are aware, accompany the public announcement of intention to negotiate a trade agreement and would serve notice that in so far as concessions by the United States are concerned, these would be limited to the articles appearing in the list. It is highly desirable that this list, while not including products on which there

⁶² October 2. See *El Peruano Diario Oficial*, October 3, 1941, p. 1.

⁶³ For previous correspondence, see *Foreign Relations*, 1940, vol. v, pp. 1142 ff.

would appear to be no scope for negotiation for various reasons, should include all articles in which the Government of Peru is interested and which offer a reasonable basis for negotiation. Any additions to the list after announcement of intention to negotiate had been issued could, of course, only be made through a further public announcement, a procedure which it is desirable to avoid.

The Peruvian Government through its representatives in Washington has submitted to the Department a lengthy list of products on which concessions are desired in a trade agreement. A lack of knowledge in Peru of United States tariff classifications or because Peruvian production or exportation is potential rather than actual in the case of a number of products, has made it difficult on the basis of the list as submitted to the Department to assemble all the data desired on various items. Before making its recommendations to the Trade Agreements Committee, therefore, the Peruvian Country Committee is desirous of securing additional information which it is believed the Embassy may be in a position to supply.

There is enclosed a list of the products on which the Government of Peru has requested concessions, which was left with the Department in November, 1940.⁶⁴ There are also enclosed lists of products:⁶⁵ which the Country Committee is prepared definitely to recommend to the Trade Agreements Committee for inclusion in a list accompanying any announcement of intention to negotiate with Peru (List A); on which such a recommendation is tentative pending completion of studies by other country committees (List B); which the Country Committee believes should not for various reasons but chiefly because of the probable inability of Peru to produce or export, be included in a published list (List C); and on which further data are needed (List D). The enclosed sheets from the Peruvian Country Committee's statistical analysis cover the items in List D.

While the Embassy's views are desired particularly regarding List D, any comments which the Embassy may wish to make regarding the items in the other lists or on other items would of course be welcomed. With regard to List D, it would be helpful if the Embassy could supply information particularly as to the future production or export possibilities in Peru of the items mentioned, together with any comment as to the possible value to Peru of duty reductions or bindings on such items, should a decision be made to grant concessions.

It would be appreciated if the Embassy's comments on the foregoing could be submitted at an early date in order that the Country

⁶⁴ Not printed.

⁶⁵ None printed.

Committee may be in a position to make its definitive recommendations to the Trade Agreements Committee as soon as possible.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

611.2331/204

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

No. 987

LIMA, April 7, 1941.

[Received April 14.]

SIR: In accordance with the Department's confidential instruction No. 321 of March 12, 1941, I have the honor to submit the following information and comments on the list of products on which the United States would grant concessions to Peru in the event trade agreement negotiations should be undertaken.

The instruction states that it is highly desirable that the list should include all articles in which the government of Peru is interested and which offer a reasonable basis for negotiation; and requests additional information or comments with reference to Lists A, B, C, and D. As concerns List D, details as to future production or export possibilities in Peru are desired, together with any comment as to the possible value of duty reductions or bindings on such items.

Observations: Since various analyses of trade statistics have been made by the country committee as well as by the Embassy, they are not repeated here. The observations consist largely of statements with reference to potentialities in case current production is not of commercial importance.

List A: The Embassy is in full agreement with the country committee that this list is suitable for inclusion in the public announcement.

The list contains raw cotton and sugar, which are and for many years have been the items of paramount interest to Peru. Concessions sufficient to cause the shipment to the United States of a reasonably large volume of these two products would go a long way toward satisfying the desires of Peru and silencing the perennial demands of the most influential group of producers and exporters.

Several articles of secondary importance also are included in List A. These are cube, coca leaves, grape brandy, flax, wool (alpaca, llama, and vicuña), cochineal, coffee, tara, furs, guano, leche caspi, rubber, balata, hides and skins, tagua, and mahogany. All of these are products of actual current production and are of interest to numerous producers, not only from the viewpoint of present sales possi-

bilities but also, in most cases, with reference to future expansion in production, and exportation to the United States.

All of the minerals listed are of importance to smaller groups of producers.

The remaining items are well chosen and their inclusion undoubtedly will be looked upon with satisfaction in Peru owing to the encouragement that concessions on them will give to development and expansion.

List B: Cottonseed, oil, cake and meal are important by-products of the cotton industry. Numerous producers are interested in marketing these goods in the United States, and some assistance in this respect would be of indirect assistance to the cotton interests, to whom full satisfaction likely cannot be given as pertains to marketing cotton in the United States. It is believed that these items could well be transferred to List A. It is recalled that practically all of these were marketed formerly in Germany and Denmark.

The Embassy knows of no reason why tungsten ore and concentrates should not be included in List A. It is an item in which numerous small producers are interested, and which the Peruvians believe can be produced in substantially greater volume.

List C: It is believed that the Peruvians will acquiesce in the omission of many of these items, for the reason (1) that they are not and in the near future likely will not be produced on a competitive basis, even under a preferential United States import tariff; or (2) because of thoroughly reasonable sanitary requirements in the United States; or (3) owing to inadequate domestic production; or (4) because there is no special economic advantage in obtaining a lower United States import tariff (as petroleum).

(1) Products falling in this class are earthenware (except perhaps those representing art objects of distinctive Peruvian design), silver leaf, gloves of wool, harness, saddles, luggage and leather articles, and coke.

(2) Grapes, raisins, grapefruit, pineapples, melons, quinces, sweet potatoes and yams, and peanuts are affected by reason No. 2 as well as by Nos. 1 and 3.

It may be mentioned further that, generally speaking, the production and consumption situation in Peru does not warrant the exportation of foodstuffs apart from sugar and coffee. It is believed that the current production of all of the foods in List C is inadequate for serving as the basis for an export business, or even for supplying the domestic demand at popular prices. This is evident from the price legislation and regulations of recent years, and particularly at present; and also from the official requirement that farmers in the most densely populated valley obligatorily devote five to ten percent of the cultivated area to foodstuffs in order to relieve the existing shortage.

There are those who are of the opinion that the Peruvian government should prohibit the exportation of most foodstuffs for the current years, rather than seek concessions which would aggravate the domestic shortage and price situation.

Possibly an exception could be made logically in the case of grapes, and it is suggested that consideration be given to the idea of admitting them during the off season in the United States, under the refrigeration system worked out to kill the fruit fly. Such a provision likely would satisfy the official and farm groups desirous of stimulating the grape industry and of rehabilitating vineyards in the Ica, Pisco, Moquegua and other valleys in the southern part of Peru.

In the case of molybdenum, the United States might wish to consider granting facilities for the relatively small current output of about thirty tons a month, on condition that output be not expanded further, in order to keep this product out of Japan's war supply.

Anthracite coal is only a potential export product, but it is of interest to the government as well as several individuals. They believe this coal could be sold to some extent in the Pacific states. It is improbable that production and exportation in commercial quantities will be possible during the next few years without financial assistance from abroad. A concession on this point would be of value from the political or psychological viewpoint, and in all probability would not originate much competition for American producers. But as in the case of many other Peruvian products, the concession cannot be defended on the premise of previous participation in the trade.

Fish scrap and fish meal are potential products in which the Peruvian government is definitely interested. It believes that they represent a possible source of trade with the United States, and that consideration might be given to this matter in view of the difficulty in marketing any substantial amounts of cotton and sugar there. The establishment of a fishing and fish products industry was one of the principal objectives in obtaining the service of the United States fishing experts who are now in Peru.

Sterling silver ware, in typical Peruvian designs, is a product which appeals to American travelers and tourists in Peru. Production is and probably will remain small. It is our opinion that a concession in this case should be given further consideration.

Mica. Two or three well-known government officials are encouraged by recent inquiries from New York with reference to mica, of which small exports have been effected (10,831 kilos in 1939, of which 8,849 were shipped to Japan, 996 to Ecuador, and 986 to Germany). The product appears to be of minor importance, but nevertheless it may be classed in the group of items of some interest to Peru.

List D: Silver manufactures. Peruvian manufacturing of these wares is very small at present and it is likely that no great expansion will take place in the near future; but the workmanship, designs, and fine content of the articles are attractive to travelers and tourists. Since all of the output is by hand, the relatively small volume that could be produced probably would be marketable in the United States without any inconvenience to American producers. These are among the small number of manufactured commodities which the United States could import from Peru in partial compensation for our heavy sales of manufactures in this country.

Watermelons (also muskmelons): The summary of the situation given in the lower right-hand corner of page thirty-nine of the enclosure to instruction No. 321 is correct as pertains to Peru. This fruit is rather expensive and not abundant in the Peruvian market, and it is doubted if a profitable trade with the United States could be built up. Most-favored-nation treatment in this case could be granted for the purpose of meeting Peru's desires without any fear of burdening the American market.

Still wines. Annual production is around 12,000,000 liters and exports have always been insignificant.

Quina wine, and coca wine are items of inconsiderable production, but could be developed on a modest scale. It is our opinion that this request could be granted without any inconvenience.

Blankets, carpets, mats, rugs, and other manufactures of wool: The principal items are blankets and rugs, of Incaic design.

Production statistics are not available, but the total output in mills and by hand labor apparently is too small to meet domestic demands plus orders from abroad, the latter amounting to probably not more than a few hundred units annually. A definite inquiry from San Francisco for one thousand alpaca wool blankets could not be filled, and we have never heard of any important transactions resulting from trade lists supplied by the Embassy to American manufacturers. It is to be mentioned also that representatives of the Grant stores and Gimble's who visited Peru with the object of purchasing these and other goods for sale in department stores reported no success whatsoever. They found that lots of a few dozen could be assembled; and in the case of rugs were told that the producers are occupied in supplying the domestic demand, which includes sales to tourists and business travelers. This information coincides with the experience of the Embassy in endeavoring to discover sources of supply for American importers who have made inquiries.

On the other hand, the Peruvians have the materials and the knowledge of weaving, so that these items represent export potentialities.

Tariff concessions might encourage sufficient expansion in the industry to eventually produce a fairly good source of supply for this class of goods.

Asbestos manufactures: The statements made on page sixty-eight of the enclosures to instruction No. 321 pertaining to the absence of these products in Peru's industrial production are correct to the best of our knowledge. It would appear that the reductions in the Belgian and British trade agreements, which are applicable to Peru on the m. f. n. basis, would satisfy all of the present necessities of Peru.

Embroidered and other leather articles, such as luggage, handbags, pocketbooks, gloves, etc.

The observations on pages 70, 73, 74, and 76 of the enclosures, are correct as to the absence of Peru from the list of suppliers to the United States.

Again in this case Peru has sufficient leather on which to build a small industry, but it is commonly known that the finer grades of leather have been imported up to the present time, as well as the better grades of leather manufactures, except shoes.

It is understood that Peru's request for a tariff concession on these items originated primarily with Mr. Pedro Diaz, of Arequipa, who during the last few years has developed a small industry and opened retail stores in Arequipa and Lima. The products are good, but according to an American buying agent who visited Peru a few months ago and bought samples of various items and obtained details on others, they cannot compete in price or perfection of finish with the American equivalent in the United States, with the exception of hand embroidered and hand tooled leather. But the number of master workmen is low, and the output of embroidered or tooled articles is insufficient to produce an abundant supply for sale in the stores of Peru.

This appears to be another case in which a tariff concession, if granted, would have to be for the purpose of encouraging a source of supply in the western hemisphere.

Production figures or even rough estimates for the items appearing in List D are not available, except in the case of wine.

Items of interest not included in Mr. Beltran's list: Ceibo (or kapok). Several Peruvians have stated that this product is available in quantities in Peru; and at least one American firm, the Dry Zero Corporation, of Chicago, has unsuccessfully endeavored to establish purchasing connections.

Frozen tuna and fish livers are being sought by American firms and reduced quantities have been collected and shipped by two Peruvian firms during the last two years.

It is possible that the country committee and the Peruvians would like to include these products in List A.

Respectfully yours,

R. HENRY NORWEB

611.2331/208

The Secretary of State to President Roosevelt

WASHINGTON, June 2, 1941.

MY DEAR MR. PRESIDENT: With a view to improving our trade and other relations with Peru in line with our general policy of promoting hemispheric solidarity by every practicable means, we have been discussing the basis for trade-agreement negotiations with the Peruvian Government.

The principal concessions which the United States could be called on to make would be on long-staple cotton and sugar. With respect to the former, we contemplate the possibility of granting the concession on a customs-quota basis which, without necessarily involving any increase in our total imports, would enable Peru to supply at least a part of the deficiency in supplies from Egypt which may be expected as a result of the war. Incidentally, the fact that Japan has been buying large quantities of Peruvian cotton, and the possibility that some of it is reaching Germany, gives particular significance to any move we may make at the present time to facilitate imports of this product into the United States.

We have also had under consideration the negotiation of a supplementary agreement with Cuba⁶⁶ under which we might reduce the rate on Cuban sugar from the present rate of .9 cent to .75 cent per pound. If it should be decided to enter into such negotiations prior to the negotiation of an agreement with Peru, it would be possible to reduce the full duty rate on Peruvian sugar by the full amount permitted by the law, i. e., to .9375 cent per pound; otherwise, in order not to reduce the duty on Cuban sugar indirectly, the full-duty rate would not be reduced below 1.125 cent per pound. Our plan is to take up the question of negotiating a trade agreement with Peru and to seek to establish a basis for announcing publicly such negotiations. The exact timing of such announcement would be left open for consideration after a basis for negotiations shall have been reached.

I should appreciate being informed whether the foregoing meets with your approval.⁶⁷

Faithfully yours,

CORDELL HULL

⁶⁶ See pp. 227 ff.

⁶⁷ Original letter returned by President Roosevelt with the notation: "CH OK FDR".

611.2331/210b

*The Department of State to the Peruvian Embassy*⁶⁸

AIDE-MÉMOIRE

Reference is made to recent conversations held between representatives of the Governments of the United States and Peru looking toward the establishment of a basis for the negotiation of a trade agreement.

These conversations have disclosed the mutual belief that a sufficient basis would have been established for public announcement to be made of intention to negotiate a trade agreement between the United States and Peru if agreement were to be reached on the points discussed hereafter. When such a basis shall have been established, the question of when the proposed negotiations should be publicly announced will be given consideration.

With respect to the list of products upon which the Government of the United States might grant concessions to Peru, which is appended hereto,⁶⁹ the Government of the United States would consider, subject to possible modification in the light of information obtained following public notice of intention to negotiate a trade agreement with Peru, a reduction of 50 percent (the maximum permitted under the authority of the Trade Agreements Act⁷⁰) in the present rate of duty on long-staple cotton one and one-eighth inches and over in staple length, such a reduction to be applicable to an amount of such cotton approximately equal to the total volume of long-staple cotton at present permitted to enter the United States under the existing absolute quotas on that product (45,656,420 pounds). The Government of the United States has in view in this connection the removal of the present quotas simultaneously with the effective date of the trade agreement with Peru. Under such an arrangement it would be proposed that the tariff quota be unallocated, that is, there would be no restrictions upon the amount of cotton which might be imported from individual countries at the reduced rate of duty up to the full amount of the quota. If at a later date the Government of Peru should desire a specific allocation, the Government of the United States would give sympathetic consideration to a request along such lines. The Government of the United States is not in a position at this time to indicate what the agreement might provide in respect of the rate of duty applicable to imports in excess of the suggested tariff quota.

⁶⁸ Handed to the Commercial Counselor of the Peruvian Embassy on June 5.

⁶⁹ Not printed.

⁷⁰ Approved June 12, 1934; 48 Stat. 943.

With respect to sugar, the Government of the United States would be prepared to consider at this time, subject to possible modification in the light of information obtained following public notice of intention to negotiate a trade agreement with Peru, a reduction of 75 cents per hundred pounds of standard raw sugar (to \$1.125 per hundred pounds), in the rate of duty applicable to imports from Peru. The Government of the United States is unable to offer the Government of Peru any assurances as to the amount of Peruvian sugar which might be permitted to enter the United States in any year as this is a matter determined at present by the Sugar Act of 1937,⁷¹ the provisions of which are not subject to modification under the authority to negotiate agreements conferred on the Executive by the Trade Agreements Act. The Government of the United States would be willing, however, to consider the inclusion in the proposed agreement of a provision whereby the Government of Peru would have the right, to be exercised within a specified period following the close of each sugar control year, to terminate the entire agreement if in the previous control year the amount of Peruvian sugar permitted to be imported into the United States had been altered substantially to the disadvantage of Peru. Any reduction in duty would be made dependent upon the continuance of the Sugar Act of 1937 or similar legislation.

With regard to the other items appearing in the appended list, the Government of the United States is unable to indicate at present the extent of the concessions which might be offered but would consider granting the most liberal treatment possible in the light of information which may be developed following public notice of intention to negotiate an agreement with Peru.

With respect to the concessions which the Government of the United States would request the Peruvian Government to grant on products of this country, a list of which will be submitted at a later date, the Government of the United States considers that a sufficient basis for negotiations will have been established if the Government of Peru would agree to give sympathetic consideration to granting as liberal concessions as possible on the products in that list in the light of the concessions offered by the United States.

Regarding the general provisions of the proposed agreement, a suggested draft of which is attached,⁷² it would appear, on the basis of preliminary conversations, that serious problems of negotiation are likely to arise only on the question of the exceptions to unconditional most-favored-nation treatment requested by the Government of Peru in connection with trade with contiguous countries. If agree-

⁷¹ Approved September 1, 1937; 50 Stat. 903.

⁷² Not printed.

ment were to be reached on this point at this time, therefore, as well as on those discussed above, it is believed that a basis would have been established for proceeding with negotiations.

As the Government of Peru is aware, the Government of the United States attaches great importance to the principle of unconditional most-favored-nation treatment. It would be extremely reluctant, therefore, under ordinary circumstances, to agree to exceptions such as those which have been indicated by the Government of Peru. The Government of the United States has a full realization, however, that unusual conditions prevail at the present time, and is mindful, also, of the provisions of Resolution LXXX of the Seventh International Conference of American States, Montevideo, 1933,⁷³ regarding commercial advantages between neighboring states. Therefore, with a view to facilitating the negotiation of a trade agreement with Peru, the Government of the United States makes the following suggestions:

1. The Article on most-favored-nation treatment would be included in the general provisions of the proposed agreement in its unconditional and unrestricted form.

2. In an exchange of notes, accompanying the agreement, the United States would agree not to invoke the provisions of the most-favored-nation Article with respect to special advantages extended by Peru to contiguous countries, provided a formula for regional tariff preferences, as described below, is recommended by the Inter-American Financial and Economic Advisory Committee: The preferences would have to be made effective through trade agreements embodying tariff reductions or exemptions; the parties to such agreements must reserve the right to reduce or eliminate the customs duties on like imports from other countries; and any such regional tariff preferences should not be permitted to stand in the way of any broad program of economic reconstruction involving the reduction of tariffs and the scaling down or elimination of tariff and other trade preferences with a view to the fullest possible development of international trade on a multilateral, unconditional most-favored-nation basis. It would be further understood that if the Government of Peru should extend to any non-contiguous country a preference now or hereafter accorded to a contiguous country, the benefit of such a preference would be immediately and unconditionally extended to the United States.

3. It would be clearly understood and recorded in a final minute in regard to the negotiations, that the waiver on the part of the United States of the right to invoke the provisions of the most-favored-nation

⁷³ Department of State Conference Series No. 19: *Report of the Delegates of the United States of America to the Seventh International Conference of American States, Montevideo, Uruguay, December 3-26, 1933* (Washington, Government Printing Office, 1934), p. 275.

Article on the conditions specified in the preceding paragraph would not in any way prevent the Government of the United States from taking up with the Peruvian Government at any time the question of modifying any existing preference which fails to meet the requirements of the contractual formula outlined above or which, even if it does meet such requirements, has resulted in substantial injury to United States exports to Peru of the product or products concerned. The Peruvian Government would, of course, be expected to give careful and sympathetic consideration to any proposals of the Government of the United States in regard to any such preference. If, however, the two Governments should fail to agree in regard to any such proposal, the Government of the United States would be free to suspend or terminate the agreement in whole or in part on thirty days' written notice.

With respect to the question of increasing the existing preferences or of adding new preferences, the Government of Peru would agree to consult in advance with the Government of the United States before taking any action thereon. The Government of the United States would consider the proposed action carefully and sympathetically in the light of the contractual formula described above and of the probable effects of the proposed action on United States exports to Peru of the product or products concerned. If, after consultation, the Government of the United States should object to the proposed action, the Government of Peru would, nevertheless, be free to take the action proposed. However, if such action were taken, the Government of the United States would be free to suspend or terminate the agreement in whole or in part on thirty days' written notice.

It would be appreciated if the Government of Peru would indicate whether it agrees with the proposals set forth above.

WASHINGTON, June 4, 1941.

611.2331/211

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Treaties and Agreements*

[WASHINGTON,] June 5, 1941.

Participants: Señor Juan Chavez, Commercial Counselor, Peruvian
Embassy
Mr. Hawkins, TA ⁷⁴
Mr. Smith, TA

Señor Chavez called, upon request, to receive formally the Department's proposals in connection with the possibility of negotiating a

⁷⁴ Harry C. Hawkins, Chief of the Division of Commercial Treaties and Agreements.

trade agreement with Peru. There was a discussion of the principal points covered in the proposals, in connection with which Señor Chavez raised a question about the omission from the list of products on which the United States would consider granting concessions to Peru, of certain items which had appeared on the Peruvian request list presented to the Department in November 1940. It was explained to Señor Chavez that we had made every effort to include in the list all the items of real or potential importance to Peru, but if after considering the list, the Peruvian Government desired that consideration be given to certain additional products, we would be glad to study these again.

Señor Chavez said that he would transmit the Department's proposals to his Government at once and would get in touch with us as soon as he received a reply from Lima.

It was made clear to Señor Chavez that, as was mentioned in the proposals, the question of the timing of a public announcement of negotiations with Peru was one which would be decided after agreement had been reached between the two Governments on the basis for negotiations, and in the meantime the Department's proposals should be held in strict confidence.

611.2331/228 : Telegram

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

LIMA, December 9, 1941—noon.

[Received 2:17 p. m.]

668. For the Under Secretary. Department's telegram no. 331, September 12, 11 p. m.⁷⁵ The war between the United States and Japan will result in difficult economic and trade problems for Peru. Some comment is starting regarding markets for Peruvian cotton. No mention has been made so far of the possibility of a trade agreement between the United States and Peru but I would appreciate your views as to whether or not it might be good policy for us to reopen this question.

Peruvian action with respect to the attack of Japan against the United States has been favorable. . . . An initiative from us in the matter of the trade agreement might consolidate our improved position in Peru.

NORWEB

⁷⁵ Not printed.

611.2331/228 : Telegram

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

WASHINGTON, December 23, 1941—2 p. m.

546. Reference Embassy's telegram no. 668, of December 9. Please ascertain whether Peruvian Government is agreeable to issuance of public notice of intention to negotiate a trade agreement with Peru on Monday, December 29.⁷⁶

For list of products to accompany public notice on which this country will consider granting concessions to Peru, refer to instruction no. 446, of June 6, 1941.⁷⁷

HULL

⁷⁶ The public notice was issued on December 29; see Department of State *Bulletin*, January 3, 1942, p. 22.

⁷⁷ Not printed.

URUGUAY

DISCUSSIONS REGARDING A LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND URUGUAY¹

833.24/67¼

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

WASHINGTON, January 24, 1941.

DEAR ED: My answer to your letter of December 26² has been somewhat delayed, as I wished to give you the latest information on the situation affecting Uruguay's request for armaments.

I can assure you that this matter is in no manner escaping our attention. It forms a part of a larger problem: how the United States can arm itself rapidly and at the same time furnish supplies to Great Britain, China, Greece, and the American countries. In order to obtain an adequate concept of the situation in so far as it affects the American republics we are now, with the help of the War and Navy Departments, considering all the requests for arms and munitions which these countries have submitted in order to estimate the most urgent needs of each country, our capacity for meeting them and the financial problems involved. It was to facilitate this that we asked you to request the Uruguayan Government to submit officially its request for war matériel in the form described in the circular instruction of September 25, 1940.^{2a} It is in this connection that programs or schedules are being drawn up for each country showing how and when deliveries can be made, as well as the estimated financial requirements. As we informed the Uruguayan Minister in Washington,³ Uruguay's need for a loan to effect armament purchases is being considered in connection with this program.

When you have a convenient occasion to mention this subject to Dr. Guani⁴ or any other appropriate official of the Uruguayan Government, will you please convey to him my assurances that we are keeping Uruguay's request constantly in mind and shall not fail to transmit to you or to Señor Richling at the earliest opportunity in-

¹ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics", vol. VI, pp. 133 ff.

² Not printed.

^{2a} *Foreign Relations*, 1940, vol. v, p. 13.

³ José Richling.

⁴ Alberto Guani, Uruguayan Minister for Foreign Affairs.

formation concerning the dates on which supplies can be made available together with the financial requirements connected therewith.

You may be interested to hear that Señor Richling transmitted to us several weeks ago official copies of the list of war matériel, compiled according to our circular of September 25 and forwarded to him by the Uruguayan Government. These are now under consideration in connection with the plan described above.

With all kind regards [etc.]

SUMNER WELLES

833.24/68 : Telegram

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

MONTEVIDEO, February 1, 1941—3 p. m.

[Received 4:33 p. m.]

67. For the Under Secretary. The Under Secretary of National Defense⁵ called on me this morning at the request of the Minister of National Defense⁶ to say that the latter wishes to inquire whether it would be agreeable to the United States Government to receive the visit of two missions of Uruguayan military officers.

One mission would be composed of 3 artillery officers, a colonel, a major and a captain who would visit the United States in order to study the question of purchase of armaments with officers of the United States Government.

The second mission would be composed of 5 aviation officers, a lieutenant colonel, a captain and 3 other officers. Their purpose would be to study the question of purchase of aviation material, and in addition it is desired that the captain take flying courses at Randolph Field and other schools and that the 3 junior officers take a technical course in maintenance at the air corps technical school at Chanute, Rantoul, Illinois.

The Military and Naval Attachés⁷ are in full agreement with me that it is most desirable that our Government accede to the wishes of the Uruguayan Government in this matter. I hope that you will instruct me to reply immediately that our Government will be delighted to receive the visit of these officers and to make the necessary arrangements either at the schools indicated or other schools as may appear appropriate. We will endeavor to obtain further information regarding the personnel of the missions and their qualifications and advise the Department later.

WILSON

⁵ Carlos Carbajal.

⁶ Gen. J. A. Roletti.

⁷ Lt. Col. John A. Weeks and Comdr. Frank Loftin, respectively.

833.24/68 : Telegram

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

WASHINGTON, February 17, 1941—8 p. m.

27. Your 67, February 1, 8 [3] p. m. War and Navy Departments are agreeable to the proposal of the Uruguayan Government to send the two military missions to the United States and the Army Air Corps has expressed its willingness to give desired instruction to the four officers. The War Department adds however that in pursuance of existing requirements the officers who wish to receive instruction in aviation must possess a sufficient understanding of English to fulfill the considerations of safety and must pass a physical examination to the satisfaction of the Military Attaché.

Please report to Department as soon as possible names of personnel and date of departure from Uruguay.

HULL

810.20 Defense/1015 : Telegram

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

MONTEVIDEO, July 3, 1941—4 p. m.

[Received July 3—3: 56 p. m.]

281. The Minister of Foreign Affairs advises me that the Uruguayan Aviation Purchasing Commission now in the United States has been informed by the American companies that they are prepared to supply aviation material urgently needed here but that the mission and the Ministry of National Defense do not have information as to the means of obtaining credits under the proposed Export-Import Bank loan for the purchase of this material.

I have given a résumé of the essential portions of the Department's circular telegram of May 20, 10 p. m.,⁸ to Guani since it appears that he does not have this information, but without calling attention to the possibility of obtaining supplies under the Lend-Lease Act,⁹ and have suggested that the Uruguayan Government may wish to instruct its Minister in Washington to take up with the Department directly the method of payment for the material which the Purchasing Commission intends to acquire.

CHAPIN

⁸ Vol. VI, p. 137.⁹ Approved March 11, 1941; 55 Stat. 31.

810.20 Defense/1015 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*¹⁰

WASHINGTON, July 10, 1941—10 p. m.

156. Your 281, July 3, 4 p. m. The Department on July 8 handed to the Uruguayan Minister a draft of basic agreement for the lend-lease program of transferring military matériel to Uruguay. The principal financial provisions are as follows: Uruguay is to receive a total of \$17,000,000 of war and navy matériel of which it is expected \$2,000,000 of army matériel and \$1,000,000 of navy matériel will be transferred during the fiscal year ending June 30, 1942. This delivery date is subject to change if broad defense considerations so require.

With respect to repayment, Uruguay is expected to pay \$1,300,000 in each fiscal year until 1947, making a total of \$7,800,000 to be repaid prior to June 30, 1947. In consideration of the broad objectives of the program and of certain very general economic concepts, the entire obligation of Uruguay to the United States would be considered discharged by such payments.

The Minister stated that he believed that Uruguay would not need the full \$17,000,000 originally provided for, and that he would request his military expert to prepare a list which would probably amount to \$6,000,000 or \$7,000,000. He was informed that of course the United States did not wish to force additional arms upon Uruguay, and that the matter could be further discussed. In reply to his question, he was informed that the amounts to be repaid were based on an appraisal of Uruguay's economic outlook; that they were in no way proportionate to the amount of arms to be furnished, which was based purely on defense and strategic considerations; and that if the total were reduced markedly, the repayment proportions would undoubtedly be increased proportionately.

The Minister stated that he fully understood the situation, indicated his gratification at the generous treatment to be accorded Uruguay, and stated that he would inform his government in general terms only, not transmitting any figures until he had taken up with the Department a specific list of arms in the much lower total amount.

WELLES

¹⁰ The Legation in Uruguay had been raised to the rank of Embassy earlier in the year.

833.24/78 : Telegram

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

MONTEVIDEO, July 23, 1941—6 p. m.

[Received 7:20 p. m.]

317. Department's telegram No. 156 of July 10 concerning lend lease program for transferring military material to Uruguay. I mentioned this matter to Guani over a week ago and yesterday I discussed the matter with him and the Minister of National Defense at the Foreign Office. The following points were brought out at the conference which was attended also by Chapin.

1. As we had suspected the Uruguayan Government has received no adequate report from its representative in Washington.

2. The Minister of National Defense states categorically that Uruguay will require the full \$17,000,000 for needed material. He said that this includes only Army and Navy material and would not include materials and equipment for air fields.

3. The Minister of Foreign Relations pointed out that the Government has a credit of 7,600,000 pesos voted by Congress for armament of which there remains available a balance of 6,300,000 pesos which should at official exchange rates take care of 2 or 3 annual payments under our proposed repayment plan.

4. The Uruguayan Government, which apparently had not been informed with regard to the substance of the penultimate paragraph of the Department's circular telegram of May 20, 10 p. m.,¹¹ will proceed promptly to designate the ranking official of the military mission now in the United States to discuss Uruguay's requirements with the War and Navy Departments.

DAWSON

833.24/78 : Telegram

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

WASHINGTON, July 26, 1941—8 p. m.

181. Your 317, July 23, 6 p. m. The Department tactfully brought to the attention of the Uruguayan Minister that the Minister of National Defense had stated that Uruguay would require the full \$17,000,000 for needed material. The Minister had previously suggested a figure of \$5,000,000 but he has now indicated that he will send the texts in Spanish and English on the \$17,000,000 basis to his Government by airmail.

WELLES

¹¹ Vol. VI, p. 137.

833.24/88 : Telegram

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

MONTEVIDEO, August 20, 1941—6 p. m.

[Received 6:10 p. m.]

357. My telegram No. 317, July 23, and Department's telegram No. 181, July 26, concerning Lend-Lease program for transferring military matériel to Uruguay. Our proposal has now been favorably considered by the Uruguayan Government and Guani tells me that at a Cabinet meeting yesterday he was charged with drafting of a message to Congress requesting its authorization to conclude the proposed agreement. He says that the matter must be submitted to Congress and that the normal procedure would be to publish both the message and the text of the agreement. I have asked him to withhold publication until I can consult the Department with regard to its wishes.

The matter has received already some publicity here. In particular a press despatch concerning yesterday's meeting of the Cabinet contains the brief statement that it was decided to request Congressional permission for an agreement under which Uruguay would acquire war material in the amount of \$17,000,000. One of the minor local newspapers has referred to negotiations under which Uruguay would pay less than half of the value of the material to be acquired.

It is obvious that once the matter is laid before Congress the terms of the proposed agreement will become pretty generally known even if the Government's message were not published and Congressional discussion were to be in secret session. Since we cannot expect the secret to be properly guarded and any attempt to maintain secrecy is apt to arouse suspicion here and in Buenos Aires and, bearing in mind our previous experience in connection with Congressional discussion of the naval base issue, I am inclined to believe that the best course is full publicity and open debate. I shall appreciate the Department's prompt instructions for communication to Guani at the earliest possible moment.

Repeated to Embassy at Buenos Aires.

DAWSON

833.24/88 : Telegram

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

WASHINGTON, August 22, 1941—1 p. m.

208. Your 357 August 20, 6 p. m. In view of the fact that the financial terms vary from country to country the Department would not welcome publication of the various texts which would permit com-

parison of the financial terms offered the several American republics. Nevertheless, if the proper Uruguayan procedure requires a general congressional discussion of the matter, and since the secret cannot be properly guarded, the Department authorizes you in your discretion to agree to the publication of the text of the agreement.

The Department is sending you a revised text of the Lend Lease Agreement which contains no changes of substance, but a number of modifications of form to make mutual the undertakings of Articles 4 and 5 and the suspension of deliveries clause of Article 1 (text of July 26 Instruction¹²). A parallel text has already been sent to Rio de Janeiro, and the Department is requesting the Embassy there to telegraph it to you at once.

HULL

833.24/93

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

No. 132

MONTEVIDEO, September 9, 1941.

[Received September 17.]

SIR: I have the honor to refer to my despatch No. 112 of September 4, 1941,¹² and to previous correspondence regarding the proposed transfer of military matériel to Uruguay under the Lend-Lease program.

The only new development in the matter since my last despatch has been an interview which Mr. Chapin and I had on September 5 at the Foreign Office with the Ministers of Foreign Relations, National Defense, and Finance.¹³ The conference was arranged at Dr. Guani's request for the purpose of discussing certain points in the Department's draft of the proposed agreement which were not quite clear to the Uruguayan officials.

The only point of any importance concerning which they desired information was the amount of matériel which Uruguay would receive during the first twelve months. It developed in the course of the conversation that, since Uruguay was to be called upon to pay only \$1,300,000 per annum, certain members of the Cabinet feared that this meant that matériel to be delivered during the twelve-month period would not exceed this amount. Mr. Chapin and I dispelled their doubts on this score and pointed out that, as I had previously informed Dr. Guani and as he was presumably advised by his representative in Washington, the Department had expressly stated that it was expected that \$2,000,000 of army matériel and \$1,000,000 of

¹² Not printed.

¹³ Javier Mendivil.

navy matériel would be transferred to Uruguay during the first twelve months.

The Minister of National Defense said that while he was glad to know that the delivery of matériel amounting to \$3,000,000 was contemplated during the coming twelve months, even this amount was substantially below Uruguay's immediate requirements which were estimated at \$5,000,000. He said that he was afraid that opposition in Congress would center around this point and that the Government's position would be much stronger if it appeared that Uruguay would receive promptly the matériel—particularly training planes—which the Government has stated to be urgently required for defense. Mr. Chapin and I told General Roletti and his colleagues that, while we were confident that our Government would do everything practicable to meet Uruguay's needs, deliveries would have to be governed largely by production and our own requirements. Mr. Chapin pointed out that the filling of Uruguay's needs might be facilitated to some extent if, in specifying items required, some latitude were left for the substitution of matériel which we might not be able to furnish promptly owing to other urgent defense demands.

After some further discussion, General Roletti said that it might be found possible to amend Article 1 so as to provide for deliveries totalling \$5,000,000 during the fifteen months following the signing of the agreement. He said that he would consider such a provision satisfactory and believed that it would satisfy the Uruguayan Congress. Dr. Guani intimated that instructions might be sent to the Uruguayan Ambassador in Washington to suggest such a change to the Department. Whether or not such instructions have been or will be sent, I do not know.

With reference to my telegram No. 357 of August 20 and the Department's telegram No. 208 of August 22, concerning publication of the proposed agreement, I may say that in the course of our interview on September 5, Dr. Guani stated that he no longer considered it advisable to publish the full text of the agreement in submitting the matter to Congress, since he had reached the conclusion that the wording of certain clauses might be misunderstood by the public. He said, however, that the Government's message to Congress would be published and would contain a summary of the agreement setting forth the principal provisions including, of course, the financial conditions. Mr. Chapin and I both feel that publication of this information is inevitable and desirable and that any attempt to maintain secrecy regarding a matter which cannot be kept secret would arouse suspicion and have unfortunate repercussions. I suggested to Dr. Guani that he might like to let me see the text of the message to Congress before it was actually sent and he said that he would do so. I made this suggestion because of my desire to be in a position, if

possible, to clear up any misunderstanding which may still linger in the minds of the Cabinet before the message goes to Congress. In spite of my previous conversations with Dr. Guani and my efforts to make all phases of the proposed agreement clear both to him (and to the President), I was surprised to find that, at the beginning of our recent interview, he was still in doubt as to so important a point as that referred to above.

Respectfully yours,

WILLIAM DAWSON

833.24/92 : Telegram

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

MONTEVIDEO, September 13, 1941—11 a. m.

[Received 11:09 a. m.]

392. The Uruguayan Government sent yesterday to Congress a message urgently requesting authority to sign our proposed agreement for the delivery of war material under the lease-lend program. The message has been published but not the text of the agreement. The message sets forth the financial terms offered by us, states that they are exceptionally advantageous and that our offer should be accepted promptly, and points out that of the \$7,800,000 which Uruguay would pay for \$17,000,000 worth of material about \$4,000,000 would be covered from proceeds of the national defense loan authorized last year. Text of message follows by air mail.

DAWSON

833.24/111 : Telegram

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

MONTEVIDEO, November 21, 1941—8 p. m.

[Received 10:53 p. m.]

489. My despatch 248 of October 24.¹⁴ The proposed Lend-Lease Agreement with Uruguay after approval by the Chamber of Deputies is still pending in the Senate. While it has not come up for discussion the Herreristas¹⁵ have announced that they will oppose it and are doing so violently in their organ *El Debate*.

The financial clauses were summarized in the Government's message to Congress which accompanied my despatch number 248. Publication of the full text of the agreement had not been considered advisable by Guani. However, *El Debate* and *Tribuna Popular* which is likewise unfriendly to the United States have now published the

¹⁴ Not printed.

¹⁵ Followers of Luis Alberto de Herrera, five-time candidate of the Partido Nacional for the Presidency of Uruguay.

full text and claim that it contains provisions prejudicial to Uruguay. In particular they have seized upon the clauses providing for the furnishing of defense information and for suspension by the United States of deliveries at our option.

Guani tells me that he did not authorize publication and that he believes that *El Debate* obtained the text from some Herrerista member of Congress who copied it in Committee. While he is extremely annoyed with the Herreristas he says that from an international standpoint too much importance should not be attached to their attitude which he ascribed primarily to their desire of embarrassing the Government and of bringing pressure on it for domestic political reasons. While I believe the Herreristas interested principally in the domestic situation it is worthy of note that there has been a marked recrudescence of hostility to the United States on their part during the past few days coinciding with increased world tension and following a visit of three Herrerista members of Congress to Buenos Aires to attend a banquet for Admiral Scassox.

DAWSON

**NEGOTIATIONS RELATING TO A RECIPROCAL TRADE AGREEMENT
BETWEEN THE UNITED STATES AND URUGUAY**

611.3331/361a : Telegram

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

WASHINGTON, April 3, 1941—6 p. m.

54. 1. Public announcement of intention to negotiate a trade agreement with Argentina seems possible in the near future.¹⁶ It would again seem desirable to undertake negotiations with Uruguay concurrently, and you are requested to ascertain as soon as possible whether, in the event that a satisfactory basis for undertaking negotiations with Argentina is reached, the Uruguayan Government would be disposed to undertake the negotiation of a trade agreement generally along the lines of that contemplated in 1939.¹⁷

2. You should state that the list of products in respect of which we would be prepared to consider granting concessions to Uruguay, to be published with the public announcement of intention to negotiate, would include those with respect to which we offered concessions during the previous negotiations. However, we would be prepared to consider the possibility of adding to the published list other products of major interest to Uruguay which the Uruguayan Government might wish to propose.

¹⁶ See vol. VI, section under Argentina entitled "Reciprocal trade agreement between the United States and Argentina, signed October 14, 1941."

¹⁷ See *Foreign Relations*, 1939, vol. v, pp. 786 ff.

3. While we would desire that the general provisions be basically similar to those proposed by us during the previous negotiations, account would be taken of abnormal circumstances arising from the war.

4. In communicating the foregoing to the Foreign Office, you should state that an early reply would be greatly appreciated. You should also emphasize that it is essential that there be no publicity whatever in the matter prior to public announcement.

5. The Uruguayan Minister¹⁸ here is being informed of the foregoing.

6. It is suggested that you communicate discreetly with the Embassy at Buenos Aires in order to obtain additional information regarding the discussions now in progress with the Argentine Government.

7. For your background information, we are also instructing the Legation at Asunción to ascertain whether the Paraguayan Government would be disposed to undertake the negotiation of a trade agreement at this time.

HULL

611.3331/362 : Telegram

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

MONTEVIDEO, April 4, 1941—6 p. m.

[Received 8:45 p. m.]

141. Department's telegram 54, April 3, 6 p. m. I left with the Foreign Minister today a strictly confidential note embodying the substance of the first four paragraphs of the Department's telegram.

Dr. Guani¹⁹ said that the Uruguayan Government "would be only too glad to resume negotiations for a trade agreement with the United States upon the general bases tentatively established in the previous negotiations which had been dropped at the instance of the United States." He said that I might take his oral statement as the official answer of the Uruguayan Government. He added that the United States Government could rest assured that the matter would be kept a close secret and that as far as Uruguay was concerned "there would be no publicity in the matter prior to public announcement."

CHAPIN

¹⁸ José Richling.

¹⁹ Alberto Guani, Uruguayan Minister for Foreign Affairs.

611.3331/363 : Telegram

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

MONTEVIDEO, April 22, 1941—6 p. m.

[Received 6 : 33 p. m.]

163. Department's 54, April 3, 6 p. m. From the information which Adam²⁰ brought back from Buenos Aires it would appear that the conditions surrounding a possible trade agreement differ considerably between Uruguay and Argentina since in the last year we have become Uruguay's best customer with a strong balance of trade in Uruguay's favor and are thus in an excellent bargaining position.

Glover²¹ and I feel strongly that the proposed negotiations for a trade agreement with Uruguay should be undertaken as soon as possible so that the announcement of intention to negotiate with Argentina and Uruguay may be issued at the same time.

Since there is little in the way of original concessions which might be given Uruguay above those given to Argentina, premature announcement of our possible concessions to Argentina might seriously prejudice any Uruguayan agreement.

In my last conversation with Guani he also expressed the hope that from the point of view of local reaction we would not wait until the Argentine agreement was practically completed before starting negotiations here but that negotiations might be begun immediately.

It is assumed that the Department will advise the Legation as soon as possible of the nature of the new general provisions for the Uruguayan agreement and for any modifications proposed in schedules I and II, but in our opinion the most important single factor with respect to Uruguayan concessions would be a provision for most-favored-nation treatment with regard to exchange. If American goods were granted the same exchange treatment as those coming from Great Britain, duty reductions in comparatively few items would seem necessary.

Further details by air mail despatch.

CHAPIN

611.3331/364

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

No. 897

MONTEVIDEO, April 23, 1941.

[Received April 29.]

SIR: In amplification of my telegram, No. 163 of April 22—6 p. m., and in view of the advanced state of discussions between the United States and Argentina, which are now being conducted in Buenos

²⁰ Hector C. Adam, Jr., Third Secretary of Embassy.

²¹ Robert G. Glover, Commercial Attaché.

Aires, I have the honor to submit the following considerations with respect to the advisability of commencing trade agreement negotiations with Uruguay at the earliest opportunity. The Legation feels that the situation in Uruguay differs from that in Argentina in two important respects:

1. The President of Uruguay does not have the power to conclude an agreement without the prior approval by both Houses of the Legislature. The Department is already aware of the peculiar situation in the Uruguayan Legislature whereby the Herrerista group²² is in a position to block any legislative measure which it may choose. The situation suggests to the Legation that some difficulty might be encountered in obtaining ratification of the trade agreement, although I was recently assured by Uruguayan Minister for Foreign Affairs that he did not expect trouble on that score. In spite of Dr. Guani's assurances, it would appear that the best way to avoid difficulties with the Legislature is to commence negotiations immediately, as even Dr. Guani hinted that public announcement of the proposed agreement with Argentina before the conclusion of negotiations here might seriously disturb Legislative action. The Department will readily appreciate that the Herrerista Nationalists would be only too glad, as a means of embarrassing the Administration, to show their colleagues that Uruguay, by failing to conclude the agreement, would reap all the benefits obtained by Argentina without having to give anything in return.

2. The United States' position vis-à-vis Uruguay is far stronger than it is with respect to Argentina, and the chances of obtaining a trade agreement satisfactory to the United States exporters are correspondingly better; while Argentina's balance of trade with the United States is unfavorable, Uruguay's balance is distinctly favorable. For example, the United States has bought approximately ninety percent of Uruguay's current wool clip; during the first three months of 1941, Consular invoices on file in this office show the United States purchased \$15,814,035. worth of Uruguay's produce, while it is estimated that sales to Uruguay in the same period amounted to well under \$4,000,000.

The United States Department of Commerce figures for January-February, 1941, show \$11,854,000. purchased against \$1,736,000. sold. As related in the Commercial Attaché's annual report, the Bank of the Republic, during 1940, purchased exchange arising from exports in the sum of \$66,829,127. against estimated sales of \$36,000,000., leaving a balance for the year of \$30,000,000.

It thus becomes abundantly clear that the United States could, if it received a more equitable exchange treatment, sell a far larger

²² Followers of Luis Alberto de Herrera, five-time candidate of the Partido Nacional for the Presidency of Uruguay.

amount to Uruguay than it does at present without having to increase its Uruguayan imports. The Legation is, therefore, of the opinion that our principal objective in concluding a trade agreement with Uruguay should be to obtain a larger share of the exchange which is created by our imports of Uruguayan produce.

If, for reasons of policy, the Department feels that it is desirable to permit Great Britain and the "sterling area" in general to obtain a larger share of the total available controlled exchange than their purchases create in Uruguay, it would still seem possible under the arrangement suggested in the paragraph above to release some of the exchange created by our imports to the sterling countries. Such a course seems preferable to the present exchange situation where sterling exports to Uruguay enjoy favorable exchange rates as compared to our own exports as a matter of right, and where our own exports are subject to varying discrimination dependent in degree purely upon the arbitrary decision of the Uruguayan authorities. A trade agreement in this form would seem to afford maximum protection to United States business, while not tying our hands in case we should wish to make some of our exchange available to "sterling area" countries.

So important does this matter of receiving equitable exchange treatment appear to the Legation that it feels reduction of Uruguayan tariff items by comparison of no real importance for the duration of the war.

The Legation's principal interest in regard to the Uruguayan import tariff is the reduction of certain excessive gold surcharges which at the present time affect certain articles which form an important share of our exports to Uruguay, and which are considered the world over to be American export specialities. However, though the Legation feels that present conditions render it unnecessary to ask for much in the way of actual tariff reductions, the Legation does consider it advisable that all important American export items be bound at the present tariff rates. If the importer of all categories of American goods could, at the conclusion of this trade agreement, be assured of receiving imports from the United States by paying for them at the same controlled rates of exchange as do the importers of goods from the most favored nation, the Legation has every reason to believe that United States exporters would find themselves in a strongly commanding position in the Uruguayan market. Thus, in essence, what the Legation wishes to obtain is most-favored-nation treatment with respect both to duties and exchange for every class of articles exported from the United States.

It is possible that the questions of a more generous allotment of ocean-going cargo space for Uruguayan exports and of our existing

export license system of strategic materials and products which are necessary to Uruguay's economic life may be brought up in the trade agreement discussions. Dr. Guani has mentioned the subject of cargo space on several occasions, and it is believed he is now under pressure from local importers for aid in obtaining export permits for strategic articles such as aluminum. Although, undoubtedly, outside the scope of the usual considerations in trade agreement discussions, they are vital questions from the Uruguayan point of view.

In the light of the Department's strictly confidential mimeographed instruction of April 1, 1941 (File No. 811.20 (D) Regulations/-1729a),²⁴ concerning the control of exports by the United States of strategic raw materials and the Department's desire that they not be re-exported by American purchasing countries, it is possible that the Department might wish to suggest the inclusion in a trade agreement of suitable provisions prohibiting such re-exports by Uruguay as a part of the general provisions.

In discussing with members of the Embassy staff in Buenos Aires the progress of the trade agreement negotiations there, Mr. Adam learned that the provision with respect to nominal custom penalties and clerical errors in invoice manifests, etc. was causing difficulty. He also recalls that this subject, although one of apparently minor importance from the United States' point of view, was one of the first objected to by the Uruguayan conferees in the previous negotiations and to which the objection was most emphatic. Mr. Silveira Zorzi²⁵ held that basic Uruguayan law did not permit taking into consideration a declarant's intent, and that penalties had to be assessed on the printed document exactly as presented. It is believed that unnecessary discussion will be avoided if the Department is willing to forego the article of the general provisions dealing with this subject.

In conclusion, it is not without interest to report that occasional articles have recently appeared in the more responsible Uruguayan newspapers, urging the cultivation of closer trade relations with the United States. A clipping of an editorial from this morning's edition of *La Mañana*, semi-official Government organ, is enclosed as a typical example.²⁶ While the article itself contributes little in the way of constructive suggestions, it is added evidence that announcement of negotiations for a trade agreement would be well received by public opinion at this time.

Respectfully yours,

SELDEN CHAPIN

²⁴ Vol. VI, p. 151.

²⁵ Of the Bank of the Republic of Uruguay.

²⁶ Not printed.

611.3331/364: Telegram

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

WASHINGTON, April 30, 1941—7 p. m.

69. Department's no. 54, April 3. Your nos. 141, April 4, 6 p. m., and 163, April 22, 6 p. m.; despatch no. 897, April 23.

1. You are requested to ascertain as soon as possible whether the list of products which were contained in our public announcement of intention to negotiate a trade agreement with Uruguay of October 20, 1939 (Press release no. 523²⁷) as modified below would be acceptable to the Government of Uruguay as a list of products, with respect to which we would be prepared to consider granting concessions to Uruguay, to be published in a new announcement in the event it should be decided to undertake new negotiations:

2. Delete 53, linseed oil; add 19, casein or lactarene, et cetera; 42, glycerin, crude and refined; 701, oleo oil (in addition to oleo stearin); 1755, sheep, lamb and goat casings, weasands, et cetera; substitute for the two items under 706 the following: Meats, prepared or preserved, not specially provided for (except meat pastes other than liver pastes packed in air-tight containers weighing with their contents not more than 3 ounces each). This wording encompasses all meats, prepared or preserved, not specially provided for, which are now classifiable under paragraph 706, with the exception of those specified in the parenthetical clause and which are covered by import statistical classification no. 0032.1.

3. A new draft of the general provisions for submission to the Uruguayan Government, and instructions in regard thereto, will be forwarded as soon as possible by air mail. However, the Department feels that detailed discussions of the general provisions and the schedules will not be necessary prior to formal announcement of intention to negotiate.

HULL

611.3331/364 Suppl.: Telegram

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

WASHINGTON, May 7, 1941—10 p. m.

74. Department's no. 69, April 30, 7 p. m. For your information and confidential use in discussions with Uruguayan authorities, there is a possibility that trade-agreement discussions now taking place with Argentina may reach a point which will make possible public announcement of intended negotiations in the very near future, pos-

²⁷ Department of State *Bulletin*, October 21, 1939, p. 418.

sibly as early as May 10. We will, of course, wish to announce negotiations with Uruguay simultaneously. Before this can be done it is necessary that the list of products for consideration to be published with the announcement be definitely agreed upon. Please discuss the matter promptly in the above sense with the appropriate Uruguayan authorities with a view to obtaining their acquiescence to the list communicated to you in reference telegram.

HULL

611.3331/365 : Telegram

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

MONTEVIDEO, May 8, 1941—4 p. m.

[Received 4:24 p. m.]

176. Department's No. 74, May 7, 10 p. m. The information contained in the Department's No. 69, April 30, 7 p. m. was only communicated to the Ministry of Foreign Affairs on May 2. While I have today again spoken to Guani who has promised me that he will endeavor to give me a definite reply in the next few days as to whether the list is acceptable, I do not feel that it would be advisable to press him further in view of the long delay in resuming the discussions and the already evident sensitiveness of the Uruguayan Government that we are conducting the negotiations merely as a corollary to those in Buenos Aires. I earnestly recommend therefore that the announcement be postponed if at all possible until the expected reply is received from Guani.

CHAPIN

611.3331/365a : Telegram

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

WASHINGTON, May 11, 1941—midnight.

79. Please advise Uruguayan authorities that the press releases in regard to public notices of intention to negotiate with Uruguay and Argentina will be released for publication in papers appearing on the streets after 9 p. m. E. S. T. May 12.²⁸ The draft releases, which are routine in nature, refer to the public notices issued by the Secretary of State and by the Committee for Reciprocity Information in regard to briefs and public hearings and to the lists of products on which the United States will consider granting concessions.

Please acknowledge receipt of this telegram.

HULL

²⁸ Released to the press on May 13; Department of State *Bulletin*, May 17, 1941, p. 581.

611.3331/366 : Telegram

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

MONTEVIDEO, May 12, 1941—noon.

[Received 12:30 p. m.]

183. Department's 79, May 11, 12 p. m. [*midnight.*] Guani confirms that the proposed announcement of negotiations for a trade agreement between Uruguay and the United States is satisfactory, subject to the possibility of a future supplementary announcement, if necessary.

A brief announcement without any details will be given Uruguayan press at 10 p. m. Montevideo time for publication in tomorrow morning's newspapers.

CHAPIN

611.3331/364

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

No. 295

WASHINGTON, May 28, 1941.

SIR: Reference is made to the Department's telegram no. 69 of May 1 [*April 30*], 1941 stating that the Department would forward a new draft of general provisions for inclusion in the proposed trade agreement between the United States and Uruguay.

There is enclosed such a draft including a proposed draft of Final Minutes²⁹ which, unless you perceive objection, you should transmit to the appropriate Uruguayan officials. In doing so you should state that the articles of the draft are either identical, or similar in substance, to those proposed during the previous negotiations in 1939, except for the modifications indicated below.

Article IV relating to exchange control now provides, in the event that either country maintains any system of exchange control, merely for most-favored-nation treatment with respect to (1) transfers of payment for, or payments necessary or incidental to, the importation of any article originating in the other country; (2) rates of exchange and taxes or charges on exchange transactions in connection with any such payments, on a like article basis. Moreover, numbered paragraph 3 provides an escape clause from these provisions in time of war or other national emergency on the condition only that the Government availing itself of this clause inform the Government of the other country in writing of the action taken. This clause, which is necessary on our part because of existing law (Section 5(b) of the Act of October 6, 1917, as amended by Public Resolution no. 69,

²⁹ Not printed.

76th Congress, approved May 7, 1940⁸⁰), doubtless will be acceptable to the Uruguayan Government whether or not similar legislation for dealing with emergencies exists in Uruguay.

For the Legation's confidential information, these modifications of the exchange control article which was proposed by this Government in the previous negotiations with the Uruguayan Government, and which was previously considered as standard for inclusion in trade agreements, have been made in compliance with the wishes of the Treasury Department which desires to retain greater freedom of action, in connection with the operation of its Foreign Funds Control, with respect to matters affecting international transfers of payment than would be permitted by the former exchange control article requiring no restriction or delay on transfers of commercial payments.

[Here follow instructions regarding a number of technical points in the draft articles.]

Very truly yours,

For the Secretary of State:
DEAN ACHESON

611.3331/391 : Telegram

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

MONTEVIDEO, June 13, 1941—4 p. m.

[Received 8:05 p. m.]

236. Department's telegram No. 69, April 30, 7 p. m. and my telephone conversation with Hawkins of May 10.⁸¹ Confidential note has just been received from Foreign Office in reply to my memorandum of May 2 transmitting a list of products upon which the United States would be disposed to make concessions to Uruguay. The Uruguayan Foreign Office suggests that linseed oil be retained on the list and in addition to other articles on the list consideration be given with respect to the following items: turkeys, canned mutton, tanned leather, dried and pickled lamb skins, eggs, bird seed, citrus fruits, fine wools, shoes.

In the Legation's opinion Uruguay is not justified in asking for special consideration on many of these items since exports are negligible and in any case this country could hardly be considered as an important source of supply.

The Department, however, may wish to give some consideration to the following items: fine wools, bird seed, canned mutton, dried and pickled lamb skins and certain grades in leathers.

⁸⁰ 54 Stat. 179.

⁸¹ No record of conversation found in Department files. Harry C. Hawkins was Chief of the Division of Commercial Treaties and Agreements.

It is obvious that Uruguay is including in its list practically all items which it makes any pretense to export. In view of the fact, however, that the request has been tendered through official channels Glover and I feel that it is undesirable to give the appearance of rejecting any part thereof offhand, and I would be grateful for the Department's instructions.

CHAPIN

611.3331/391 : Telegram

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

WASHINGTON, June 19, 1941—8 p. m.

124. Your nos. 183, May 12, noon and 236, June 13, 4 p. m. You should inform the appropriate Uruguayan authorities that

(1) canned mutton is included under the nomenclature of paragraph 706 of the Uruguayan list published on May 13, 1941;³²

(2) as regards the other products mentioned in your reference telegram, irrespective of other reasons for not listing them for consideration, the issuance of a supplemental list at this late date would necessitate another period for filing briefs and another public hearing; this would delay the definitive negotiations to an extent which presumably would make it impossible to conclude a trade agreement with Uruguay simultaneously with that contemplated with Argentina, which we hope to do and which we assume is also the desire of the Uruguayan Government.

Therefore, we earnestly hope that the Uruguayan Government will be disposed to proceed with the negotiations on the basis of the list published on May 13 (enclosed with Department's instruction no. 287, May 17, 1941³³).

HULL

611.3331/397 : Telegram

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

MONTEVIDEO, June 21, 1941—noon.

[Received 5 p. m.]

257. Department's 124, June 19, 8 p. m. In discussing the memorandum which I left with him yesterday the Foreign Minister admitted that he personally had not given much consideration to the supplemental list and he implied that most of the items had been put there more as a gesture to satisfy local industries rather than because of their commercial importance. He did, however, express

³² Department of State *Bulletin*, May 17, 1941, pp. 581-583.

³³ Not printed.

considerable interest in obtaining a concession with regard to classifications of fine wools, although I endeavored to explain that Uruguay was not the principal source of United States imports.

While Guani reaffirmed the Uruguayan desire to sign its agreement more or less simultaneously with Argentina, I gathered the impression that now that the matter is approaching the negotiation stage his interest is not as keen as before, possibly because of the press of what he may feel to be more urgent business as well as because Uruguayan export trade to the United States is now extremely flourishing.

Due to the personal attention which he gives to each phase of the Foreign Office, Guani's interest and active participation are essential to any substantial progress in negotiations. While the Legation is affording him every opportunity to prepare the way for the final negotiations in order to achieve a simultaneous conclusion I suggest that it would be inadvisable and probably ineffective to press Guani in view of the many other problems demanding his attention.

CHAPIN

611.3331/406 : Telegram

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

MONTEVIDEO, July 19, 1941—2 p. m.

[Received 5 : 52 p. m.]

307. Informal conversations with representatives of the Uruguayan Government headed by the Director of the Commercial Section of the Foreign Office^{33a} were finally inaugurated last week but unfortunately not much progress has been made due mainly to the basic divergence in point of view, the representatives of the Bank of the Republic being obviously reluctant to recede from the arbitrary methods of allotment of exchange and import quotas now practiced by the bank, which represents a source of considerable income as well as a means of controlling importation. As the Department can appreciate, Uruguay's exports to the United States are at present highly satisfactory and there are no immediate advantages beyond prestige now to be gained by Uruguay through a trade agreement. It appears, therefore, unfortunately that the advantages to be sought are mainly for our own account.

Although it is realized that the Department may be reluctant to connect our general trade agreement policy with our procurement program as respects wool and other Uruguayan supplies requested or our export control policy as respects materials urgently required here, it may be necessary to capitalize on these controlling factors in order to obtain a prompt and satisfactory trade agreement.

^{33a} Felipe S. Grucci.

While the Embassy will make every effort to further the progress of the negotiations on the general provisions I feel obliged, in view of the situation described in the first paragraph, to point out that Uruguayan officials apparently feel no great urgency in conducting the negotiations. Moreover, press of important and urgent work connected with export control and undesirable agencies and particularly that arising from demands made by firms on the President's blacklist published yesterday has in effect swamped the Commercial Section of the Embassy. It is imperative that the additional personnel envisaged for this section, Chapin's letter to Shaw of May 27, 1941,³⁴ be made available immediately if the work is to be adequately carried on.

DAWSON

611.3331/407a

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

No. 12

WASHINGTON, July 23, 1941.

SIR: Reference is made to the Department's telegram no. 166 of July 18, 1941³⁵ stating that our definitive proposals with respect to Schedules I and II of the proposed trade agreement would be transmitted within a few days.

These proposals are enclosed herewith together with two memoranda showing (1) the items in respect of which our present offers constitute an improvement compared with the proposals made in December 1939; (2) the comparative trade coverage of the proposed Schedules (enclosures 1 to 4, respectively).³⁶ You are requested to transmit these proposals to the appropriate Uruguayan authorities. In doing so, their strictly confidential nature should be emphasized.

Should the Embassy, prior to transmitting these proposals to the Uruguayan Government, desire to make any comments in regard thereto on the basis of available information, such comments should be reported to the Department by telegram.

You will note that the proposed Schedule I provides for exemption of all scheduled items from payment of any portion of the Uruguayan import charges in gold. The elimination of the gold payment requirement with respect to each of these items, in addition to effecting a reduction in import charges, would do away with the present uncertainty in the calculation of such charges, and would simplify customs procedure.

³⁴ Not found in Department files. G. Howland Shaw was Assistant Secretary of State.

³⁵ Not printed.

³⁶ None printed.

It may also be noted that Item number 167 of the Raw Materials Schedule combines and supersedes present tariff Item numbers 82 to 86 inclusive, 120, 121, and 167. You should request a concession on Item 167 in the form indicated in the proposed Schedule I, but in the event the Uruguayan Government should indicate that it would prefer not to consolidate these tariff items, you are authorized to request the proposed concessions on these items set forth separately.

As regards Schedule II, you should emphasize, by specific reference to the pertinent memorandum, that our present proposals constitute a substantial improvement over those offered in December 1939, and that concessions of the magnitude proposed should be of substantial benefit to the Uruguayan economy, even at the present time, and, upon the resumption of more normal trade and shipping conditions, of even greater value. The concessions requested for inclusion in Schedule I are considered moderate, and would tend to offset the increased costs incident to the importation into Uruguay of the articles covered by the Schedule, with corresponding benefits to the Uruguayan consumers.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

611.3331/419½ : Telegram

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

MONTEVIDEO, October 20, 1941—4 p. m.

[Received 4:13 p. m.]

440. In spite of constant prodding and frequent inquiries on the part of the Embassy, the Uruguayans have failed thus far to submit counter-proposals or observations on our drafts of general provisions or schedules. At the same time they have constantly assured us that our proposals were being studied by various Government agencies and that conversations would be resumed shortly. The delay is probably due primarily to the chronic dilatoriness of Uruguayan officials in such matters. However, other factors in the situation may well be the present satisfactory state of Uruguayan exports to the United States and lack of any particular interest in the negotiations on the part of Dr. Guani since the abandonment of his projected trip to the United States.

The signature of the United States-Argentine agreement³⁷ aroused the Uruguayans temporarily at least and was followed by a Foreign

³⁷ Signed October 14, 1941, at Buenos Aires. For text of the agreement and supplemental exchange of notes, see Department of State Executive Agreement Series No. 277, or 56 Stat. (pt. 2) 1685.

Office statement to the press conveying the impression that Uruguay's negotiations with us are farther advanced than is actually the case.

The Director of Commercial Affairs of the Foreign Office informed Chapin last week that an important meeting of Uruguayan officials will be held tomorrow to consider our proposals and that informal conversations with the Embassy could probably be resumed within a few days. He reiterated that the principal stumbling block remained the question of most favored nation treatment as respects exchange control but that his first impression after reading the appropriate clause of our agreement with Argentina was that some similar formula might be worked out with Uruguay.

As soon as further information is available regarding the Uruguayan attitude, I shall report by cable with respect to prospects and our recommendations.

DAWSON

611.3331/419 : Telegram

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

MONTEVIDEO, October 24, 1941—11 a. m.

[Received October 24—10:38 a. m.]

444. Not realizing our policy and practice in such matters, many Uruguayan exporters and officials believe that when the trade agreement with Argentina takes effect on November 15 Argentine products will enjoy preferential treatment making it impossible for similar Uruguayan products to compete. Guani has taken the matter up with me and I have of course explained the true situation to him. He requests that I address him a note in order that the Foreign Office may release a reassuring statement.

Accordingly I request the Department's authorization to address to the Foreign Office a note in which, after quoting section 350 (a) of the Tariff Act of 1930 as amended,³⁸ I would state

"I am authorized by my Government to advise Your Excellency that, pursuant to the foregoing provisions, upon the taking effect of the trade agreement recently signed between the United States and Argentina, the concessions granted to Argentine products by the United States will be extended to the similar products of Uruguay and will be applied to such products provided the Uruguayan Government does not discriminate in any way against the commerce of the United States."

DAWSON

³⁸ 54 Stat. 107.

611.3331/419 : Telegram

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

WASHINGTON, October 25, 1941—4 p. m.

282. Your no. 444, October 24, 11 a. m. It is hoped that in the course of your oral explanation to the Foreign Minister you indicated that the best way for Uruguay to assure itself of most-favored-nation treatment would be to enter into a trade agreement along the lines of our proposal.

With reference to your proposed note, some change is necessary if for no other reason than that the entire message, including the portion quoted, was transmitted in confidential code.

It is suggested that you inform the Foreign Minister that it is the established policy of your Government, pursuant to the pertinent provisions of the Trade Agreements Act, to extend the application of reduced rates of duty provided for in trade agreements with foreign countries other than Cuba to the like products of all countries, except that the President may suspend the application of such reduced rates of duty to products of any country because of discriminations against the commerce of the United States or other acts or policies tending to defeat the purposes of the Act. You may add that all trade-agreement rates of duty hitherto generalized have been made applicable to products of Uruguay and state that you have no reason to expect that there will be any change in this situation in connection with the trade agreement with Argentina. The President's letter to the Secretary of the Treasury in regard to the generalization of rates of duty provided for in that agreement will be issued prior to November 15.³⁹

HULL

611.3331/422 : Telegram

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

MONTEVIDEO, October 28, 1941—7 p. m.

[Received 8:33 p. m.]

454. Department's telegram 282, of October 25. In the conversation in question I of course took advantage of the opportunity to point out to the Minister of Foreign Relations that the prompt conclusion of the proposed trade agreement was the best means of assuring most-favored-nation treatment for Uruguayan exports. We are urging this point of view on the Uruguayans and shall continue to do so.

³⁹ Released to the press on October 31; Department of State *Bulletin*, November 1, 1941, p. 351.

With reference to my telegram 440 of October 20, Chapin, Glover and Gilmore⁴⁰ met this morning with three Uruguayan representatives to resume informal discussions which we shall push as rapidly as possible. Following today's meeting our present impression is that a mutually satisfactory formula assuring us most-favored-nation treatment as respects exchange control is the principal stumbling block and presents a serious problem which may require difficult and protracted negotiations.

If the Department could send Phelps⁴¹ or some expert with a knowledge of Spanish to Montevideo he could be of the greatest assistance to us. I request that the Department inform me whether it can send an expert and if so how soon he could arrive and how long he could stay.

DAWSON

611.3331/422 : Telegram

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

WASHINGTON, November 5, 1941—2 p. m.

296. Your 454, October 28, 7 p. m. Consideration continues to be given to the possibility of sending someone to assist you in bringing the trade-agreement negotiations to a conclusion. You will appreciate that, apart from other considerations, the Department would hesitate to send an officer from Washington unless assured that the Uruguayans are disposed to cooperate wholeheartedly in bringing the negotiations to a successful conclusion as rapidly as possible.

Much of the delay seems to have resulted from failure on the part of the Uruguayans to give prompt consideration to our proposals and submit specific counterproposals.

It is believed that there should be no great difficulty in regard to the general provisions or Schedule II. We have made our offers in Schedule II as liberal as we can make them, and the general provisions as proposed and as they appear with related notes in the agreement with Argentina represent not only what we would agree to if necessary in the case of Uruguay but also, in so far as exceptions are concerned, the ultimate to which we could go. If somewhat better general provisions in regard to such matters as exchange and quotas could be obtained without difficulty or undue delay, that would be desirable. However, in order to avoid any unnecessary delay it is suggested that you base future discussions on the Argentine text and pertinent related notes in so far as the latter apply to Uruguay's situations; also that you make discreet use of the final

⁴⁰ Eugene A. Gilmore, economic analyst attached to the Embassy in Uruguay.

⁴¹ Vernon L. Phelps of the Division of Commercial Policy and Agreements.

minutes worked out in connection with the Argentine agreement to cover similarly such points therein dealt with as the Uruguayans may be unwilling to incorporate in the general provisions or notes to be published.

Copies of the text of the Argentine agreement including related notes, together with an analysis thereof, and the unpublished final minutes are on the way to you by air mail. These texts are substantially the same as those enclosed with the Department's instruction no. 295 of May 28, 1941.

The main problem appears to be the working out of a satisfactory Schedule I, and it is difficult to estimate how much of a task this may be in the absence of specific Uruguayan counterproposals. Such counterproposals would facilitate a decision in regard to the question of sending someone to assist the Embassy in the final stages of negotiations.

HULL

611.3331/425

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

No. 270

MONTEVIDEO, November 5, 1941.

[Received November 12.]

SIR: I have the honor to refer to my telegram no. 440 of October 20, 4 p. m., and to report that informal negotiations were resumed on October 17 with the following Uruguayan representatives: Sr. Felipe S. Grucci, Director of the Section of Commercial Affairs of the Uruguayan Foreign Office, Sr. Silveira Zorzi of the Bank of the Republic of Uruguay, and Sr. Mario L. La Gamma of the Ministry of Finance. The representatives of the Embassy were Mr. Chapin, First Secretary, Mr. Glover, Commercial Attaché, and Mr. Gilmore, Economic Analyst.

Although it was evident at the first meeting that certain minor modifications would have to be made in Draft Schedule I prepared by the Department, in order to meet certain recent changes in wording in the Uruguayan tariff schedules, comparatively little difficulty is expected in reaching a mutually satisfactory accord on the wording and the coverage of the tariff concessions requested and those to be given to Uruguay. The word "comparatively" is used advisedly, since the first meeting once again emphasized the divergence between the point of view advocated by the United States of unconditional most-favored-nation treatment, which forms the basis for our whole trade-agreement program, and that of Uruguay which is based upon the principle of narrow bilateral commercial agreements.

The Uruguayan representatives have on every occasion reiterated their theoretical acceptance of the principle of multilateral trade with

unconditional most-favored-nation treatment, but have just as consistently stated that since the countries which form the most important outlets for their products have abandoned this system, have refused to recognize this liberal principle and have imposed the bilateral system upon Uruguay in binding agreements, they are unable to subscribe without reservation to the liberal principles advocated by the United States, particularly as they are contained in the provisions of Article IV of the current draft of the general provisions.

Moreover, it may well be that even were Uruguay free to adopt the principles which we advocate, the Bank of the Republic, which controls the economic life of the country, has found the present complicated system of exchange control so lucrative a source of revenue and such an advantageous weapon in its manipulation of Uruguay's foreign trade that it would be reluctant to adopt in fact the principles to which it now gives lip service.

In the course of a second meeting on October 28 the Embassy's representatives endeavored to set forth the advantages which our Government believes are inherent in the principle of unrestricted multilateral commerce. They pointed out as well that while it was desirable to construct an agreement which might have as permanent a character as possible, it was also clear that no one could foresee what course world economic conditions might take following the termination of present hostilities and that it seemed quite probable that all existing trade and commercial agreements would require some revision as soon as the post-war situation had begun to clarify. The escape features of Articles IV and XII were called to the attention of the Uruguayan negotiators but it cannot be said that they showed any disposition to recede from their position.

The Uruguayans were aware of the concessions granted by the United States in the exchange of notes supplementing the trade agreement recently signed with Argentina, exempting the British payments agreement from the provisions of Article IV, and they affirmed that Uruguay was in the same position as was Argentina with respect to sterling blocked balances. The representatives of the Embassy countered by requesting detailed information concerning Uruguay's present sterling position and were informed that this information would be supplied. At the request of the chairman of the Uruguayan delegation a copy of the text of our note to the Argentine Government was furnished to the Uruguayan delegation. They stated that they would use this text as a basis for drafting a counter-proposal giving the Uruguayan interpretation of Articles IV and XII in the light of their own exchange situation.

At a third meeting held on November 4 the chairman of the Uruguayan delegation presented a memorandum together with two draft

notes, copies and translations of which are enclosed with this despatch.⁴² It will be observed from the text of the covering memorandum that the divergency in basic view points is still as wide as ever. However, the memorandum brings out the rather ingenuous argument that, since the United States is not in a position to accord tariff concessions to Uruguay which have the relative importance of those accorded to Argentina, it should be willing to allow greater latitude to Uruguay with respect to its exchange-control policy. Specifically, the memorandum proposes that Uruguay consider itself bound to give most-favored-nation treatment as respects exchange to the United States only when the facilities available to Uruguay permit it to do so. In effect, the wording of the second draft note is just as loose as that.

The first note is modelled in general upon the exchange of notes supplementing the Argentine Agreement, although here again the wording is somewhat looser.

In accepting the memorandum and the draft notes, the representatives of the Embassy stated that they were of course not in a position to make any reply but would submit the text of the documents to the Department for study. However, they did observe that, even in the unlikely event that it were possible to make a specific concession of this nature to Uruguay alone, it would probably prove impracticable on the basic ground that such a concession, if given to Uruguay, would have to be generalized to every other country entitled to most-favored-nation treatment by the United States.

From the foregoing and from a study of the enclosures the Department will realize the difficulty of reconciling the two points of view and that a good deal of persuasion may be necessary before the Uruguayan Government can be disposed to recede from its position. In this connection it will be recalled that no original concessions of any importance not covered in the Argentine Trade Agreement have been offered by this Government to Uruguay. While persuasive arguments by a trained specialist in trade-agreement negotiations may be of some assistance in obtaining a modification of the Uruguayan position, it is to be feared that unless we offer some special inducement or bring some special economic pressure upon Uruguay it will be very difficult, if not impossible, to obtain a satisfactory agreement.

Respectfully yours,

WILLIAM DAWSON

⁴² None printed.

611.3331/426

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

No. 271

MONTEVIDEO, November 5, 1941.

[Received November 12.]

SIR: I have the honor to refer to my despatch No. 270 of November 5 reporting on the state of the resumed negotiations for a trade agreement with Uruguay and particularly on the divergence of viewpoint which has been encountered over the proposal to extend complete most-favored nation treatment with regard not only to commodities but also with regard to exchange.

It will be observed from the draft notes submitted by the Uruguayan representatives at the third meeting on November 4 as a counter-proposal, that the Uruguayan representatives take the position that while subscribing to the principle of complete most-favored nation treatment, they have been forced to adopt the bilateral policy by the insistence of the European countries which constitute their principal purchasers, and that in particular they attribute this pressure to the policy of the United Kingdom.

The Embassy has reason to believe that the British Government has in fact exerted considerable influence upon the Uruguayan authorities and has on several occasions brought pressure to bear when the Uruguayan authorities seemed likely to grant more liberal treatment as regards exchange to Uruguayan imports from the United States, when these imports consisted of what are known as "American specialties" but which are competitive to similar British products. Even today when practically all coal imported into Uruguay must be purchased in the United States since shipping facilities are not available for this product to be imported from Great Britain, the British Legation in Montevideo has insisted that each order for coal first be cleared with the Commercial Secretary before being finally concluded.

A representative of the Bank of England and indirectly of the British Treasury, Mr. Phillimore, who has been covering Argentina, Uruguay, and Brazil, recently called at the Embassy when he frankly expressed the considerable interest of his Government in learning of the demands the United States might make in its trade agreement negotiations and specifically whether we might ask for liberal exchange treatment which would conflict with the provisions of the British Trade Treaty. He was informed at the time that the progress of negotiations was not such as to be able to give him any information of a concrete nature, but the frankness of his approach gives further evidence, if such were needed, that the British Government does not look with complete favor upon our efforts in this area

at extending the basic principles of the Secretary's liberal trade policy.

The thought has occurred to me, since as stated above the Uruguayan negotiators base their attitude primarily on their contractual obligations to Great Britain, that it might be helpful if the British Government could be induced to inform the Uruguayan Government that far from placing obstacles in the path of the negotiations between our Government and Uruguay, it looked with favor upon the extension of liberal trade practices and in fact would be prepared to relax some of the provisions of the existing trade treaty between Uruguay and the United Kingdom.

Although it is realized that little concrete has been accomplished in the plans for a post-war policy of trade cooperation and coordination between the British commonwealth of nations and the United States, according to the statements of the new British Minister in Montevideo, Mr. Stevenson, it appears that the British Government may have manifested some interest in the general proposal. In any event, it seems unlikely in view of the cooperation and assistance which we have been extending to the British Government that that Government would not wish in turn to cooperate with the United States in the extension of one of our most cherished policies in the inter-American field. I therefore venture the suggestion that the Department may wish to consider raising with the British Embassy in Washington our general aspirations in South America for the extension of liberal trade principles and more specifically inquiring whether the British Government would be disposed to inform the Uruguayan Government that it might reconsider certain of the provisions of its own trade treaty with Uruguay in order to facilitate the conclusion of the proposed United States trade agreement with Uruguay.

Respectfully yours,

WILLIAM DAWSON

611.3331/428

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

No. 290

MONTEVIDEO, November 11, 1941.

[Received November 18.]

SIR: I have the honor to refer to the Department's telegram No. 296 of November 5, 1941, in response to the Embassy's telegram No. 454 of October 28, reporting our impression that a satisfactory formula assuring us most favored nation treatment as respects exchange control is the principal stumbling block in the current trade agreement discussions and presents a problem which may require difficult and protracted negotiations.

In view of the statement in the Department's telegram that:

"It is believed that there should be no great difficulty in regard to the general provisions or schedule two"

it should be emphasized that neither during the negotiations of 1939 nor at present have the representatives of the Uruguayan Government ever expressed—except in the most general and non-committal terms—a willingness to accord non-discriminatory exchange treatment to imports from the United States if this means relinquishing control over the exchange created by their exports to Great Britain and to certain other countries with which payments agreements are in force.

In spite of the more favorable dollar position of the Bank of the Republic at the present time as a result of our heavy purchases of Uruguayan products, the conversations so far have followed almost exactly the same course as those in 1939, and the Uruguayan representatives, notably Mr. Silveira Zorzi, had merely repeated in almost identical terms the views which they formerly expressed.

A résumé of the past negotiations regarding this aspect of the problem, as reported at the time by the Legation, may serve to make more apparent the impasse towards which the present conversations are believed to be tending.

The question of exchange treatment was raised very early in the 1939 negotiations.⁴³ The following is a quotation of the relevant portions of the Legation's memorandum of the meeting on January 17, 1939, between Mr. Fowler, Mr. Sappington⁴⁴ and myself, and the Uruguayan representatives:

"Señor Silveira said that following yesterday's meeting he had discussed the possibility of an agreement with the Directors of the Bank of the Republic and with the Minister of Finance, that they had canvassed the various possible suggestions to be made by the American Delegates, among them that contained in the memorandum presented this morning, and that the conclusion of the Uruguayan officials had been that it was not practicable for the Uruguayan Government to abandon its system of bilateral trade. He stated that he had been authorized to express the point of view of the Uruguayan Government at the meeting today in preliminary form and that this statement would subsequently be amplified and confirmed by a written memorandum in reply to the American memorandum, if desired. Mr. Fowler decided that in view of the very informal character of these discussions the preparation of a memorandum would not be necessary.

"Explaining the point of view of the Uruguayan Government, Señor Silveira Zorzi stated that it was prepared to admit that a

⁴³ See *Foreign Relations*, 1939, vol. v, pp. 786 ff.

⁴⁴ William A. Fowler, Assistant Chief of the Division of Trade Agreements, and James G. Sappington of the same Division, sent by the Department to Buenos Aires and Montevideo to participate in trade agreement discussions.

reduction of import duties by the United States Government such as envisaged in the discussions of the previous day would increase Uruguay's exports to the United States. He added that the main cause of the present commercial difficulties was the high American duties, and that if they should be reduced Uruguayan exports to the United States would doubtless increase, and that under such circumstances an import quota would be assigned for American goods and the present difficulties would be over.

"He repeated the often-stated position of the Uruguayan Government that theoretically it favored multilateral trade, but because of pressure on the part of European nations, which together have purchased some 80 percent of Uruguayan exports, Uruguay was not in a position to engage in multilateral trade.

"Mr. Fowler pointed out that the memorandum proposed restriction of imports by classes of merchandise rather than by countries, and that the former plan would offer Uruguay ample opportunities for balancing payments. Señor Silveira Zorzi said, however, that this system did not provide exchange, and that its adoption would undoubtedly result in an immediate decrease of Uruguay's exports.

"Mr. Fowler stated that the British officials now in charge of foreign trade matters were not the same as those of a few years ago, and that he believed that they were willing to consider a more liberal treatment of the River Plate countries, and asked whether, in the event that the British Government should relax its pressure on Uruguayan exchange, the Uruguayan Government would be willing to consider the abandonment of the bilateral system. Señor Silveira Zorzi said, and was supported by Señor Grucci, that such a possibility was extremely interesting to the Uruguayan Government, and that if it existed the Government would be glad to give serious consideration to an alteration of its policy.

"Failing any alteration of policy, however, by the British Government, the American proposal was not acceptable at present."

Following this meeting the negotiations were in abeyance until the receipt of the Department's instruction No. 152 of June 28, 1939,⁴⁵ transmitting the draft of the general provisions. On August 29, 1939 (Legation's telegram No. 58⁴⁶) there was reported the following reaction:

"The Minister (i.e. of Foreign Relations) said that unfortunately the American proposals were predicated on Uruguay's departing from its bilateral commercial policy but that he felt confident nevertheless that some form of agreement could be worked out saying that he was much interested in negotiating a trade agreement with the United States during his incumbency."

In the Foreign Office's note of October 8, 1939 (Legation's telegram No. 81⁴⁷) agreeing to a public announcement of intention to negotiate, there were contained the following significant statements:

⁴⁵ *Foreign Relations*, 1939, vol. v, p. 787.

⁴⁶ Not printed.

⁴⁷ *Foreign Relations*, 1939, vol. v, p. 795.

"The bilateral agreements which Uruguay has made with countries which at present purchase the greater part of its products are due, generally, to the desire of those countries that the exchange created by their purchases be devoted preferentially to the payment of the financial and commercial services which Uruguay owes them.

"The Government of the United States of America recognizes that our Government is compelled to exercise control over imports with a view to safeguarding the service of the foreign debt and other remittances of funds abroad and to protect the exchange rate of Uruguayan currency during period of foreign exchange difficulties.

"The Government of the United States recognizing the necessity of this measure, it is possible, in the opinion of the Uruguayan Government, that the control may be effected on the basis of quantitative regulation as suggested by the Government of the United States, it being admitted also that this system of regulation may be implanted without causing disturbances in the commerce which the Republic is maintaining with other countries, provided that action in this regard is exercised with the elasticity of viewpoint demonstrated in the memorandum under acknowledgment."

Perhaps the clearest reflection of the difficulties which impeded the past negotiations and are still a fundamental problem, is found in the Legation's despatch No. 14 of November 8, 1939,⁴⁸ reporting Minister Wilson's conversations with Dr. Charlone, Minister of Finance, Sr. Vicente Costa, President of the Bank of the Republic, and Sr. Silveira Zorzi, Exchange Manager of the Bank. A copy of this despatch is enclosed. Dr. Charlone is no longer Minister of Finance, but Sr. Silveira Zorzi is taking an active part in the present negotiations.

At the meeting held on December 11, 1939, to discuss the general provisions, the following objections to the exchange control articles were raised by the Uruguayans (Legation's telegram No. 126⁴⁸):

"2. Article 8: They state that under their treaty with Great Britain⁴⁹ they are obliged, in case they restrict imports, to maintain as between different classes of British goods the proportions in which such classes of goods were imported in 1934 (see Article 9, Treaty of 1935, despatch No. 61, of August 15, 1935⁵⁰). They therefore propose to take 1934 as the 'previous representative period' in fixing the initial quotas. They believe this would cause no discrimination against United States trade and request our views. (Apart from the question of whether 1934 might be accepted as a satisfactory representative period for fixing the initial quotas, it occurs to us that if and when a situation arises in the future in which, in order to protect its exchange, Uruguay is obliged to reduce quotas, it will be most difficult if not impossible for Uruguay to satisfy both the equality of treatment provisions of our agreement and the special requirements referred to above in the British agreement).

⁴⁸ Not printed.

⁴⁹ Anglo-Uruguayan Trade Agreement signed June 26, 1935; for text, see Great Britain, Treaty Series No. 1 (1937), or Cmd. 5343.

⁵⁰ Despatch not printed.

"3. Article 10 [4]: They insist upon different exchange rates for different products, the rate for each product being the same for all countries (the arguments are generally similar to those used by Argentina). They mention the possibility that a single rate might be used for most products, freedom being reserved to Uruguay to use a second rate on a specified list of products.

"4. They insist that because Uruguay has so little freedom to dispose of exchange created by purchases by other countries, particularly Britain, it will be necessary to insert an escape clause to take care of a situation in which United States purchases from Uruguay might fall to such a low point as to make it impossible in fact for Uruguay to comply with the provisions of the agreement; in other words, a provision whereby, if such a situation arises, Uruguay can denounce the treaty. In this connection they refer to the reservation made by the United States regarding modification of concessions should the agreement with Argentina be terminated (paragraph No. 3 Department's 72, November 16—6 p. m.⁵¹) and suggest that both questions might be dealt with by modification of Article 18."

The termination of the negotiations on January 6, 1940, left these problems unsolved.

It is true that the draft of the general provisions as revised for the present negotiations provides more liberal escape features and should, in our opinion, meet the objections raised by the Uruguayans in the earlier discussions. As indicated in the Embassy's despatch No. 270 of November 5, 1941, however, these concessions to the Uruguayan viewpoint have apparently served only to prompt a request that Uruguay be allowed in effect to continue the complete latitude with respect to the allocation of exchange for American products that has heretofore been exercised. Reference is made also to the Embassy's telegrams Nos. 163 (April 22, 1941) and 440 (October 20, 1941) reflecting the emphasis laid upon the exchange control articles of the general provisions in the current negotiations.

Respectfully yours,

WILLIAM DAWSON

611.3331/427 : Telegram

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

MONTEVIDEO, November 14, 1941—7 p. m.

[Received November 14—6 : 34 p. m.]

477. Please see my despatch 271 of November 5, regarding effect of British commercial agreement on our current negotiations with Uruguay and suggesting possibility of approaching British Embassy in Washington on the matter.

⁵¹ Reference is to telegram No. 72, November 17, 1939, 6 p. m., not printed.

If the Department perceives no objection I should like to discuss the whole matter with the British Minister here along the lines indicated in my despatch.

DAWSON

611.3331/431a : Telegram

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

WASHINGTON, November 27, 1941—6 p. m.

324. Embassy's despatch no. 270 of November 5, 1941, and telegram no. 477, November 14, 7 p. m.

1. For your confidential information, British postwar commercial policy in so far as it affects the United States is now being discussed in both London and Washington in connection with the negotiation of a lend-lease agreement⁵² and exploratory discussions relative to a supplementary trade agreement with the United Kingdom and trade agreements with certain of the Dominions. Therefore, the Department feels that you should refrain from taking up this matter officially with the British Minister at this time. However, should the opportunity present itself, the Department perceives no objection to your discussing the matter with him in general terms on an informal basis.

2. It is not our intention to seek in a trade agreement with Uruguay more rigorous assurances of nondiscriminatory treatment than we obtained in our recent agreement with Argentina; more particularly, we would not expect to include therein provisions which would require a modification of Uruguay's war-time payments arrangement with the United Kingdom. What we do hope to obtain is formal recognition on the part of the Uruguayan Government of the basic principles of nondiscriminatory treatment and multilateral trade with assurances that it will, on the coming into force of the agreement, abolish existing discriminations against imports of American origin other than those excepted in the two proposed exchanges of notes as was done in the case of Argentina. Even these we would expect to have eliminated as rapidly as circumstances permit.

3. It would appear that Uruguay's present trade position and import control system would permit its acceptance of general provisions and related notes substantially the same as those contained in our agreement with Argentina. As regards this point, please report specifically what modifications, if any, of Uruguay's present import control system and contractual obligations would be necessitated by its acceptance of general provisions and related notes

⁵² See vol. III, pp. 1 ff.

similar to those in our trade agreement with Argentina. In this connection, the Department perceives no good reason why Uruguay should continue in force contractual commitments to certain countries other than the United Kingdom, if such commitments, which have become practically inoperative because of the war, stand in the way of the conclusion of a trade agreement with the United States embodying the principles of nondiscriminatory treatment.

4. Accordingly, unless you perceive objection, you should inform the appropriate Uruguayan authorities in the sense of the foregoing and state that therefore the Department, while prepared to accept the same reservations on Uruguay's part as are contained in the two exchanges of notes accompanying the trade agreement between the United States and Argentina, nevertheless feels that it cannot agree to a further reservation such as that embodied in the third exchange of notes proposed by the Uruguayan authorities. Such a reservation might in certain circumstances be construed as in effect completely nullifying the proposed provisions of the agreement relating to nondiscriminatory treatment by Uruguay of American commerce. However, you should state that if, following the coming into force of the agreement, any circumstance should develop in Uruguay's commercial relations with a third country which it considered, because of the commitments in its trade agreement with the United States, had the effect of prejudicing the commerce of Uruguay, the Government of Uruguay might invoke paragraph 1 of Article XII of the proposed general provisions.

5. With reference to the Uruguayan statement that the trade agreement concluded recently between the United States and Argentina accords the latter nation advantages which do not benefit Uruguay, you should point out that the tariff concessions granted by the United States to Argentina apply to products which in 1939 and 1940 accounted for 62 and 35 percent, respectively, of the value of total imports for consumption into the United States from Uruguay. In this connection, you should also emphasize that the conclusion of a trade agreement between the United States and Uruguay would provide a contractual basis for the continued extension to Uruguay by the United States of the benefit of the tariff concessions made by the United States in existing trade agreements with Argentina and other countries, as well as any concession on fine wools which the United States might at some future time grant in a trade agreement with the principal supplier of these wools.

6. A revised text of the proposed note regarding preferences by Uruguay to the United Kingdom, enclosed with your despatch under reference, will be forwarded by air mail shortly.

HULL

611.3331/433

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

No. 395

MONTEVIDEO, December 13, 1941.

[Received January 21, 1942.]

SIR: I have the honor to transmit herewith two copies of a memorandum⁵⁴ embodying the counter proposals of the Uruguayan Government with respect to Schedule 1 of the pending Trade Treaty, which has just been received. For obvious reasons it has been impossible to prepare a translation, but to avoid a delay, the copies are transmitted as received.

The original of this memorandum was submitted to us in a meeting held on December 5, 1941 between Dr. Guani, Foreign Minister, Señor Felipe S. Grucci, Director of the Section of Commercial Affairs of the Uruguayan Foreign Office, and representatives of the Embassy. The attached memorandum (Enclosure No. 2)⁵⁴ embodying the substance of paragraphs 2, 3, 4 and 5 of the Department's telegram No. 324 dated November 27, 1941, 6 p. m., was handed the Foreign Minister at this meeting. It is believed that there is now virtual agreement on the general provisions, although no official communication has as yet been received. It was indicated, however, that the Uruguayan Government may be disposed to recede from the position taken in the second note transmitted to the Department as enclosure to despatch No. 270, dated November 5, 1941.

In order to expedite further negotiations, it is requested that the Embassy be authorized by telegraph to accept such of the counter proposals to Schedule 1 as may appear possible.

Respectfully yours,

For the Ambassador:

SELDEN CHAPIN

First Secretary

611.3331/432: Telegram

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

MONTEVIDEO, December 17, 1941—7 p. m.

[Received December 17—6:10 p. m.]

558. Department's telegram no. 324, November 27, 1941, and Embassy's despatch 395, December 13. Silveira Zorzi of the Bank of the Republic indicated today during an informal conversation that a note regarding preferences to sterling area containing same reservations on Uruguay's part as are embodied in exchange of notes accompanying agreement with Argentina would be acceptable.

⁵⁴ Not printed.

With reference to paragraph number 6 of the Department's telegram no. 324, please telegraph that portion of text of proposed note which differs from corresponding Argentine note.

It is believed that the views expressed today by Zorzi indicate that the Uruguayan Government is now prepared to accept our position with respect to the general provisions and related notes and that a statement to this effect will be officially communicated to the Embassy at a meeting with appropriate officials, arranged for December 22. If the Department does not find it necessary to insist upon more than a very limited number of improvements in the concessions offered in the Uruguayan counterproposal to schedule I transmitted with my despatch under reference it is believed that negotiations can be terminated within the near future.

Certain necessary clarification of nomenclature included in aforementioned counterproposal together with Embassy's recommendations will be submitted in subsequent telegram.

DAWSON

611.3331/432 : Telegram

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

WASHINGTON, December 20, 1941—3 p. m.

369. Embassy's no. 558, December 17, 7 p. m.

1. It is not clear from the first paragraph of your telegram under reference whether the Uruguayan Government would now accept the exact text, *mutatis mutandis*, of the Argentine exchange of notes regarding preferences to sterling area. Such a text would be acceptable to this Government.

2. Revised text of proposed note referred to in paragraph no. 6 of Department's telegram no. 324 transmitted in Department's instruction no. 185 of December 15⁵⁵ and should reach you shortly. This alternative text would likewise be acceptable.

HULL

611.3331/436 : Telegram

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

MONTEVIDEO, December 22, 1941—9 p. m.

[Received December 23—3:15 a. m.]

567. At this morning's meeting the Uruguayan subcommittee orally agreed to recommend to the Cabinet that our proposed general provisions with the exception of article 2 be accepted if accompanied by the related notes described below :

⁵⁵ Instruction No. 185 and its enclosures not printed.

1. Note based on text of Argentine note regarding preferences to contiguous countries with the addition of the words "and Bolivia and Paraguay" following the phrases "to a contiguous country" and "to contiguous countries" in sections 1 and 2 of the last substantive paragraph. Wherever they appear the words "and Peru" will be omitted. There will of course be other changes in terminology consistent with the two foregoing amendments. These modifications are designed to permit Uruguay to accord permanent tariff preferences and temporary exchange preferences to Bolivia and Paraguay as well as to contiguous countries. Pursuant to convention No. 8 contained in the Final Minutes of the Regional Conference of the River Plate Countries (transmitted with the Embassy despatch No. 778 of February 8, 1941⁶⁶) Uruguay's [apparent omission] contend that they must insist on including such a reservation with respect to tariff preferences in all future trade agreements.

2. Note based on Argentine note regarding exchange preferences to sterling area. Although the alternative referred to in the Department's telegram No. 369 of December 20 was received too late for today's meeting it undoubtedly will be acceptable to the Uruguayans.

3. As regards article 2, Uruguayans propose the addition of a second paragraph as follows:

"The provisions of this article relating to national treatment shall not apply to taxes imposed by the Oriental Republic of Uruguay on pharmaceutical specialties, toilet and perfumery products, cigarettes, cigars, fortified wines, vermouth, champagne, matches, and playing cards."

It may be explained that the existing internal taxes levied upon the above-enumerated products of national origin are slightly lower than those imposed on similar articles of foreign origin. The subcommittee expects to meet no the[*sic*] serious difficulties in securing the Cabinet's approval of the above proposals and therefore hopes to subject [*submit?*] a formal memorandum to the Embassy in confirmation thereof not later than December 24.

DAWSON

611.3331/437 : Telegram

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

MONTEVIDEO, December 24, 1941—7 p. m.

[Received December 24—6 : 50 p. m.]

580. Embassy's telegram No. 567, December 22. Memoranda presented to Embassy this afternoon by Foreign Office confirm oral acceptance of our proposed general provisions contingent upon our

⁶⁶ Not printed.

willingness, first, to add a paragraph to article II along general lines of that described in paragraph 3 of Embassy's telegram under reference, second, to suppress paragraph 1 of article XVI and, third, to amend note regarding preferences to contiguous countries to include Bolivia and Paraguay (see paragraph 1, Embassy's telegram No. 567).

Uruguayans contend that their basic customs law does not permit any consideration of intent in connection with errors in documentation. (See Embassy's despatch No. 897 of April 23, 1941.) It is pointed out, however, that the customs regulations permit an importer to examine, weigh, and extract samples from shipments before beginning clearance proceedings. The Department's early reaction to the Uruguayan proposal with respect to the inclusion of Bolivia and Paraguay in the contiguous country note would be appreciated.

DAWSON

611.3331/439 : Telegram

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

MONTEVIDEO, December 26, 1941—3 p. m.

[Received December 26—2: 51 p. m.]

584. Embassy's telegram No. 577, December 24, 5 p. m.⁵⁷ As regards the comment contained in the Uruguayan counterproposal with respect to automobiles, it may be noted that with the net duty on a Chevrolet weighing 1,380 kilos amounting to 633 Uruguayan pesos on the basis of the reduced rate offered in the Uruguayan counterproposal, it will be found that their contention that this amount of duty is equivalent to that imposed by Argentina is without foundation. As a matter of fact the Uruguayan duty charges would continue to be almost double those provided for in the Argentine agreement. It is therefore recommended that the Embassy be authorized to make a determined effort to obtain a greater reduction of duties on automobiles.

DAWSON

611.3331/437 : Telegram

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

WASHINGTON, December 31, 1941—7 p. m.

390. Embassy's nos. 567, December 22, 9 p. m. and 580, December 24, 7 p. m.

1. You are authorized (1) to add to Article II the paragraph contained in paragraph No. 3 of your 567 under reference; (2) to delete paragraph 1 of Article XVI provided the Uruguayan Government

⁵⁷ Not printed.

will, in a note which need not be made public, give assurances that sympathetic consideration will be given to claims of American exporters resulting from the imposition of customs penalties (see pages 3 and 4 of the Department's instruction No. 295 of May 28, 1941).

2. With reference to the proposed note regarding preferences to contiguous countries, you should point out that we naturally desire to restrict the area of possible preferences as much as possible; that we are therefore reluctant to extend the reservation regarding preferences to include countries not contiguous to Uruguay; and that in our recent trade agreement with Argentina the reservation regarding tariff preferences was restricted to countries contiguous to Argentina. Nevertheless, in view of Convention VIII, Final Minutes of the regional conference of the River Plate countries, and other special circumstances, this Government is disposed to agree to extend the reservation regarding both tariff and exchange and quota preferences to include Paraguay and Bolivia, subject to a Final Minute providing for prior consultation with this Government regarding any new or increased preferences on articles of interest to the United States, as was done in the case of Argentina.

3. A draft text of an exchange of notes embodying the foregoing and other appropriate changes will be forwarded by air mail as soon as possible.

4. Instructions will also be forwarded shortly covering certain minor changes in the general provisions made necessary or desirable by recent developments.

HULL

NEGOTIATIONS FOR AN AGREEMENT ON PURCHASE OF EXPORTABLE SURPLUSES OF WOOL AND HIDES IN URUGUAY

811.20 Defense (Wool)/293a : Telegram

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

WASHINGTON, September 9, 1941—3 p. m.

226. The Federal Loan Agency is prepared to enter into an agreement with the Uruguayan Government whereby, upon the establishment of an export control system prohibiting the export of wool and hides from Uruguay except to the United States, to other American republics having systems of export control satisfactory to the Government of the United States, and to the British Empire, the Federal Loan Agency will agree to purchase the entire exportable surpluses of wool and hides in Uruguay other than that purchased by United States private trade, the other American republics and the British Empire. The agreement would take the form of a commitment by the

Loan Agency to buy a fixed amount of the products in question at prices slightly under the current market price. These fixed maxima would be in amounts corresponding to the total exports of the products in question for the preceding year. The obligation of the Loan Agency would thus, in effect, be to take the entire exportable surplus not required by other approved purchasers. As you are no doubt aware, negotiations are now under way for the purchase by the Federal Loan Agency of various Argentine products,⁵⁸ including hides and wool, under an agreement to be in substantially the form suggested above.

Prices would have to be established for each of the various grades of wool and hides, and there would probably be certain grades which would have to be excluded from the agreement for quality reasons.

You are requested to consult with the appropriate Uruguayan authorities and to inquire whether such an agreement is acceptable in principle to them. If it is, the Federal Loan Agency will designate some one in Montevideo or will send some one there to collaborate with you in negotiating the agreement.

HULL

811.20 Defense (Wool)/310: Telegram

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

MONTEVIDEO, October 1, 1941—1 a. m.

[Received 10:43 a. m.]

411. Department's telegram 226 of September 9. Our proposal was submitted to the Foreign Office in a note dated September 9 and shortly thereafter I had an opportunity to discuss it with Guani⁵⁹ and the President.⁶⁰ The latter's immediate reaction was that while the proposal was interesting Uruguay's commercial treaty with Japan might prove an obstacle. No reply has thus far been received from the Foreign Office. However, the Foreign Office expert handling the matter tells me confidentially that in his opinion the establishment of the export control system which we propose would be inconsistent with Uruguay's commercial treaties with Japan and Sweden.⁶¹ He has in mind presumably the provisions of article 3 of both treaties for the texts of which see the Legation's despatches 674 of July 17, 1934, and

⁵⁸ See vol. vi, section under Argentina entitled "Negotiations for an agreement on the purchase of exportable surpluses of strategic materials from Argentina."

⁵⁹ Alberto Guani, Uruguayan Minister for Foreign Affairs.

⁶⁰ Alfredo Baldomir.

⁶¹ For text of treaty of commerce and navigation between Uruguay and Japan signed at Montevideo, May 10, 1934, see *British and Foreign State Papers*, vol. CXLIV, p. 436; for text of convention on commerce and navigation between Uruguay and Sweden signed at Montevideo August 13, 1936, see League of Nations Treaty Series, vol. CLXXXIII, p. 161.

322 of September 10, 1936.⁶² The official in question expressed himself as sympathetic to our proposal and suggested that some round-about way might be found of placing it in effect such as for instance an agreement on the part of producers to sell only to the United States, other American Republics and the British Empire. Such an arrangement would hardly appear satisfactory. I shall report further as soon as a formal reply or any other information of interest is received.

DAWSON

811.20 Defense (Wool)/310: Telegram

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

WASHINGTON, October 23, 1941—11 p. m.

278. Reference your 411, October 1. Has a report been received from the Foreign Office? The Department agrees with the suggestion that an agreement between the producers and Defense Supplies Corporation would not be satisfactory. The commercial treaties referred to in your 411 are concerned chiefly with customs duties, and it appears to the Department that it would not be inconsistent with those treaties for the Uruguayan Government to enter into an agreement with Defense Supplies Corporation and the British Government agreeing to sell to them a specified amount of hides and wool of certain grades, which amount would be in excess of the recent production of Uruguay. The agreement would also provide that the Uruguayan Government would not be under liability for failure to obtain and sell the maximum amounts of hides and wools specified; its obligation being restricted to a commitment to use its best efforts to cause the respective amounts of hides and wool to be produced and sold to Defense Supplies Corporation and the British Government. The agreement would not contain a provision for export control prohibiting the export of hides and wool to countries other than the United States and Great Britain, but by reason of the size of the commitment to those two countries, the agreement would have the effect of causing the entire production of hides and wool to be made available to the United States and Great Britain. You are requested to explore the possibility of such a solution with the Uruguayan authorities and to telegraph the Department.

Chargeable to Defense Supplies Corporation in accordance with Section V-45, Foreign Service Regulations.

HULL

⁶² Neither printed.

811.20 Defense (Wool)/329 : Telegram

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

MONTEVIDEO, October 25, 1941—1 p. m.

[Received October 25—12:03 p. m.]

448. Department's telegram 278 of October 23. No reply has been received from the Foreign Office. I raised the matter again a few days ago with Guani who told me that he was discussing it with the Bank of the Republic. I acquainted him yesterday with the solution proposed in the Department's 278 which he is going to study. In our conversation yesterday he told me that he had requested the Uruguayan Embassy in Buenos Aires to obtain information as to the status of our negotiations with Argentina regarding the similar proposal submitted to that country.

I have the distinct impression that Guani desires to cooperate with us and in order to expedite matters I suggest that the Defense Supplies Corporation cable its representative in Buenos Aires, Thomas J. Williams, authorizing him to proceed to Montevideo when I so request.

DAWSON

811.20 Defense (Wool)/360 : Telegram

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

MONTEVIDEO, December 1, 1941—5 p. m.

[Received 5:11 p. m.]

509. My telegram No. 448, October 25, 1 p. m. Following conversations along the lines of Department 278, October 23, 11 p. m., Uruguayan authorities appear favorably disposed to some such solution providing it can be made more concrete.

Based upon the advice given Gilmore⁶³ in Buenos Aires by Williams who has been conducting Argentine negotiations, I suggest that I be authorized to submit the following concrete proposal.

The Defense Supplies Corporation would agree to buy for one year from the Uruguayan Government or such agency as the latter may designate the entire exportable surplus of wool and hides at prices prevailing in the principal United States markets at the time of the offer. Grades and qualities would be left for later determination it being understood as in the case of our agreement with Argentina that we will include certain grades and qualities of wool and of hides normally of little interest to American consumers.

⁶³ Presumably Eugene A. Gilmore, economic analyst attached to the Embassy in Uruguay.

In view of existing treaty obligations Uruguay will not establish any export control for these products but will place the total exportable surplus at our disposal.

I also request authority to offer a commitment similar to that in the Argentine Purchase Agreement to the following effect:

“Upon the conclusion of an agreement covering the proposed purchase of wool and hides the Government of the United States will take all necessary steps to guarantee, to the fullest extent compatible with national defense, that the Republic of Uruguay will be supplied with all essential raw materials and manufactured products which are indispensable for its economic and industrial life.”

DAWSON

**ATTITUDE OF THE DEPARTMENT OF STATE TOWARD URUGUAYAN
REQUEST FOR ASSISTANCE IN COMPLETING RIO NEGRO HYDRO-
ELECTRIC PROJECT**

833.6463/51

*The Uruguayan Minister for Foreign Affairs (Guani) to the American Chargé in Uruguay (Chapin)*⁶⁴

[Translation]

MONTEVIDEO, May 5, 1941.

MR. CHARGÉ D'AFFAIRES: In view of the impossibility, on account of the blockade, of bringing from Germany turbines, generators and other elements necessary for the hydroelectric plant on the Rio Negro, as you are no doubt aware, the Government is attempting to find a solution to this serious difficulty which seriously prejudices the national economy and the industrial development of the country.

Accordingly, negotiations are now taking place in the United States for the urgent manufacture of the essential machinery for the installation. Difficulties have been encountered recently because of the defense program and the restrictions imposed by your Government for the free supply of raw materials, particularly metal.

For these reasons, the Chancellery expresses to the Chargé d'Affaires its hope that your Government, convinced of the vital importance of the above mentioned installation, will lend its good offices with respect to the United States firms for a priority manufacture of the said machinery and making available to this end metals to the total of 8,500 tons as soon as possible.

I reiterate [etc.]

A. GUANI

⁶⁴ Copy transmitted to the Department by the Chargé in Uruguay in his despatch No. 939, *infra*.

833.6463/51

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

No. 939

MONTEVIDEO, May 7, 1941.

[Received May 15.]

SIR: I have the honor to refer to a voluntary report of March 28⁶⁵ from this office and to the Department's instruction No. 192 of December 18, 1940⁶⁶ with regard to the Rio Negro Hydroelectric Project in Uruguay and to transmit herewith for the Department's information a copy of a note, dated May 5, 1941,⁶⁷ with its enclosure⁶⁵ which were received on May 5 from the Uruguayan Minister for Foreign Affairs.

At Dr. Guani's instance, I called at the Foreign Office yesterday and discussed with him this request of the Uruguayan Government for our assistance in making available one hydroelectric unit and equipment for the Rio Negro Hydroelectric Project. In view of the Department's instruction under reference which endorsed the observation made by Minister Wilson in his despatch No. 672 of November 19, 1940,⁶⁵ I told Dr. Guani that, while I would be delighted to transmit this request to the Department, I felt that there was certain other information which my Government would need before it could give full consideration to the Uruguayan request.

This information, I said, covered the following points:

(1) Indication of the firm or firms in the United States from which it was proposed to acquire the desired material.

(2) Whether the purchase of material was to be made by the German syndicate or by the Uruguayan Government itself.

(3) If the purchases were to be made by the Uruguayan Government, would the material be transferred to the German syndicate for installation and control.

(4) In other words, could the Uruguayan Government give assurances that the proposed purchases would be treated as a separate contract for its own account and remain under its own control completely separate and independent of the basic contract between the Uruguayan Government and the German syndicate.

(5) That it is taken for granted that there would be no difficulty with respect to exchange as it might affect the general import trade from the United States in view of the large balances of dollar exchange now available in Uruguay.

In conclusion, I pointed out to Dr. Guani that, while I knew that the Government of the United States was always disposed and even anxious to tender its cooperation to the Uruguayan Government

⁶⁵ Not printed.

⁶⁶ *Foreign Relations*, 1940, vol. v, p. 1174.

⁶⁷ *Supra*.

with respect to a project of such importance to the country when it might be undertaken by the Uruguayan Government itself, I did not feel that my Government would be disposed to assist in any project which might help German firms to maintain their position in Uruguay, since this would be tantamount to aiding directly totalitarian agencies which might later work against the best interests of our two countries.

Dr. Guani said that he felt that the considerations which I had advanced were quite understandable and entirely reasonable, and in my presence he telephoned the director of the Rione (Rio Negro Project Administration)⁶⁹ and put to him confidentially the first four of the points set forth above. While I naturally could hear but Dr. Guani's part of the conversation, it was very evident that the Administration had not given any thought to the political aspects of its requests. I inferred that the Administration had rather ingenuously taken for granted that the United States Government would be willing to export the desired material even though it were to be turned over to the German engineers and technical men now at work on the Project.

Dr. Guani, upon terminating his telephone conversation, said that he would call a meeting of all the interested Uruguayan Government officials for this morning at eleven o'clock, since he felt that he must explain the situation personally to the Rione Administration and to the Minister of Public Works. He added that he himself felt that the original contract with the German syndicate had been a very unfavorable one for Uruguay, and that, in view of the manifest impossibility of the German syndicate to carry out its contract at the present time, he felt that whatever the provisions of the contract, the Uruguayan Government had the right to insist upon its cancellation. He emphasized the importance of the Project for the economy of the country, and said that the continued delay was a source of serious prejudice to Uruguay. He inquired whether, in the event that the contract were entirely cancelled, it might be possible to obtain a loan from the Export-Import Bank to complete the Project. I replied that, while I did not know what the obligations of the Export-Import Bank were at the moment, and, while of course I could not speak without consulting the Department, I believed that I could say as my personal opinion that our Government would be glad to give sympathetic consideration to such a request for assistance for Uruguay, provided we had assurances that the German interests had been definitely eliminated from the Project.

When I left, Dr. Guani said that he would call me immediately after the meeting and give me the answers to the points which I had

⁶⁹ Luis Giorgi.

raised with him, so that they might be included in a despatch for the airmail pouch leaving today. This he has not done, and it may be assumed that he has encountered temporary difficulties in obtaining the desired assurances with respect to the ultimate destination and control of the material which the Rione desires to purchase in the United States.

Respectfully yours,

SELDEN CHAPIN

833.6463/53

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

No. 946

MONTEVIDEO, May 10, 1941.

[Received May 19.]

SIR: I have the honor to refer to my despatch No. 939 of May 7, 1941, transmitting a copy of a note received from the Minister for Foreign Affairs requesting certain assistance in connection with the completion of the Rio Negro Hydroelectric Project in Uruguay.

As stated in my despatch, I approached the Minister for Foreign Affairs informally for supplementary information which I stated our government would need before it could give full consideration to the Uruguayan request. There is enclosed a copy and translation of a memorandum of May 8⁷⁰ transmitted to me by the Minister for Foreign Affairs attempting to reply to the specific points which I raised with him.

It will be noted that although the Uruguayan Government gives assurances that the proposed purchases of hydroelectric equipment in the United States are for its own account rather than that of the German syndicate and will be treated as a separate contract for eventual control by the Uruguayan Government, these assurances do not, in the Legation's opinion, cover the question of continued German participation in the project. In particular, although it states that the proposed contract with United States firms would be similar to the present contract with the German syndicate and "exclusively for the execution of works made by the Uruguayan Government itself", the Uruguayan Government does not venture to communicate to our government a copy of the contract with the German Consortium. Finally, it may be observed that although the purchase from the United States of hydroelectric equipment and its installation on the project would no doubt be a direct primary benefit to the Uruguayan Government, the point is not made clear that it would not be an indirect benefit to the German Consortium.

⁷⁰ Not printed.

Accordingly, the Legation feels that the United States Government would be well within its rights if it informed the Uruguayan Government that before giving any final consideration to the request, it should be furnished with a copy of the original contract between the Uruguayan Government and the German Consortium, together with copies of such subsidiary agreements or understandings as may in any way depend therefrom.

Up to the present time, since it is without any specific instructions from the Department, the Legation has not felt authorized to go so far as to insist upon obtaining a copy of the contract, but it now strongly recommends that the Department instruct it to do so before proceeding to any final decision in the matter.

Respectfully yours,

SELDEN CHAPIN

833.6463/49a : Telegram

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

WASHINGTON, May 10, 1941—6 p. m.

77. The Uruguayan Minister ⁷¹ has inquired whether this Government would intercede in order to assist private manufacturers with whom the Uruguayan Government is now in touch to obtain the necessary equipment to complete the Rio Negro hydroelectric project.

Without approaching any government authorities please endeavor to ascertain at once the precise size and number of such generators and turbines and any other description which you can obtain of the other equipment desired. In addition it is essential that we know the approximate date on which the Uruguayan Government would require delivery of this equipment.

For your information the Department's present view is that it will only interest itself in securing the required priorities and export licenses provided the completion of the project is entrusted to American engineers.

Please telegraph reply.

HULL

833.6463/50 : Telegram

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

MONTEVIDEO, May 14, 1941—6 p. m.

[Received 7:52 p. m.]

190. Department's 77, May 10. Legation's despatches 939 and 946, May 7 and 10 giving particulars of official Uruguayan request for assistance in the Hydroelectric Project together with the Legation's observations thereon should reach the Department shortly.

⁷¹ José Richling.

Since the matter was raised I have again discussed the matter with Guani and he has promised to furnish the technical details of the machinery and equipment desired. As regards delivery he said no date had been set because the Rione had no means of determining how long the construction of the equipment which is to follow special specifications, no doubt originally drawn by German engineers, would take in American plants, but that the turbine and equipment were desired as soon as possible.

I emphasized that Rione's statement forwarded in my despatch 946, May 10 did not appear to satisfy fully our inquiries with regard to the relationship between the proposed contract and that between the Uruguayan Government and the German syndicate particularly respecting the continued presence of Germans on the project. The Minister for Foreign Affairs informed me that he would clarify this matter in the next few days in a memorandum.

Although the Uruguayan Government has indicated that it would be prepared to consider the contract as a separate one to be completed by American engineers it is not clear from the Department's telegram whether this assurance would be sufficient or whether the Department predicates its assistance on the grounds that the entire contract be awarded to an American company, thus eliminating German influence entirely. In any case as suggested in my despatch the Legation believes that the Department may desire to insist upon obtaining a copy of the original contract with the German syndicate before making final decision.

CHAPIN

833.6463/52 : Telegram

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

MONTEVIDEO, May 17, 1941—noon.

[Received 12:47 p. m.]

195. My number 190, May 14, 6 p. m. Guani handed me last night a *note verbale* containing the promised memorandum from Rione clarifying the relationship between the Uruguayan Government and the German Consortium with regard to the Rio Negro Hydroelectric Project. Although the Rione memorandum has already been sent to the Uruguayan Minister in Washington for presentation to the Department, the Legation is forwarding copies in today's airmail pouch.⁷²

The Department's attention is especially invited to items 2 and 5 of the Rione's memorandum from which it is clear that while the proposed contract with American interests for 1 turbo generator and

⁷² Despatch No. 970 and enclosed *note verbale*, not printed.

equipment is considered a separate contract the Rione does not contemplate the elimination of German interests in other phases of the project and that in fact German personnel will continue to work on the project.

CHAPIN

833.6463/50 : Telegram

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

WASHINGTON, May 17, 1941—9 p. m.

88. Your 190, May 14, 6 p. m. The Department has not yet received the second of the despatches mentioned and cannot, consequently, comment fully. It is the Department's view, however, that it would not be enough for the Uruguayan Government to consider the proposed contract a separate one to be completed by American engineers. The Department feels that the German influence must be eliminated entirely.

The Department has the copy of the public contract with the German syndicate which was published in the *Diario Oficial* of April 16, 1937, but it understands that there is in addition a confidential contract. Please inform the Foreign Minister that the Department would require copies of all contracts and commitments entered into with the German syndicate before making final decision.

HULL

833.6463/54 : Telegram

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

MONTEVIDEO, May 20, 1941—6 p. m.

[Received 7:36 p. m.]

200. Department's telegram No. 88, May 17, 9 a. m. [*p. m.*] Yesterday I again discussed with Guani the Rio Negro Hydroelectric Project and informed him that the Department would require copies of all contracts and commitments entered into with the German Syndicate before making final decision. I said that although the Department had not yet received my last two despatches especially the one transmitting the memorandum⁷³ clarifying the relationship between the Uruguayan Government and the German Consortium, the Department had indicated that it would not feel inclined to assist in the matter until "German influence had been eliminated entirely."

Guani said that if by "influence" the United States meant "participation" what [it was] asking was in effect a total rescission of the German contract and that although such a course was possible theoretically in the case of "unreasonable delay" the German Government

⁷³ See first paragraph of the Chargé's telegram No. 195, May 17, noon, p. 599.

had already made clear what interpretation is placed on the words "unreasonable delay" in the cancellation clause and had made it known that a rescission of the contract now would be considered by the German Government as a direct affront—a step which Uruguay was obviously not prepared to undertake.

The whole interview was friendly and although Guani professed that the fulfillment of a separate contract by an American firm would not materially assist the German interests, it was clear to me that he realized that his arguments were not very forceful. In conclusion he reiterated that the turbo generating equipment was of vital interest to Uruguay, again expressing the hope that the Department might be disposed to accept the Uruguayan Government's contention that German influence would be eliminated from the proposed American contract and to assist Uruguay after it had had an opportunity to examine the memorandum transmitted with my despatch 970, May 17.⁷⁴

CHAPIN

833.6463/54 : Telegram

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

WASHINGTON, May 24, 1941—7 p. m.

97. Your 200, May 20, 6 p. m. The Department has received from the Uruguayan Minister the memoranda of Rione and the Ministry of Foreign Affairs. In order to consider the matter further this Government will have to ascertain whether it will be possible in connection with our own defense program to make this type of material available to Uruguay, provided that proper agreement with respect to the German interests is reached. In order to do this it is necessary to have exact information, with particular reference to the hydraulic machinery, electrical machinery, electrical implements and power line materials needed. The information transmitted with your despatch no. 939 of May 7 refers only to the weight in tons of the equipment. The Department in addition must have full detailed specifications including the size and capacity of the generators, the number of generators and turbines, and so forth. The voluntary report on the hydroelectric project mailed May 18, 1939⁷⁴ by the Consulate gives certain incomplete technical specifications which may or may not have been changed in the intervening 2 years.

The Department requests that you airmail immediately as full technical specifications as possible, and that you telegraph at once the summary specifications of the principal turbines, generators and other large items required.

HULL

⁷⁴ Not printed.

833.6463/56 : Telegram

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

MONTEVIDEO, June 20, 1941— 11 p. m.

[Received June 21—3:42 a. m.]

256. Department's No. 97, May 27 [24], 7 p. m. The Minister of Foreign Affairs has just informed me that as a result of a recent Cabinet decision as to the Rio Negro, administration was sending Director General Luis Giorgi to the United States and that he will take the specifications for machinery desired together with copies of the contracts, agreements, et cetera. Giorgi expects to depart July 2 by plane to Washington to be followed by an assistant, Juan Rezzano.

When I pointed out that my Government had indicated that it will not be inclined to assist in the Project until German influence had been eliminated, he said that he understood the situation and had made it clear in the Cabinet meeting. He intimated that the Rione administration was unable or unwilling to understand our views and that he had therefore washed his hands of the matter allowing the representative of the Rione administration to proceed to the United States to learn what Guani tried to make clear to him here.

CHAPIN

833.6463/56 : Telegram

The Acting Secretary of State to the Chargé in Uruguay (Chapin)

WASHINGTON, June 25, 1941—7 p. m.

133. Your 256, June 20, 11 p. m. The Department has been discussing the Rio Negro project with the Uruguayan Minister here and on June 7 gave him an informal memorandum⁷⁵ which he a few days later transmitted by airmail to the Ministry of Foreign Affairs. This memorandum made it clear that no discussions could profitably take place unless it were clear that the entire German influence was to be eliminated.

The Department at the same time indicated that it would be necessary to devise some American consortium to undertake the work, and of course to get priorities clearance. The latter matter is still under discussion with the Office of Production Management, while Mr. Simmons of the General Cable Company is informally considering the possibility of getting together a suitable group to undertake the project.

There is no lack of technical information here, since Mr. Simmons has the complete detailed specifications, and the discussion at this point is entirely on a policy level.

⁷⁵ Not printed.

It consequently would not appear necessary for any technicians to come from Uruguay. While this Department will of course welcome the visit of the Director of the Rione, it feels that his visit might more opportunely be made later when the basic decisions have been taken and when it would be appropriate to discuss matters of detail.

For your confidential information the Uruguayan Minister concurs in this view.

WELLES

833.6463/57 : Telegram

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

MONTEVIDEO, July 15, 1941—9 a. m.

[Received 11:17 a. m.]

299. Department's 133, June 25, 7 p. m. Although the substance of the Department's telegram was conveyed [not?] only to the Minister of Foreign Affairs but orally to Señor Giorgi himself, Giorgi, who had already made plans and who informed Chapin that he had intended to take up other business in the United States, left on the Pan American plane on the 12th via west coast and is proceeding directly to Washington.

DAWSON

833.6463/59 : Telegram

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

MONTEVIDEO, July 27, 1941—11 a. m.

[Received 3:54 p. m.]

322. President Baldomir sent for me yesterday to discuss various matters including the pending request of the Uruguayan Government for equipment to place the Rio Negro Project in partial operation. I explained our position carefully with particular reference to the Department's opinion that the Uruguayan Government should abrogate that portion of the present contract pertaining to generating equipment, et cetera. The President said that he does not see how Uruguay could do so for the following reasons: Clause 57 of the contract gives the contractors the clear right to delay fulfillment in case of war. When the war broke out the German Consortium had ready for shipment much of the generating equipment for which the Uruguayan Government had already advanced over 4,000,000 pesos.

The President and his legal advisers are convinced that if Uruguay were to cancel the contract the Consortium would demand repayment

in full and probably damages, and that any court of law would uphold the German claim. He estimates that cancellation would expose Uruguay to eventual losses of from 15 to 20 million pesos. He intimated that rather than run such a risk it might be better to suspend work entirely until after the war.

The President asked me specifically to inform the Department that nothing in the contract contemplates any German participation or influence in the operation of the project once it is completed. He said that Giorgi has the contract in his possession in Washington.

For reasons already known to the Department the Uruguayan Government is extremely desirous of placing the project in partial operation as soon as practicable in view of an impending power shortage which will be acute by the middle of 1943 or earlier. If we were disposed to furnish the limited equipment requested (with proper guarantees of course for the temporary elimination of all German influence) our action would I believe assist the Uruguayan Government politically, contribute to a long-range solution of the fuel and shipping problems, give us a bargaining point which we could use to advantage, and help counteract the impression encountered in official and business circles that Uruguay has not been given all the consideration which it deserves in return for its wholehearted support of our policies.

DAWSON

833.6463/66b

The Department of State to the Uruguayan Embassy

MEMORANDUM

The Government of the United States has studied carefully the request of the Government of Uruguay for assistance in the completion of the Rio Negro hydroelectric project, in order to satisfy the urgent requirements for electric power for the city of Montevideo. The Department of State on June 7, 1941 handed the Uruguayan Minister an informal memorandum,⁷⁶ outlining the general basis on which discussion of such possible assistance might go forward. Since that time a group of United States companies has discussed in a preliminary way with technical representatives of the Uruguayan Government and with the appropriate agencies of the United States the technical and engineering aspects of the problem, including, especially, possible delivery schedules for the material which would be required, such schedules being considered in relation to the requirements of

⁷⁶ Not printed.

national defense. Such discussions have resulted in a tentative understanding on a proposed schedule of delivery between the manufacturers of the equipment and the appropriate agencies of the United States.

In view of the general progress which has been made in all of the technical matters mentioned in the memorandum of June 7, 1941, the Department is now in a position to submit the following bases for the continued discussion of the request of the Uruguayan Government:

1. The present German consortium would complete the civil engineering work on the dam by January 1942.

2. All German personnel in Uruguay would be at that point removed from any further connection with the project.

3. A United States consortium now being formed would undertake to engineer the project, to manufacture and deliver the material to be exported from the United States, to provide engineers to supervise the installation and placing in operation of one generator unit, one transmission line, and the main sending and receiving substations, and accessory equipment and materials. The Uruguayan Government would undertake to supply all materials not exported from the United States and to install and erect under the supervision of the engineers supplied by the consortium such material so supplied together with materials supplied by the consortium. Details of this undertaking would be worked out between the Uruguayan Government and the United States consortium. The United States consortium would undertake, with the approval of the appropriate agencies of the Government of the United States, and the cooperation of the appropriate agencies of the Uruguayan Government, to complete the engineering design of the plant and manufacturing of the material to be exported from the United States within two years from signing of contract, subject, however, necessarily, to the emergency needs of this Government's own national defense and of the other countries which this Government is aiding against aggression.

4. The Export-Import Bank of Washington would be prepared to discuss appropriate credit facilities for materials and services to be furnished by the United States consortium.

5. A United States Government representative would be appointed to represent the Government and particularly the Export-Import Bank to facilitate the carrying out of the project.

6. No immediate decision would be taken with regard to the three remaining generating units and the second transmission line and associated equipment, but the United States consortium would be given an option good until January 1, 1943 to undertake this additional work, subject to the proviso that the United States consortium will agree not to exercise the option up until December 1, 1942 if the Uruguayan Government informs it that exercise of the option before that date would not be convenient. If the option is taken up, the contract with the German consortium would immediately be entirely abrogated. The United States consortium and the United States Government would, of course, be protected by the Uruguayan Government, in case of any claims arising out of this arrangement.

7. Under no circumstances would German and United States personnel work on the project at the same time except such engineering studies as may have to be carried on by the engineers of the United States consortium. If the United States consortium should not undertake to exercise the option under 6, no foreign group would be permitted to engage in any construction included in the project until the United States consortium has completed the first generating unit and transmission line.

WASHINGTON, August 29, 1941.

VENEZUELA

COOPERATION BETWEEN THE UNITED STATES AND VENEZUELA IN PLAN FOR WARDING OFF POSSIBLE ACTION BY AXIS AGENTS AGAINST OIL INSTALLATIONS IN ARUBA AND CURAÇAO

810.20 Defense/513a : Telegram

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

WASHINGTON, January 19, 1941—2 p. m.

8. From the Under Secretary.¹ The General Staff has received secret information recently which leads it to believe that some attempt may be made upon the oil tanks or refineries in Aruba and Curaçao by Axis agents, either by means of a raider disguised as a merchant vessel or by airplanes now in German hands.

As a means of precaution, it considers that the best safeguard would be the storage of airplane bombs in Maracaibo and either in La Guaira or in some convenient place adjacent to La Guaira so that in the event of the contingency above mentioned, planes could be sent speedily from the Panama Canal to pick up the bombs at the places mentioned as a means of defense against the acts of aggression above specified.

If the steps contemplated were taken, the General Staff would wish to station, as custodian of the bombs to be stored, a skeleton company in the two places mentioned. The plan would envisage the sending of these two companies as technical instructors at the invitation of the Venezuelan Government or as part of any military mission of instruction which ostensibly might be desired by the Venezuelan Government.

Please take up this question in strict confidence at the earliest opportunity with Dr. Gil Borges² or, if he is not sufficiently recovered, with Dr. Gustavo Herrera,³ and ask that the matter be laid in the most completely confidential manner before the President of the Republic.⁴ The War Department considers the question of serious and urgent importance and this Government will, of course, be glad to adopt any other practical form of achieving the above mentioned objective which the Venezuelan Government might care to suggest.

Please telegraph your reply. [Welles.]

HULL

¹ Sumner Welles.

² Venezuelan Minister for Foreign Affairs.

³ Of the Venezuelan Ministry for Foreign Affairs.

⁴ Gen. Eleazar Lopez Contreras; he was succeeded on May 6, 1941, by Gen. Isaias Medina Angarita.

810.20 Defense/514 : Telegram

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

CARACAS, January 21, 1941—4 p. m.

[Received 10 p. m.]

8. For the Under Secretary. Your 8, January 19. This morning Dr. Gil Borges informed me that after laying the matter in complete confidence before the President the latter stated that skeleton companies could not be stationed in Venezuela without congressional legislation authorizing such a procedure. As an alternative the President suggested that the United States [might] store the bombs on a suitable ship stationed at or near the Isle de Aves about 60 miles east of Curaçao or the bombs might be stored on this island in custody of the Venezuelan garrison there.

In intimate conversation I was able to draw out from Gil Borges in strictest confidence the fact that the real reason back of the President's reluctance was his conviction that the stationing of American troops or other custodians in Venezuela would have a very bad effect on the public opinion. The President stated that such a move could not be kept secret and would be immediately seized upon by the Germans or other hostile groups to create trouble. In this connection he referred to complications such as had occurred in Uruguay. Dr. Gil Borges added his opinion that the move would be premature at this time, but that were the United States at war much more far-reaching measures could be taken immediately and would be accepted by public opinion in all quarters. He terminated by expressing the President's desire to cooperate with the United States in every possible way.

SCOTT

810.20 Defense/514 : Telegram

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

WASHINGTON, January 31, 1941—5 p. m.

15. From the Under Secretary. Your no. 8, January 21, 4 p. m. In view of the Venezuelan Government's suggestion that bombs might be stored in its territory, you will please inquire whether Venezuelan authorities would consent to the stationing of two noncommissioned officers of the United States Army at each place of storage. They would be instructed to supervise construction of storage as well as measures adopted for guarding the bombs and would be authorized to employ Venezuelan civilians as guards.

They could also assist in training Venezuelan troops. This Government would be glad to offer their services if so requested. It is be-

lieved that this might provide the Venezuelan Government with a reasonable basis for justifying the presence of these soldiers. [Welles.]
HULL

810.20 Defense/556 : Telegram

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

CARACAS, February 6, 1941—10 a. m.
[Received 1 : 35 p. m.]

23. For Under Secretary. Your 15, January 31, 5 p. m. Venezuelan Government has no objection to stationing of two United States Army non-commissioned officers as custodian of bombs but desire these officers be attached to the Naval Mission⁶ and be available to teach handling of bombs.

As there are no facilities at La Guaira and as Maracaibo considered unsuitable the Government suggests storage of bombs at Maracay or possibly Puerto Cabello.

In order to provide adequate facilities information is requested as to approximate number of bombs.

SCOTT

**DISCUSSIONS REGARDING A LEND-LEASE AGREEMENT BETWEEN
THE UNITED STATES AND VENEZUELA⁷**

831.24/53a : Telegram

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

WASHINGTON, July 21, 1941—11 p. m.

136. The Department on July 18 handed to the Venezuelan Chargé d'Affaires⁸ a draft of basic agreement for the lend-lease program of transferring military matériel to Venezuela. The principal financial provisions are as follows: Venezuela is to receive a total of \$20,000,000 of war and navy matériel of which it is expected \$5,000,000 of army matériel and \$1,000,000 of navy matériel will be transferred during the fiscal year ending June 30, 1942. This delivery date is subject to change if broad defense considerations so require.

⁶ For agreement between the United States and Venezuela regarding the establishment of a Naval Mission, signed March 24, 1941, see Department of State Executive Agreement Series No. 203, or 55 Stat. (pt. 2) 1235.

⁷ See also section entitled "General policy of the United States for the negotiation of basic agreements relating to Lend-Lease to other American Republics", vol. VI, pp. 133 ff.

⁸ Arturo Lares.

With respect to repayment Venezuela is expected to pay \$1,500,000 in each fiscal year until 1947, making a total of \$9,000,000 to be repaid prior to June 30, 1947. In consideration of the broad objectives of the program and of certain very general economic concepts, the entire obligation of Venezuela to the United States would be considered discharged by such payments.

WELLES

831.24/63

Memorandum of Conversation, by Mr. Livingston Satterthwaite of the Division of the American Republics

[WASHINGTON,] September 18, 1941.

Dr. Escalante⁹ informed Mr. Berle¹⁰ that his Government in studying the Lend-Lease requirements of Venezuela had come to the conclusion that a large expenditure of money for purely military purposes was unjustified and not warranted, particularly since the construction of a ring of bases from Trinidad to the Panama Canal reduced to almost nothing the probability of the success of an attack on Venezuelan shores by a foreign power. Escalante went on to say that the economic strengthening and development of Venezuela would be its best contribution to hemisphere defense.

He inquired, therefore, whether the United States Government could assist Venezuela in developing the projects described below in place of and under the same terms as military equipment under Lend-Lease. The projects the Venezuelan Government has in mind are the following:

1. Construction of roads, particularly in eastern Venezuela and a few in western Venezuela toward the Colombian frontier. The roads in eastern Venezuela would be designed to extend the network connecting the various oil fields in that region.

2. Dredging the mouth of the Orinoco River so that deep draft vessels could at all times call at river ports. At present, the navigable mouth silts up rapidly, frequently delaying traffic and preventing the use of the river by large ships.

3. The construction of new aviation fields and improvement and enlargement of some already in existence. Some of these fields would eventually form a part of a direct air system across Venezuela and through Brazil.

4. Deepen and canalize the upper regions of the Orinoco River and tributaries to connect with the Meta River system.

⁹ Diógenes Escalante, Venezuelan Ambassador.

¹⁰ Adolf A. Berle, Jr., Assistant Secretary of State.

831.24/81

Memorandum by Mr. Livingston Satterthwaite of the Division of the American Republics to Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles)

[WASHINGTON,] October 14, 1941.

MR. COLLADO: Some time ago Mr. Berle asked me to explore the possibility of acceding to Ambassador Escalante's request that the Lend-Lease arrangement with Venezuela be confined to the canalization of the Orinoco, building of strategic roads and airports, and so forth, rather than military equipment which Venezuela did not need or want, especially as it considers that its defense will be amply taken care of by the ring of bases in the Caribbean.

I understand that for legal and other considerations Lend-Lease funds cannot be used in the manner suggested by the Venezuelan Government. Mr. Berle will, I believe, wish to explain to Ambassador Escalante why the suggestion of the Venezuelan Government cannot be entertained. Can you (Mr. Collado) explain this to Mr. Berle in order that he may pass it on to Dr. Escalante.

831.24/74

The Venezuelan Ambassador (Escalante) to the Secretary of State

[Translation]

No. 4091

WASHINGTON, December 12, 1941.

EXCELLENCY: I have the honor to acknowledge receipt of Your Excellency's note of the ninth instant¹¹ in which you refer to the generous offer made by the Government of the United States of America to my Government to supply it with armaments to the value of \$20,000,000 under the terms of the Lend-Lease Act of March 11, 1941.¹² Your Excellency adds that, in accordance with the Supplementary Act¹³ approved by the American Congress on October 28, 1941, \$150,000,000 will be for the purchase of naval and military equipment by the other American Republics and that the funds in question will be available until February 28, 1942.

In view of the foregoing, Your Excellency requests this Embassy to submit to the proper authorities of your Government the lists of materials which Venezuela desires.

In reply, I have the honor to advise Your Excellency that the Venezuelan Military Purchasing Commission has already submitted to the War Department the lists of requirements of the Army and

¹¹ Not printed.

¹² 55 Stat. 31.

¹³ 55 Stat. 745.

Air Force of Venezuela and that there will soon be completed, the preliminary lists, also submitted already to the Navy Department, of the naval equipment required by my Government.

Moreover, as Your Excellency knows, the undersigned and Mr. Emilio Collado, an official of the Department of State, have been studying the draft agreement to be signed by the two Governments in regard to this matter, in which it is stipulated that the Government of Venezuela will acquire war equipment only to a value of \$15,000,000.

I avail myself [etc.]

DIÓGENES ESCALANTE

831.24/75 : Telegram

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

CARACAS, December 13, 1941—2 p. m.

[Received 6:45 p. m.]

301. The Foreign Minister¹⁴ has just requested me to urge the most prompt action in supplying the following listed material to be used for defense of the oil fields¹⁵ already requested through the Venezuelan Embassy Washington: 4 sets of anti-aircraft machine guns caliber 0.50 including 16 pieces; 4 anti-aircraft batteries 37 millimeters including 16 pieces; 2,000 shells for each 37 millimeters cannon; 20,000 cartridges for each 0.50 machine gun. In order to expedite rapid delivery of this material it was requested that it be sent from one of our bases in the Caribbean. I urge prompt action.

CORRIGAN

831.24/77 : Telegram

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

CARACAS, December 22, 1941—7 p. m.

[Received 11 p. m.]

322. My No. 301, December 13, 2 p. m. President Medina called me to Miraflores today to request my aid in obtaining immediate despatch of airplanes and anti-aircraft guns and material which are urgently needed to ward off attack which may be made on oil installations and airports. He is convinced of the real danger of such attack and that it must be anticipated. He stated that he has sufficient trained personnel if they can be supplied with equipment.

CORRIGAN

¹⁴ C. Parra Pérez.

¹⁵ For correspondence regarding the concern of the United States over the defense of the oil fields in Venezuela, see pp. 607 ff.

831.24/77 : Telegram

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

WASHINGTON, December 26, 1941—8 p. m.

294. Your 322, December 22, 7 p. m. Please inform President Medina that his request is receiving the immediate attention of the appropriate authorities of this Government and that everything possible will be done to supply the desired equipment.

HULL

831.24/79

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

No. 1474

CARACAS, December 30, 1941.

[Received January 2, 1942.]

SIR: With reference to my telegrams Nos. 301, December 13, 2:00 p. m., and 322, December 22, 7:00 p. m., respectively, I have the honor to report that as a result of my conversations with officials in the oil industry and military and naval officers, both Venezuelan and American, the possibilities to be guarded against in adequately protecting the petroleum supply emanating from this country are the following:

In Venezuela itself the danger of possible sabotage is an ever present one, and to guard against this the oil companies have requested and obtained special military protection for their various properties in addition to the intensification of the protection facilities already functioning. However, in addition there is the always present danger of attack from the sea by air on the producing installations, in spite of the risk to the enemy of being intercepted by the American patrol in the Atlantic and being unable to escape after such an attack.

A danger greater than that which might result from an attack on producing wells by sabotage or from the air arises in the possibility of an air or submarine attack on the refineries at Aruba and Curaçao. Here it is considered that danger from sabotage or from fifth column activity can be dealt with, but there is particular apprehension concerning the possibility of a submarine attack which might not only damage the refineries but destroy all or a part of the fleet of tanks which furnish the life line for the transportation of petroleum from Venezuelan ports to Aruba and Curaçao. This danger is one which I consider should be guarded against to the fullest extent possible with sufficient forces to prevent any such eventuality. It is the opinion of some experts that a submarine attack which would damage the refineries and put out of commission the specially designed shallow draft tankers which ply between Venezuela and the Dutch islands, could do the greatest damage and is most to be feared.

There exists at present no adequate defense against such an attack, as far as Venezuela is concerned, and it is urged that immediate steps be taken to provide security for this vital industry.

Respectfully yours,

FRANK P. CORRIGAN

AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA RESPECTING A NAVAL MISSION, SIGNED MARCH 24, 1941

[For text of agreement, see Department of State Executive Agreement Series No. 203, or 55 Stat. (pt. 2) 1235.]

PROCLAMATION BY PRESIDENT ROOSEVELT REGARDING THE ALLOCATION OF TARIFF QUOTA ON CRUDE PETROLEUM AND FUEL OIL TO VENEZUELA

[For text of proclamation issued December 26, 1941, pursuant to article VII of the reciprocal trade agreement between the United States and Venezuela, signed November 6, 1939, see Department of State Executive Agreement Series No. 226, or 55 Stat. (pt. 2) 1393.]

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¹ In indexing persons the intention has been to include all references to persons of significance for an understanding of the record, with the following exceptions: (1) The name of the Secretary of State or the Acting Secretary of State appearing as the signer of outgoing instructions unless there is a clear indication of the Secretary's or Acting Secretary's personal interest; (2) the name of an American officer in charge of a mission appearing as the signer of reports to the Department of State, except for personal items; (3) the names of persons to whom documents are addressed.

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